

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

Report No.: PIDA88046

Project Name	Fortaleza Sustainable Urban Development Project (P153012)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Lending Instrument	Investment Project Financing
Project ID	P153012
Borrower(s)	Municipality of Fortaleza
Implementing Agency	Secretaria Municipal de Urbanismo e Meio Ambiente (SEUMA)
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	29-Sep-2016
Date PID Approved/Disclosed	02-Oct-2016
Estimated Date of Appraisal Completion	04-Nov-2016
Estimated Date of Board Approval	15-Feb-2017
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Brazil's rapid urbanization process has been characterized by a lack of planning, poor access to basic services and inequality. Cities are the center of the country's economic production, growth and capital. Urban agglomerations, particularly metropolitan areas, are the sources of much of Brazil's human, social and financial capital. More than 90 percent of the country's GDP is being generated in its cities. However, in most cities, rapid growth combined with insufficient planning has led to concentrated poverty and enduring inequality in urban areas, growth of informal settlements, insufficient access to basic services, congestion, high vulnerability to natural disasters, lack of quality public spaces, and environmental pollution. Today, cities and metropolitan regions face the challenge of overcoming these problems to promote social inclusion and improve livability, with limited financial resources.

To promote the sustainable growth of urban areas, in 2001 the Brazilian Congress approved the Statute of the Cities (Law 10.257 of 2001). The Statute provides municipal governments with guidelines for integrated urban and environmental planning, as well as tools and mechanisms for increased citizen participation and transparency. Moreover, it establishes technical, legal and fiscal instruments that allow cities to regulate and promote sustainable and inclusive urban land use and management (1). However, after fifteen years, most cities still lack the capacity to take full advantage of these instruments, particularly the ability to incorporate land use and value capture instruments to increase municipal leverage over real estate and housing markets.

Cities in Brazil will define most of the country's economic and social development for the next decades. Not only mega-cities, but increasingly the other 60 growing cities with over 500,000 inhabitants attract people and businesses through economic and social opportunities. Most of these cities, particularly mid-size ones, are still expanding territorially and face strategic choices that could either drive wealth generation or lock-in costly development patterns in terms of access to infrastructure (housing, transport, basic services) increasing resource use, vulnerability to natural hazards, and social fragmentation. The need for integrated urban planning, more efficient land use and compact growth is pervasive among Brazilian cities, as is the need to provide all citizens with green, public spaces that will allow them to connect with others and to access urban amenities. This proposed project addresses some of these urban challenges and supports investments and institutional strengthening needs that are common to local municipal governments. The results and lessons from the project will thus be replicable across the country.

(1) These instruments, among others, allow for the transferring of building rights (Transferencia do Direito de Construir), for the regularization of informal settlements (Usucapiao Especial de Imovel Urbano), and for land value capture (Outorga Onerosa do Direito de Construir). They also incentivize the use of underutilized areas (IPTU Progressivo no Tempo), as well as provide opportunities for partnerships between the public and the private sectors for the redevelopment of selected areas (Operacoes Urbanas Consorciadas).

Sectoral and institutional Context

Fortaleza, capital of the Northeastern state of Ceara, is the fifth largest city in the country with a population of almost 2.6 million people. It concentrates approximately 29 percent of the State's population and 67 percent of the metropolitan region's population, comprised by 15 municipalities. It is the municipality with the largest GDP of the Northeast region and the tenth largest in the country (R\$ 43,402 million in 2012, contributing 1 percent to Brazil's GDP) (IBGE, 2014). The service sector is the most important driver of the local economy, generating on average 68 percent of the city's annual GDP during the last decade (IBGE, 2014). Tourism is the largest sector within the service economy, and it has been steadily rising during the last decade.

Fortaleza is characterized by high inequality levels, distinct and drastic socio-economic contrasts, and sharp spatial divides. Some of the poorest areas and slums are located along the coast (particularly on the West and North East), as well as along the main water bodies, in areas of high risk of flooding - including the Maranguapinho, Ceara and Coco rivers and their tributaries. Low income settlements have grown in the Southern periphery of the city, where urban growth took place in the 70's and 80's without accompanying access to sanitation, drainage, adequate housing, green areas and public spaces, etc. Over 16 percent of the population lives in subnormal settlements and 509 different favelas have been mapped in the city (IBGE, 2010). Poverty and inequality levels have decreased over the past decades, but the Gini coefficient still remains amongst the highest compared to the rest of the state capitals (IBGE, 2010) (2). In addition, in 2014 Fortaleza had the third highest annual homicide rate in Brazil (66.55 per 100,000 inhabitants) and the eight in the world.

The city's rapid growth was not matched by adequate planning and investment, leading to deforestation and pollution of its water resources. The city has valuable environmental assets: it is

flanked by long stretches of beaches, crossed by two main rivers and many smaller tributaries, it has an extensive network of lagoons, and it formerly had a considerable network of parks and green areas. However, population growth and rapid urbanization in the past decades were not accompanied by adequate planning. As a result, the city has followed a sprawling growth pattern, also characterized by the encroachment of environmentally protected areas, parks and green spaces by informal settlers. Investments in sanitation infrastructure have not kept up with the expansion of the city, and this has negatively impacted the urban environment. Only 46 percent of the households in Fortaleza are connected to the sewage network, and there is significant spatial variability in terms access to the network. Discharges of untreated sewage to water bodies have caused significant pollution of beaches, rivers and lagoons across the city. The Municipal Government of Fortaleza (Prefeitura Municipal de Fortaleza, PMF) in collaboration with the Water and Sewage Company of Ceara (Companhia de Agua e Esgoto do Ceara, CAGECE), are implementing a Municipal Sanitation Plan that aims at achieving universal service coverage and treatment of domestic sewage by 2033. This will require not only investments in the expansion of the network and the construction of new treatment plants, but also the optimization of the existing networks through an increase in number of connected households and a reduction in illegal discharges directly into storm drains and surface water bodies.

The PMF recognizes the need to rehabilitate the urban environment, as well as to improve land use and occupation patterns across the city in order to promote social inclusion and more sustainable growth. This will require substantial investments in environmental restoration, infrastructure and public spaces, as well as the strengthening the municipality's urban planning, monitoring and management capacity. The municipality is currently financing sanitation, housing, and mobility projects across the city, but additional sources of revenue are needed in order to fund the investments necessary for the long-term transformation of Fortaleza. The PMF recognizes the potential of land-based instruments defined by the Statute of Cities to drive urban transformation and to unlock revenues. Through the Municipal Secretariat for Urban Development and Environment (Secretaria Municipal do Urbanismo e Meio Ambiente, SEUMA), the city has piloted the implementation of land value capture instruments . To date, three small-scale Urban Operations (Operacoes Urbanas Consorciadas, OUCs) have been implemented and others are in different phases of development. However, the municipality does not have the institutional nor the technical capacity to take full advantage of the range of instruments that exist today and apply them in larger scale transformational operations.

Climate change risks. Brazil is exposed to a variety of natural hazards. The most recurrent and disruptive natural events are of hydro-meteorological nature, namely drought, severe rainfall and landslides. The Northeastern states have a well-known history of drought with some cities also being affected by floods, more frequent over the past decade as a result of climate change. The proposed operation includes activities in a coastal area of Fortaleza, as well as in some inland areas. The investments that will be financed are not at significant risk from climate change events, specifically sea level rise or flooding. On the contrary, a number of investments will contribute to better flood management in some areas of the city, as they will be designed with an integrated water management perspective.

(2) In 2010, 5.5 percent of the population remained in extreme poverty.

II. Proposed Development Objectives

The proposed Project Development Objective is to: (i) strengthen the capacity of the Municipality of Fortaleza for land use planning and land-based financing; and (ii) enhance urban environment and rehabilitate public spaces through selected interventions in areas of the Vertente Maritima basin and of the Rachel de Queiroz Park.

III. Project Description

Component Name

Urban and Environmental Restoration

Comments (optional)

The objective is to promote urban and environmental restoration of selected areas of the city through pilot investments in public spaces and sanitation. Implementation of these pilots also aims at strengthening the municipality's capacity for urban planning and environmental management. Interventions include: (i) Restoration of Rachel de Queiroz (RDQ) Park; and (ii) Reducing point-source pollution along Vertente Maritima (VM) coastline

Component Name

Strengthening Planning and Land-based Financing

Comments (optional)

The objective of this component is to strengthen the capacity of the Municipality of Fortaleza for planning and land-based financing, through the (i) upgrade of planning instruments and licensing tools; and (ii) implementation of land-based financing instruments.

Component Name

Project Management

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	146.60	Total Bank Financing:	73.30
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			73.30
International Bank for Reconstruction and Development			73.30
Total			146.60

V. Implementation

The Secretary of Urban Development and Environment (SEUMA) will be the Project's implementing agency. A Project Management Unit (PMU) will be created within SEUMA, comprised of a Project Coordinator and dedicated staff for Project Administration and Financial Management, and for Procurement. Technical and M&E functions will be performed by key staff appointed within SEUMA's administrative and organizational structure. SEUMA will be responsible for leading project activities, with special support from PMF's internal and external partners involved in sector specific activities.

A group of sector specific external individual consultants (in the areas of urban and environmental development, infrastructure financing instruments, and sanitation, among others) will be engaged to

provide technical support, as needed, to the PMU and SEUMA's technical team. Although the PMF has no ongoing project with the Bank, some key staff in SEUMA have previous experience working with Bank financed projects at the State level. Additional technical assistance will be provided throughout Project implementation to strengthen SEUMA's project management capacity, including training in the areas of safeguards, procurement and financial management.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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