

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB5096

Operation Name	BR – RIO DE JANEIRO STATE FISCAL SUSTAINABILITY, HUMAN DEVELOPMENT AND COMPETITVENESS DEVELOPMENT POLICY LOAN
Region	LATIN AMERICA AND CARIBBEAN
Sector	General education sector (40%); Health (30%); General public Administration sector (30%)
Project ID	P117244
Borrower(s)	STATE GOVERNMENT OF RIO DE JANEIRO
Implementing Agency	STATE SECRETARIAT OF FINANCE OF RIO DE JANEIRO
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1. Key development issues and rationale for Bank involvement

The State of Rio de Janeiro is Brazil's smallest state in land area (excluding the federal district) but has the third highest population and the second highest GDP in the nation. This means it makes up 12.6% of Brazil's GDP and leads particularly in the area of petroleum, producing more than 80% of all the petroleum produced in Brazil and holding the largest reserves of any state in the nation. Rapid growth in the petroleum industry has brought the State of Rio de Janeiro back from a decline which reached its nadir around 1990, when Rio produced less than 11% of the national GDP. This rapid growth has also fed industries with heavy petroleum reliance such as the naval industry and the petrochemical sectors. This economic growth has also reduced the importance of the capital city and its metropolitan region in the state economy.

In comparison with the country, the State performs well on both economic and educational indicators for adults. Rio de Janeiro ranks second among states for *per capita* household income, with the State average 20.4% higher than the national one. The proportion of poor people in its population is smaller than in the country (22% versus 29%) and the same is true with regard to the proportion of people in extreme poverty (6% in the state versus 11% in the country). Nearly one million new job positions have been created in the State in the last decade. The State's adult population holds the highest level of school education in the country and the highest adult literacy rate (outside the federal district). Rio is also characterized by better access to basic public infra-structures (electric power, water supply, sanitation, and garbage collection) than the national averages.

However, the State continues to struggle with various social and economic challenges. It is characterized by high income inequality rates (twelfth of all states in 2007), which contribute to its poverty rate declining less and more slowly than in the rest of the country over the last decade. Most of the jobs created in the last decade have been in the informal economy, leading the informal sector to comprise nearly 44% of the existing employment opportunities in the State. Despite excellent adult outcomes in education, children currently in school perform far from the top in the nation. On the main indicator of education performance for Brazil (IDEB), Rio fell from sixth place in 2005 to ninth place in 2007. Access to basic education has not become universal in the State, and it has high rates of repetition and drop-outs with high age-grade distortion. Most secondary school youths study in evening classes and in schools that use the same physical space to offer both basic and high school curricula.

Public health issues, poor housing conditions, and public security remain critical challenges. Child mortality rates are lower than the national average, but they are still high from a regional perspective. Within the capital city, the population of *favelas* (urban slums) has increased at a rate three times higher than the growth rate of the city's population. The State is also characterized by the fourth-highest homicide rate in the country. These rates are even higher in the Rio de Janeiro metropolitan region. Violence and criminality are often identified in the literature as the main social issues and the key obstacles to economic and social development.

The proposed operation is fully consistent with and closely linked to the objectives of the Brazil CPS, 2008-2011. They policy measures supported by the loan are fully consistent with the CPS objectives of (i) strengthening macroeconomic fundamentals and public sector management; (ii) reducing poverty, vulnerability and social exclusion by increasing efficiency, quality of spending and accountability of the health and education sectors; and (iii) improving competitiveness and investment climate. The current partnership strategy was developed in close consultation with the Federal authorities, who see the Bank support to the states as central to their efforts to improve fiscal management and the provision of public services. The CPS identifies support for the states (under results-oriented public sector reforms) and improvement in fiscal management as two of the most important areas of Bank engagement during the current CPS period.

The proposed loan helps the GORJ protect priority expenditures, reinforce fiscal discipline, strengthen the education and health programs to produce better services and improve the competitiveness and growth of the state economy through a more dynamic business environment. It also responds in a flexible and timely fashion to the needs of the state and to requests by the state government and the National treasury.

2. Proposed objective(s)

The *Fiscal Sustainability, Human Development and Competitiveness Development Policy Loan* is designed to support the Government of Rio de Janeiro (GORJ) in sustaining its strategic efforts to improve fiscal management, investment climate and social service delivery in the context of the current global financial crisis and economic slowdown.

3. Preliminary description

Specifically, the loan supports measures that:

- (a) Strengthen fiscal adjustment, improve tax administration, and control public expenditures in state operations;
- (b) Improve quality and efficiency of the business registration process;
- (c) Increase quality and efficiency of the basic education system; and
- (d) Increase access to and efficiency of health services, especially in disadvantaged areas and for low-income populations.

Originally envisaged as a Specific Investment Loan with a Sector-Wide Approach to support structural reforms and sustain investments in the education and health sectors as well as support targeted interventions to improve the business environment, the proposed operation has been requested by the State and Federal Governments to be a one-tranche DPL to help with the projected 2010 financing needs deriving from reduced revenues, mainly due to lower state taxes, federal intergovernmental transfers and oil royalties.

Institutional Arrangements: The preparation of this operation is being led by the State Secretariat of Finance (SEFAZ), which is also responsible for the business environment-related reforms. The Secretariat of Health and Civil Defense (SESDEC) is in charge of the reforms associated to the quality of urgency and emergency care, and to the efficiency of state health services. The Secretariat of Education (SEEDUC) is expected to conduct reforms to improve the quality and efficiency of basic education, mainly through the improvement of education services in state schools, and reduction of age-grade distortion.

4. Environment Aspects

An environmental review on the handling and disposal of medical waste in the UPAs is planned to confirm that UPAs are following ANVISA guidelines, as required.

5. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	485
Total	485

6. Contact point

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