

**MULTIPHASE PROGRAM
TENEMENT ACTION PROGRAM IN THE STATE OF SÃO PAULO¹**

(BR-0298)

EXECUTIVE SUMMARY

Borrower:	The State of São Paulo			
Guarantor:	The Federative Republic of Brazil			
Executing agency:	Companhia de Desenvolvimento Habitacional e Urbano do Estado de São Paulo (CDHU) [Housing and Urban Development Company of the State of São Paulo]			
Amount and source:	In US\$ millions	Stage 1	Stage 2	Total
	IDB (OC):	US\$34	US\$76	US\$110
	Local:	US\$36	US\$74	US\$110
	Total:	US\$70	US\$150	US\$220
Financial terms and conditions:	Amortization period:	25 years		
	Grace period:	4 years		
	Disbursement period:	4 years		
	Commitment period:	3 years		
	Interest rate:	variable		
	Inspection and supervision:	1%		
	Credit fee:	0.75%		
	Currency:	IDB currency pool		
Multiphase approach:	Owing to its innovative nature and complexity, the program will require more than one execution cycle, and therefore a multiphase approach is proposed. The main reasons for this are: (i) the program includes participatory methods and execution mechanisms that are new in the country and require the involvement of civil society and private sector stakeholders who need training to be fully involved; (ii) the process of dialogue and the quest for solutions that are acceptable to all parties requires a maturation period that could easily take more than two years from the identification of beneficiaries to the design,			

¹ The Portuguese term for tenement is 'cortiço', which literally means a beehive. It is popularly used in São Paulo to denote old buildings that have been subdivided into small rooms.

construction and sale of housing solutions that are best suited to the needs and ability to pay of tenement residents; and (iii) the institutional strengthening required by CDHU to work act on a larger scale, directly supporting demand, is a long-term and gradual process.

The first phase to be carried out on a pilot basis will develop new financial instruments and strengthen CDHU institutionally so that it can finance a pilot project for 5,000 families living in tenements to purchase housing in downtown São Paulo. A larger-scale second phase will finance housing solutions for at least another 11,000 families living in different municipalities in the state. With respect to changes in the state government's housing finance policy, phase one calls for CDHU to develop and introduce a new intervention model for the 5,000 families, based on organization of demand accompanied by a system of explicit advance subsidies and complementary loans. The second phase will extend the subsidy and loan system to the other state housing programs. By the second phase, the loans granted in the first will have constituted a portfolio whose management will be outsourced under an administration contract that will promote portfolio recovery. The results of a portfolio management study are expected to be available prior to the start of phase two and at least 50% of the portfolio constituted by CDHU's other intervention models will be managed as recommended in that study.

Objectives: The general objective of the program is to improve the quality of life of poor families living in substandard housing in tenements in the downtown areas of municipalities in the state of São Paulo, by financing housing solutions, renovating existing tenements and taking steps to promote urban renewal in those zones.

Description: **Components**

1. Financing demand for housing solutions (US\$59.6 million)

This component offers families living in tenements financing to purchase low-cost housing, based on family size and income level. It will grant mortgage loans to families living in tenements, supplemented by direct subsidies. This financing can be used to buy housing on the market, renovate their current housing, or purchase housing collectively. In cases in which more time is required to regularize ownership and the properties cannot be immediately transferred to the beneficiaries, they will temporarily pay rent for them, which will be credited against payment for their housing solution.

The solutions will be defined for each group of families living in a tenement or group of tenements in the same neighborhood that are priorities for program interventions. Priorities will be established in conjunction with the municipalities for integrated urban renewal activities.

A one-room apartment up to 30 square meters in size, including a bathroom and kitchen, would be eligible and can be purchased with a subsidy of US\$5,000 and a mortgage for the same amount. If family income permits, the mortgage can be increased up to US\$10,000, although the subsidy will remain US\$5,000 for each beneficiary family. In the latter case, apartments up to 45 square meters could be purchased.

2. Projects and social action (US\$4.5 million)

This component will finance:

- a. The preparation of **architectural and engineering designs** to prepare proposals for housing solutions for program beneficiaries; and
- b. **Social actions** intended to promote: (i) the organization of families living in tenements (including registration, program recruitment, socioeconomic particulars and technical and social advisory services); (ii) support for the beneficiaries in implementing the proposed individual or collective solutions, including social services during construction, when necessary; and (iii) support and counseling on living in the new housing, establishment of condominiums and post-works follow-up. This component will be implemented by NGOs or specialized firms, qualified and contracted by CDHU to support program execution.

3. Institutional development (US\$1.1 million)

The following institutional studies and measures will be financed:

- a. **Review of the state of São Paulo's housing policy**, which includes systemization and analysis of the legislation and standards governing its housing programs, an analysis of practices and recommendations for their improvement (US\$200,000).
- b. **Improvement in CDHU management**, which includes: (i) an evaluation of the financial status of its current loan portfolio, with projections of flows of funds, analysis of accounting systems and loan-recovery methods, with a view to improving portfolio

management, either by selling it or outsourcing its management; and (ii) a management analysis and implementation of institutional, financial and operational measures (US\$600,000).

- c. **Rental guarantee fund**, which includes a study of the feasibility of establishing a self-sustainable fund to provide low-income families with rental guarantees so they can rent on the formal market (US\$200,000).
- d. **Training and dissemination**, which includes seminars to study and disseminate new housing policy instruments, including the instruments in the proposed program (US\$100,000).

Administration and supervision (US\$4.5 million)

The program's administration and supervision costs are: (i) central administration (US\$400,000) to cover incremental personnel and other costs incurred by CDHU for program administration; (ii) contracting a project management firm to support the operation and supervision of the works (US\$3.8 million); and (iii) monitoring and auditing, which will finance the system for tracking the technical and qualitative performance of the program and independent auditing costs (US\$300,000).

Dynamics of program execution

The selection of the beneficiary tenements will be made through a dual process: (i) initially, CDHU will reach agreement with the municipalities regarding the zones for program intervention, identified according to urban renewal priorities, the number of tenements and the feasibility of intervention in the zone; (ii) a socioeconomic analysis will then be performed, including a description of the physical condition of the tenements in the zone; (iii) this information will be used by program management to make a preliminary selection of eligible tenements; (iv) the program will then be promoted among the tenement residents by CDHU, supported by consulting firms or NGOs contracted to perform the social and technical work and to organize the tenants into associations; (v) these organized groups will prepare proposals for housing solutions, which must meet program eligibility requirements; (vi) CDHU will review the proposals and select the eligible ones, signing contracts to finance the solutions with the beneficiaries, in the form of letters of credit (a promise made by CDHU to provide a mortgage loan when the housing is built or the beneficiary has found housing on the market) and subsidy certificates; with those documents, beneficiaries gain the right to purchase a housing solution provided under the program or to buy housing on the

market; all the residents of the selected tenements will receive support from the program in finding a solution; (vii) construction of new housing, purchase of buildings or renovation of tenements by construction companies or CDHU; (viii) payment by CDHU of the cost of the works in exchange for the endorsed subsidy certificates and signature of mortgage or rental contracts with the beneficiaries; (ix) recognition by the Bank of the costs incurred by CDHU; and (x) social services of the beneficiaries for two years to help them adapt to condominium ownership and to understand their obligations and rights in their new roles as owners or renters.

**The Bank's
country and
sector strategy:**

The Bank's strategy established in the country paper approved in July 2000 is to cooperate with the government in achieving growth with stability and reducing inequity and poverty. The main areas are: (i) to promote and deepen reform and modernization of government on the federal, state and municipal levels; (ii) to boost competitiveness and market access for Brazilian products, reducing the "Brazil cost" by modernizing the productive sectors and the financial system, rehabilitating infrastructure and promoting regional integration; and (iii) to address the problems of social inequity and poverty, giving priority to education and health care and actions to improve the efficiency of social spending and support the decentralization of social services.

The proposed program is consistent with this strategy since it is designed to meet basic housing and sanitation needs, thereby improving the quality of life for low-income groups needing priority attention in São Paulo.

**Environmental
and social
review:**

Positive impact. The program will have a positive impact on the direct beneficiaries and on the quality of life in metropolitan São Paulo by eliminating the physical, sanitary and urban deterioration represented by the tenements. Participation by the beneficiaries in the conception, design and implementation of the projects will make it possible to better serve their needs. The eligibility and selection criteria for beneficiaries will include specific safeguards to ensure that women have equitable access to the program (see paragraphs 4.13 to 4.15).

Environmental protection and social action . To secure the positive impact and minimize any negative effects, CDHU prepared a socioenvironmental evaluation and a social action plan. The following factors were considered, to the Bank's satisfaction: (i) capacity to provide basic services in the sample of projects proposed by CDHU; (ii) the applicable environmental and social legal and regulatory framework; (iii) the process of consultation with affected groups and the methodology for their full participation in the project cycle; (iv) the

need to resettle families and an analysis of resettlement procedures; (v) an analysis of barriers and factors that limit access by women to low-cost housing; (vi) provision of spaces for recreation and community use; and (vii) technical and environmental eligibility criteria for projects, compatible with current standards (see paragraphs 4.16 to 4.20).

Monitoring, oversight and evaluation. In addition to the normal program monitoring parameters, the following will be included in phase one of the program: (i) procedures for environmental and social monitoring and oversight; (ii) monitoring of a sample of beneficiary families; and (iii) an evaluation of the impact of repopulating and revitalizing urban centers.

Benefits:

The first stage of the program will benefit 5,000 families currently renting substandard housing, who will become owners of a housing solution with adequate sanitation. The project will also lead to an increase in property values and environmental rehabilitation. The main intangible benefits that are difficult to measure are promotion of the social capital of poor families through the creation of social networks and community ties.

There will be additional incidental urban benefits in the areas where the tenements are located, as a result of revitalizing existing urban infrastructure, improving urban quality and raising property values.

Risks:

The program will design a transparent system of subsidies combined with loans for the beneficiaries at interest rates that cover the cost of attracting and operating medium- and long-term financing in Brazil. It is expected that this system, which will initially be used to finance the tenement program, will eventually be adopted by CDHU for all its operations. There are potential difficulties on account of administrative inertia and the practices and regulations applied under in the current system, which may impede the adoption of this new form of financing. Although this risk does not jeopardize the program's general objectives, studies and information seminars will be carried out to overcome any resistance to changes in current housing financing practices.

The program involves certain logistical and social aspects that are particularly complex. Organizing families who rent into groups that can gain access to housing solutions under the program requires specialized advisory and organizational services. Careful prequalification will be used to contract consulting firms or NGOs that specialize in these areas, with experience in similar programs.

Special contractual conditions:

1. **As a condition precedent to the first disbursement, the borrower, through CDHU, will present the following documentation to the Bank ;** (i) an agreement between the State of São Paulo and the executing agency (paragraph 3.1); (ii) evidence that the program's Operating Regulations, including its annexes have entered into force (paragraph 3.2); (iii) the model letter of credit, subsidy certificate, sales contract, and contracts for public services to be used in the program, duly approved by authorized representatives of the executing agency (see paragraph 3.14); ~~(iv) evidence that a participation agreement between the State of São Paulo and a municipality has entered into force (paragraph 3.6); and (v) evidence that the consulting firm to support the borrower in program management has been contracted (paragraph 3.4).~~

2. **During execution.** Twelve months after signature of the loan contract, the CDHU will submit evident that consulting services have been hired to; ~~the loan has been declared eligible for disbursement, CDHU will present evidence that it has contracted the services of an independent consulting firm to conduct the study on the impact of stage one of the program~~ (a) support the borrower in program in program management ([paragraph 3.4](#)); and (b) assess the impact of the first phase of the program ([paragraph 3.32](#)). In order for a municipality to participate in the program, the CDHU must demonstrate that it has signed a letter of intent and/or an agreement for the activities to be carried out under the component for financing housing solutions with the municipality ([paragraph 3.6](#)). CDHU will present the terms of reference, in advance, for the following studies under the institutional development component: (i) ~~evaluation and proposals for state housing policy~~ diagnostic studies on the borrower's housing policy and recommendations to enhance it; (ii) ~~management of CDHU's loan portfolio~~ organizational improvement of the CDHE, including a review of procedures for management of its subborrower portfolio; (iii) ~~organizational consulting services for CDHU; and~~ ~~(iv) feasibility of the rental guarantee fund and~~ (iv) seminars and other activities for training in and dissemination of the new instruments for housing policy implementation ([paragraph 3.25](#)).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the key objectives of Bank activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI). The borrowing country will not be using the 10 percentage points in additional financing allowed for poverty-targeted investments

(paragraph 4.21).

Exceptions to Bank policy:

According to the application of the Brazilian government, the guarantee contract to be entered into between the Federative Republic of Brazil and the Bank will not include a guarantee by the Federal Government to provide local counterpart resources or to meet those of the borrower's obligations to perform that lie outside the legal competence of the Federal Government. This decision derives from the constitutional and legal provisions in force in the country in matters of administrative decentralization and from the policy for the control of public expenditures. The financial analysis shows that the Borrower has the requisite capacity to provide the counterpart contribution (see paragraphs 4.41 and 4.42). ~~INSERT TEXT (Chequear este texto para ver qué sirve) The loan contract does not include a guarantee from the federal government to provide local counterpart financing for the program or to settle obligations taken on by the borrower. The financial analysis demonstrates that the borrower has the necessary capacity to provide the counterpart (paragraph 4.34).~~

Procurement:

Procurement of goods and the awarding of contracts for consulting services under the program will be carried out in accordance with Bank procedures. International competitive bidding will be required for goods over US\$350,000 and services over US\$200,000. The program does not provide for the awarding of construction contracts.