

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

Report No.: AB4106

Project Name	Santa Maria - RS Integrated Municipal Development Program
Region	LATIN AMERICA AND CARIBBEAN
Sector	Roads and highways (36%);General water, sanitation and flood protection sector (23%);Other social services (20%);Sub-national government administration (13%);General industry and trade sector (8%)
Project ID	P111513
Borrower(s)	MUNICIPALITY OF SANTA MARIA
	Municipal Government of Santa Maria Brazil
Implementing Agency	
	Municipal Government of Santa Maria Brazil
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	August 21, 2008
Estimated Date of Appraisal Authorization	June 26, 2007
Estimated Date of Board Approval	December 16, 2008

1. Key development issues and rationale for Bank involvement

The State of Rio Grande do Sul (RS), located in the south-western corner of Brazil, has an area of 280,000 km² (3.2% of Brazil's total area) and a population of 10.5 million. The State produces about 8% of Brazil's GDP, making it economically the fourth most productive state. With a population density of 36 inhabitant/km², RS is more concentrated than the national average of 19.9 inhabitants/km². The State is characterized by a large number of small municipalities - more than 60% of its 496 municipalities have less than 10,000 people. On the other hand, the State has a large number of medium-sized cities (details forthcoming).

Project Area: Addressing the Needs of the Southern Municipalities: The proposed program would be implemented in the five largest municipalities of the Southern half of RS, namely Bagé, Pelotas, Rio Grande, Santa Maria and Uruguaiana. This part of RS ("a Metade Sul") is poorer than the northern part: it contains 25% of the population but only 19% of the GNP. The per capita income disparity between the south and north is even more striking at 6,787 reais versus 10,257 reais (source FEE 2004). The five project municipalities cover an area of over 17,000 km² (6% of the State's total area), and have a total population of about 1,000,000 (9.5% of state total population). About 25% of the population is estimated to live below the poverty line. Together, the 5 municipalities produce 10.8%¹ of State's GDP.

¹ Source: IPEA (Economic Research Institute)

State Development Plan – Rumos 2015: this recently-produced study, partially funded from a previous WB loan, sets forth for the public and private sectors a sustainable regional development plan, based on the territorial organization of the “gaucho” state, geared towards achieving a more balanced income distribution across regions. Nine regional planning units have been defined (COREDEs), as well as 6 strategic areas of thematic focus, as follows: State Competitiveness, Strengthening of Hub-Cities, Social Inclusion, Environmental Preservation, Participatory and Modern Governance and Regional Development Plans to Overcome Inequalities. The document also emphasizes the fundamental role of medium-sized cities to promote regional development based on an increasingly urban and knowledge-driven economy. All five project municipalities are included in this list of hub-cities.

Municipal Governance in Brazil: With its 1988 constitutional reform, Brazil has one of the most decentralized public sectors in Latin America. States and municipalities account for almost half of all public sector revenues and expenditures. Municipalities make up 19% of total public revenues (5.4% of GDP), 13% of public spending and 24% of gross investment. They are at the forefront of economic development and poverty alleviation of their population. Municipal governments are responsible for the provision of most basic services, such as urban drainage, water and sanitation, solid waste management, rural roads, and public transport. Additionally, municipalities share the responsibility with their respective State Governments for the provision of health, education and social infrastructure. However, there is a mismatch between the municipal responsibilities and their access to financial resources to meet them.

Municipal management has improved significantly in recent years, largely as a result of federal measures to control inflation implemented in the mid-1990s and the passing of the Federal Fiscal Responsibility Law (LRF) in 2000. In 2001, 68.5% of the municipalities achieved fiscal surpluses, against only 13% in 1995. Municipal debt is well under control, but municipalities have very limited access to sources of borrowing due to the restrictions placed by the Monetary Council to restrict municipal borrowing to levels much lower than allowed in the LRF. However, the LRF also allows for municipalities that receive approval from the Ministries of Planning and Finance (through the COFIEX process) to borrow from IFIs, including the World Bank.

Project Origin: The five municipalities expressed interest in borrowing from the WB in response to a letter sent to all mayors in January 2003. The first requests for support were submitted by each municipality to SEAIN for COFIEX approval in December 2003. At that time, the five municipalities were encouraged to join efforts to create a common development program. The municipal governments spent much of 2004 negotiating with COFIEX the program content and counterpart obligations. The *Cartas-Consulta* were approved in December 2004 and the WB conducted an identification mission in January 2005. The Bank helped the municipalities mobilize a \$700,000 PHRD grant, which became effective in June 2005, for the purposes of project preparation. These five municipalities share a common regional and territorial development vision, and are striving to address very similar development challenges, including that of improved municipal governance, addressing rural and urban poverty, improvement of infrastructure service provision, as well as a greater participation of their region into the State’s economic growth agenda.

CAS Objectives. The proposed project would contribute to the CAS objective of a more equitable, sustainable and competitive Brazil, as laid out in the country's multi-year plan (PPA), by reducing social and environmental problems and promoting a more efficient use of resources in selected municipalities. Moreover, the project follows the CAS recommendation of adopting an integrated approach in support of multi-sectoral strategies to address the problems at the local level, with municipal governments as key partners in the promotion of an environmental, economic and socially sustainable development. The WB has also had a long-standing presence working in RS, with two loans recently closed and one under preparation (*Desigualdades*). WB participation in a municipal project of this nature will allow us to continue to work in the state in areas of greater development needs.

Program Fit with Municipal Strategy: the program fits neatly into the four pillars set forth by the Bank for our support to municipal development in Brazil: (a) improving municipal fiscal and administrative management, (b) increasing the competitiveness of the municipality through local economic development, (c) supporting partnerships across municipalities and with others and (d) strengthening municipal capacity to deliver key services. It also meets the requirements set forth by the Federal Government for WB municipal lending: (a) addressing difficult and cross-sectoral development challenges, (b) supporting municipalities larger than 100,000 people, (c) promoting cross-municipal partnerships, and (d) allowing flexible lending terms using either Reais or hard currency. The program would be different from other municipal lending as it would be the first one to support the development of the entire municipal territory, covering both the urban and rural population. In addition, this would be one of the first WB municipal programs that would have the individual municipal borrowers working together to implement a common development program. Finally, this program would contribute to our overall learning and policy analysis for municipal development in Brazil.

2. Proposed objective(s)

The program objective is to strengthen the capacity of the five municipal governments in fiscal management, delivery of selected infrastructure services and promotion of employment and income generating activities within their territorial jurisdiction, in a fiscally and environmentally sustainable manner. As a result of the project, it is expected that the quality of life of the population will improve. In addition, the municipalities will have benefited from improved partnerships and enhanced capacity strengthening by working together on a common development agenda.

3. Preliminary description

Lending instrument: The program is designed as a horizontal APL, comprised of five individual loans to each municipality. The purpose of using an APL is to:

- (a) contribute to establishing a common development agenda across the municipalities, and in support of the State development plan – Rumos 2015, while strengthening the

autonomy and capacity of each municipal government to implement an externally funded project of this magnitude

- (b) promote an increased focus on results-orientation by having common project components and, where relevant, similar results indicators across the 5 municipalities
- (c) promote economies of scale across the municipalities through common project implementation procedures, technical assistance, learning and sharing of best practices,
- (d) reduce World Bank supervision and other transaction costs, and
- (e) contribute to the municipal learning agenda that the Bank is seeking to establish with federal authorities as a means to inform policy making based on practical experience.

It is expected that all 5 projects would be appraised simultaneously, however, would be negotiated on an individual basis as soon as each municipality has received its respective authorization from the Ministry of Finance. The first loan(s) would be presented to the Board with the Program Appraisal Document, and subsequent loans approved by the RVP.

Project Costs: SEAIN approved Cartas-Consulta in for the 5 municipalities in the following amounts:

	Bank Loan (US\$M)	Counterpart (US\$ M)	Total Amount (US\$)
Bagé	6.83	4.87	11.70
Pelotas	18.91	12.61	31.52
Rio Grande	16.35	10.6	26.95
Santa Maria	13.95	9.3	23.25
Uruguaiiana	6.84	4.56	11.40
Total	62.88	41.94	104.82

Project components: A common set of result indicators and project components will be implemented across the five municipalities, although the specific investment plans and activities will be customized to meet the respective development plans of each municipality. The three project components and eligible expenditures are as follows

Component 1: Municipal Strengthening (about 13% program total, \$13M): this component will focus on improving the capacity of the municipal government in:

- **Fiscal management**, including tax collection, cadastre and internal resource mobilization
- **Strategic planning and budgeting:** participatory planning processes for the PPA (and/or *Plano Diretor*) and improved transparency on plan implementation
- **Project management:** planning, budgeting, sub-project formulation and appraisal, implementation (procurement, works supervision, safeguards), financial management and reporting, M&E
- Strategies for improved delivery of selected **infrastructure services** (in support of Component 3) and addressing environmental aspects

- **Promoting income generation and employment:** simplification of administrative procedures for business registration, operation and closing, as well as design and implementation of strategies for local economic development (financed through Component 2)
- **Cross-municipal partnerships, knowledge exchange** and learning with stakeholders involved in the program

Component 2: Income and Employment Generation (about 18% of program total, \$18M).

This component would support initiatives to generate employment and income in both urban and rural areas. Each municipality is being assisted to prepare a strategy to identify its productive potential, comparative advantages and competitive niches. The analytical work produced as part of the State Development Plan (Rumos 2015) will contribute to this effort. Although there will be special emphasis on direct project interventions to benefit the poor (such as facilitating access to micro-credit), support will also be provided to address key obstacles to growth faced by the larger and/or with greater potential productive sectors (for example, access to the knowledge economy). Any activity financed under this component would need to be based on a sound business plan which shows the expected income and/or employment generation that is expected from the intervention. Finally, the role of the municipal government will need to be clearly identified vis-à-vis the other state agencies that promote employment (such as SEBRAE, EMATER, etc), to avoid duplication of effort and ensure complementarity.

The following types of activities have been identified:

- **Supporting potential clusters of SMEs and encouraging the formalization of the informal sector**, promoting entrepreneurship, training and technical assistance to companies, SMEs and cooperatives;
- Facilitating access of the very poor to (existing) **micro-credit programs**;
- Provision of **municipal markets** and improved physical space for street vendors and creating incentives to formalize and regularize businesses ;
- **Technology parks** (in 2 municipalities) to promote innovation, R&D and value added expansion by bringing together skilled human capital, research institutes, public sector and private initiative;
- Promoting **diversification and further processing levels in rural productive activities**, including agriculture and fisheries, and increasing access of rural production to urban and more profitable markets.

Component 3: Territorial Improvements (about 70% of program total, \$70M).

The project will assist the municipalities improve their ability to provide priority and selected infrastructure services to all inhabitants in their jurisdiction in an efficient and sustainable manner within the framework of a longer term development strategy. However, due to limited resources, the project would in most cases only finance a portion of the total required investments (for example, upgrading just one neighborhood or expanding part of the sewer and treatment network), in order to assist the municipal government develop and test a methodological approach that could be replicated throughout the municipality.

The following investment categories will be eligible:

- Improvements in existing **urban and rural transport systems**: road rehabilitation, street paving, upgrading existing roads and small bridges, improved drainage, bicycle paths
- **Water supply, sanitation, drainage and solid waste management** in urban and rural areas
- **Urban upgrading, housing** and social improvements in poor neighborhoods
- **Environmental protection** including recovery of urban parks and watershed protection

4. Safeguard policies that might apply

The project is expected to have positive environmental impact in the long-run, since it aims at reducing environmental degradation and improving the quality of basic services and public transport and non-motorized transport systems.

While environment and cultural property may be triggered by the project, eligibility for funding is based on a strict screening to ensure that these safeguards are in accordance and satisfy the Bank's appropriate guidelines. Although it is envisaged that the Involuntary Resettlement Policy (OP/BP 4.21) may not be triggered, a framework will be developed to be used in case of any resettlement action plan being needed. In addition, the application of other safeguard policies, such as natural habitats, pest management and indigenous peoples, although not expected to be triggered, will be assessed during project preparation once the detailed list of sub-projects is defined.

The environmental and social work for this project will include the following: (i) a standardized *environmental and social screening* form will be prepared and training will be provided to responsible agencies in each city for screening of sub-project sites; (ii) *Terms of Reference for Preparing a Strategy for Slum Upgrading* will be finalized prior to appraisal to address slum dwellers and poor communities living in environmental risk areas in selected cities; (iii) an *Environmental and Social Management Framework (EMSF)* will be prepared prior to appraisal; (iv) a *Resettlement Policy Framework (RPF)* will be prepared prior to appraisal in accordance with OP 4.12; (v) an *environmental and social management capacity building plan* will be prepared at the regional level and included in the municipal strengthening component of the project.

5. Tentative financing

Source:	(\$m.)
Borrower	9.25
International Bank for Reconstruction and Development	13.95
Total	23.2

6. Contact point

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