**PROJECT INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

**Report No.: PIDA534**

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<th>Project Name</th>
<th>Rio de Janeiro Strengthening Public Sector Management Technical Assistance Project (P127245)</th>
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**I. Project Context**

**Country Context**

1. The Municipality of Rio de Janeiro (MoRJ) with support of the World Bank through the Fiscal Consolidation for Efficiency and Growth Development Policy Loan (DPL) has implemented several policy reforms since 2009 (Box 1). These reforms have enabled the municipality to catch up with modern practices such as electronic fiscal invoicing, Results-Based Management (RBM) and health facilities managed with more flexible arrangements. In addition, the MoRJ has implemented some innovative measures such as the establishment of Family Health Clinics (FHC) and adoption of initial steps of a Medium-Term Expenditure Framework (MTEF) and Public Investment Management (PIM) system.

2. Building on the DPL engagement, this Project aims to help the Municipality of Rio de Janeiro (i) consolidate the innovations already adopted; (ii) support the next steps in the city’s reform agenda; and (iii) address the remaining challenges, especially cross-sectoral ones that hinder improvements in fiscal and public management and service delivery. While significant advances have been made over the past years, challenges remain to promote greater efficiency in resource allocation and operational efficiency. Similarly, innovations in service delivery, both in sector policies (health and education) and through the use of a territorial approach (UPP areas), have greatly improved the supply of services and allowed the government to reach parts of the population previously excluded. Nonetheless, challenges remain in further integrating and improving the efficiency of service provision and monitoring and evaluating the impact of public policies. Lastly, following the DPL’s example, the proposed operation would further support and explore complementarities between state and municipal policies, fostering integration and coordination between the two levels of government.

3. This Project is structured around four components and six subcomponents, which share links among them and a supporting causal chain. Figure 1 illustrates the links among the different components and subcomponents. It also illustrates the cross-sectoral nature of the activities aimed at improving Monitoring and Impact Evaluation (M&IE) and Fiscal and Public Sector Management. These activities are expected to public service delivery in health, education and at UPP areas, as well as environmental management. Ultimately, the goal is that of helping consolidate the progress made during recent years in the city’s reform agenda at the sector level (subcomponents 2.1, 2.2, 3.1, 4.1 and 4.2), while at the same time reaping the benefits of cross-sector improvements in fiscal and public sector management, and an enhanced monitoring and evaluation capacity (Component 1 and subcomponent 3.2).

4. In summary, the Project would help improve sector policies directly, through subcomponents 2.1, 2.2, 3.1 and 4, and indirectly, through cross-sectoral improvements in fiscal and public sector management as well as monitoring and impact evaluation capacity. For instance, the Secretariat of Education (SME) has greatly advanced in students learning assessments, generating data, which has not yet been utilized to its potential. The Project would help improve the Municipality’s capacity to analyze such data so as to inform education policy and budget decisions. The Project would also support evaluations of health policies, which are currently lacking, with a view to further improve their design and ability to generate results. Similarly, in the case of the UPP social program, the M&IE subcomponent would provide evidence to inform not only the city’s efforts to improve the quality of service provision in pacified slums, but also the territorial coordination of sector policies in those areas.

Box 1. The Fiscal Consolidation for Efficiency and Growth Development Policy Loan (P111665)

The objective of the Fiscal Consolidation for Efficiency and Growth Development Policy Loan (P111665) was to assist the municipality of Rio de Janeiro in creating fiscal space which would be used for investments to improve the quality and efficiency of public service delivery, especially in poor areas, through innovative programs in health, education and private sector development. Other investments would strengthen the institutional framework for efficient service delivery through the implementation of a medium term expenditures framework, results-based management with the public sector, and PPPs with the private sector. The loan supported policy actions in the following areas:

- Creating fiscal space to expand public investment through improvement in revenue collection and rationalization of pension expenditures;
- Reforming public services delivery through: (a) improved government processes for registering businesses; (b) improved access to quality family health and emergency care services; and (c) improved early development of poor children, better quality of primary schools in...
high-conflict slum areas, and system-wide advances in student learning outcomes;

# Strengthening the institutional framework for efficient service delivery through: (a) implementing a medium term expenditures framework and results-based management tools within the public sector, and (b) the creation of the institutional framework for public-private partnerships (PPPs) to invest in infrastructure and service delivery projects with the private sector.

5. Located in the Southeast region, the city of Rio de Janeiro is the country’s second largest in population and contribution to Gross Domestic Product (GDP). Rio’s population was about 6.4 million in 2011 and its GDP was R$175 billion (US$88 billion) in 2009. The Municipal Government is comparable in size to a state government or small country. The city is twice the size of Uruguay in population and GDP and the city’s budget is Brazil’s 10th largest.

6. Despite its large GDP, Rio is marked by social and economic inequalities. The poor comprise about 10 percent of the population, and the income inequality, measured by the Gini index is higher than for the whole country: 0.5764 against 0.5486. Although more than two thirds of the poor live outside neighborhoods often characterized as slums, called favelas, it is true that average poverty rates are higher and coverage of basic services is lower in favelas. For instance, the poverty ratio at favelas is 15 percent, while at the non-favelas areas is 9.4 percent.

7. Rio’s social conditions are partly the result of a long period of economic decline. The transfer of the national capital to Brasilia in 1960 removed a primary engine of the city’s economy. Like other Brazilian regions, Rio then suffered from the economic stagnation that began with the 1973 oil crisis and persisted through the international debt crisis of the 1980s and various domestic economic setbacks. But Rio fared worse than most. While cities such as São Paulo, Recife, and Brasilia continued to grow, Rio’s economy shrank at an average annual rate of 1.1 percent between 1985 and 2003. As a result, formal-sector employment levels stagnated and poverty rates did not fall as fast as they did in the rest of Brazil.

8. The city’s finances also suffered, but over the past decade fiscal adjustment has been pursued. After continual fiscal deterioration through the 1990s, Rio de Janeiro produced a strong fiscal adjustment effort in the past decade. This was achieved through compliance with the strict borrowing controls of the Fiscal Responsibility Law (LRF) and also due to the debt bail-out promoted by the Federal Government to all municipalities in 2000. Unfortunately, this fiscal adjustment was done at the cost of reducing investments. In fact, fiscal adjustment needs and significant expenditures rigidities reduced investment’s share of total expenditure from 11 percent in 2000–01 to 8.3 percent between 2004 and 08.

9. Between 2005 and 2009, economic activity in Rio de Janeiro experienced a significant increase, though at a lower level than seen in other Brazilian capital cities. Rio grew on average 10.5 percent in nominal terms, while other large cities like Fortaleza grew 12.2 percent and Brasilia and Belo Horizonte grew 11.4 percent. This growth was led by the services sector, since the industry sector grew on average 0.7 percent in real terms in the same period. In fact, retail sales in the municipality have been growing steadily since 2005, accumulating a 36 percent growth from 2005 to 2009.

10. Reforms have gained momentum and the MoRJ is well positioned to consolidate and advance its policies. Fiscal reforms and the utilization of PPP arrangements have allowed the Government to spur public investments. Educational and health policies are already being reflected in improved test scores and health-related indicators. Such progress and their impact on the population’s well-being have created the conditions to advance the supported policy agenda.

II. Sectoral and Institutional Context

Fiscal and Public Investment Management

11. Rio has achieved some fiscal consolidation, but there are still challenges on the fiscal front. Rio’s ability to maintain its expenditure and investment program over time will require achieving greater quality of expenditure and shifting the fiscal management focus from short to medium term. Moreover, ensuring allocative and operational efficiency will be key to promote greater effectiveness in service delivery. In Brazil, cities such as Rio de Janeiro are the main providers of essential public services, making them critical for the country’s success in promoting growth, reducing poverty, and ensuring that all citizens receive good quality services.

12. After implementing restrictive measures to deal with the effects of the crisis, the MoRJ went on to implement its long-term strategy. Just after taking office in 2009, the city’s administration slashed recurrent expenditures, temporarily froze investments, and launched an effort to improve tax administration to mitigate the crisis effects. In the same time, the city devised a long term development strategy. The strategy calls for: (a) generating fiscal space for investment; (b) improving the quality of social services, particularly in low-income areas; and (c) modernizing the city’s internal processes. In the Fiscal and Public Sector Management, the key challenges were: (i) a weak planning-budgeting system that lacked strategic focus on priorities; (ii) a poor management system that did not efficiently allocate public expenditures or adequately monitor progress in the implementation of the municipality’s strategic projects; and (iii) no systematic utilization of performance information in planning and budgeting, which undermined attempts to increase the quality of expenditures and service delivery.

13. Since 2009 the MoRJ has been carrying out reforms to improve planning, budgeting and monitoring practices to improve allocative and operational efficiency. The city has been developing a framework to improve the efficiency of service delivery through the introduction of RBM and the first steps towards the implementation of a MTEF. However, this process will require work over budget cycles to consolidate improved fiscal management practices and increase the focus on medium term fiscal management. Going forward, the municipality has decided to focus on improving the coordination between top-down and bottom-up information flows; on the one hand macroeconomic constraints and government priorities, and on the other hand estimates of the costs, benefits and performance of present and future expenditures. In addition, attention will be given to the selection of investments, strengthening the procedures introduced for project selection and building capacity for project preparation and appraisal.

Service Provision Health

14. Health outcomes in MoRJ do not match the city’s economic development level. Weak primary care and referral systems have led to overuse of hospital emergency rooms, congestion in public facilities, and poorer than expected health outcomes. For many years,
implementation of the Family Health Strategy (FHS) was slow despite federal funding and incentives. However, over the last few years, the municipality has made significant strides in improving the performance of the health system, with an embedded gender aspect in it. There has been a rapid expansion of Family Health Clinics, an innovative approach to organizing primary health care under the FHS. Coverage, now at around 30%, is set to continue to expand in coming years. The Municipal Health Secretariat (SMSDC) has also established a number of Emergency Care Unit (UPAs), which provide 24-hour primary and secondary services, and are intended to improve access to care for underserved population groups and reduce the pressure on hospital emergency rooms.

15. Despite these advances, the municipality continues to face significant challenges. The expanding primary health care system has the potential to significantly improve access to and coordination of care, and reduce pressures on hospital emergency rooms, improving resource allocation by providing the most cost-effective option of treatment to each patient. However, due to weaknesses in the referral system, this potential is far from being realized. In addition, the information demands for effectively managing the increasingly complex municipal health system are growing, and the SMSDC is looking to establish systems and procedures for consolidating and analyzing information concerning system resources and performance, and to undertake studies to inform policy in key strategic areas.

Education

16. Rio’s school performance, measured by student learning levels, grade repetition, and dropout rates in primary school, is above average for municipal school systems across Brazil. However, Rio lags behind with respect to other comparable large public school systems in the southeast and south of Brazil. Between municipal, state, and private providers, educational availability at the primary school level is universal; however, preschool coverage, where the city has exclusive public responsibility, is limited and daycare services are not available to many infants and young children.

17. The administration conducted a comprehensive study that identified three core educational challenges: (a) poor student learning performance, revealed in weak literacy and math scores on standardized tests; (b) extraordinary difficulties faced by schools in high-crime areas; and (c) unmet demand for preschool and daycare services. Based on the results of the study, the Municipal Secretariat of Education (SME) has moved impressively to craft and implement new initiatives in all three areas: (i) efforts to improve student learning outcomes were targeted at strengthening the teaching of literacy skills in early grades and helping older students with weak skills to catch up; (ii) innovative education programs were implemented for high-risk areas, leading to lower drop-out rates; and (iii) a new model of integrated early-childhood care and preschool services was established. Finally, teacher training programs and a pay-for-performance system were introduced.

Social Governance and Monitoring and Evaluation

Social Governance

18. Social UPP Program: integrating pacified favelas with the rest of the city. For the last 25 years, Rio was a city divided between the favela, where for the most part criminal organizations replaced the state, including in the provision of basic services, and the asfalto, in which citizens lived in neighborhoods with paved roads, basic infrastructure and services, and the “normal” presence of the state. In December 2008, the State Government launched an ambitious initiative to regain control of these territories through the Unidades de Polícia Pacificadora (UPP), or Police Pacification Units, establishing a full-time well-trained peace-keeping police force within the communities after expelling traffickers.

19. With the threat of violence contained, the state and municipal governments have made it a priority to close the gap between favelas and the rest of the city. Social UPP is the flagship program managed by the MoRJ aimed at promoting this integration. Social UPP operates independently from the UPP Program. Its main objective is to facilitate the territorial coordination and monitoring of services and programs from government, private sector, and civil society. Today there are 23 UPAs in the city, all of which with Social UPP, reaching almost 400,000 people. Social UPP expects to be present in 34 territories by 2013, reaching approximately 40 by the end of 2014 with nearly 800,000 beneficiaries.

20. The program follows a three-stage process, all of which are based on a participatory approach and constant engagement with the local communities. The pre-implementation phase starts after UPP takes over the territory, and Social UPP enters with a group of local coordinators to assess the most pressing demands. This process is followed by a Rapid Participatory Mapping exercise, which provides a socio-economic assessment of each favela. Based on this initial diagnosis, a team of Social UPP local coordinators becomes the mediator between the communities, government, and other service providers. For each favela, based on hard data plus participatory diagnosis and prioritization, Social UPP develops and monitors the implementation of a local integration plan identifying basic commitments assumed by all parties.

21. Social UPP is an example of Rio’s attempt to follow an innovative and integrated approach to public policy, trying to promote the coordination between governments and stakeholders, including civil society and the private sector. The success of UPP Social will depend on the capacity of Instituto Pereira Passos (IPP), the agency in charge of coordinating the program. IPP is not the provider of public services itself, but through Social UPP it is responsible for helping municipal service providers tailor their service delivery techniques to UPP areas and attend their specific demands. The key challenge for this institution will be to gain the support of the other players involved, as the legitimate leader of the overall process.

22. The Bank can play a key role in strengthening these articulation and coordination efforts, acting as a neutral convener. For example, the State Secretariat of Social Assistance and Human Rights (SEASDH) also has local teams working in the territories and has a crime and violence prevention and social agenda focused primarily on youth, women, and human rights. Despite their different legal mandates, there are overlaps between these interventions and Social UPP, and a lack of systematic coordination between the two. The Bank is well positioned to play that role due to the concurrent engagement with the state government. The team would also work in coordination with the IDB, which is implementing a project in support of SEASDH’s interventions with youth in pacified favelas.

Monitoring and Evaluation (M&E)

23. Since 2009 the city has been developing a framework to improve the efficiency of service delivery in the public sector through the introduction of Results Based Management tools. The introduction of this approach was led by the Mayor’s Chief of Staff Secretariat (CVL) with substantive support from IPP. It included the definition of government priorities and key monitoring indicators and targets; the introduction of project management procedures; and signing of performance agreements between the Mayor and Municipal Secretaries. Besides this central monitoring and management effort at CVL, a number of evaluation activities, aimed at generating data to inform city policies and—by informing
policies—strengthen a culture of evidence-based policymaking have been taking place in several municipal secretariats.

24. Over the past two years, increased awareness and demand for improved monitoring and evaluation of government programs have arisen within the municipality. IPP has taken a central role in this process and has been providing support to sectors in improving the design, implementation and monitoring of public policies. As part of this work, IPP has been assisting sectors in identifying and organizing relevant data. Taking a leading role in the process of strengthening monitoring activities and upon the request of the CVL, IPP is planning to develop a household survey to collect primary data, representative of the regional subdivisions of the city, to allow for improved monitoring and impact evaluation of Government programs. As part of the strategy to provide the city with an effective M&IE system, IPP further plans to work with the sectors and develop activities to build capacity for RBM and to conduct impact evaluations.

Environmental Management

25. The city of Rio de Janeiro was one among the first in Brazil to identify the need to develop municipal policies to address climate change. The Environment Secretariat (SMAC) is leading the coordination of a wide range of climate change mitigation and adaptation measures. In addition to these initiatives, the MoRJ has focused on the establishment of a framework to address climate change at the city-level. In January 2011, this strategic approach culminated in the passing of the Municipal Policy for Climate Change and Sustainable Development, a law that sets municipal greenhouse gas (GHG) reduction targets of 8, 16 and 20 percent for the years 2012, 2016 and 2020, respectively, compared to the 2005 emissions level.

26. The climate change law provides the legal basis to establish strategies and to promote effective measures to ensure achievement of the emissions reductions targets. One of the directives of the law is to encourage emissions inventory updates every four years in order to assess the city’s GHG emissions. This implies that the municipality will be required to update the 2005 base year inventory in 2012, 2016 and 2020. Moreover, in order to demonstrate the 20 percent avoided emissions with respect to the 2005 base year, the municipality will need to monitor and measure the avoided emissions of every mitigation measure implemented, and compare them with the expected emissions under the business-as-usual scenario.

27. The MoRJ has been working in partnership with the Bank, COPPE-UFRJ and the World Resources Institute (WRI) on the development of a GHG monitoring strategy. It aims to: (i) establish the Rio Climate Data Bank, which will be a repository for GHG data for the city; and (ii) implement a methodology to periodically compile and process data from GHG emitters, which will allow Rio to update its GHG inventory on an annual basis. This data bank, as well as the capacity to regularly collect and monitor GHG emissions will allow the city to track and report on its progress in meeting GHG emissions reductions targets, as required by law.

III. Project Development Objectives
The proposed Project Development Objective is to support institutional capacity strengthening in the Municipality of Rio de Janeiro to enhance public services delivery, including in health, education and environmental management.

IV. Project Description

Component Name
Improving Medium Term Fiscal and Public Investment Management
Innovation in Service Provision
Strengthening Social Governance and Monitoring and Evaluation
Innovations in Environmental Management
Contingencies

V. Financing (in USD Million)

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VI. Implementation

28. The proposed multi-sector Project involves as beneficiaries and implementing agencies the Secretariats of Finance, Education, Health, and Environment, as well as Instituto Pereira Passos, which is the municipality’s urban planning and research institution. All implementing agencies are part of MORJ’s organizational structure.

29. A Project Coordination Unit (PCU) based in the SMF will be responsible for overall Project management and administration under the operation, as well as monitoring and evaluation, fiduciary and safeguards activities. The PCU would be staffed with a minimum of four professionals, in charge of providing cross-support to all other involved Secretariats. These professionals include a project coordinator, M&E specialist, procurement specialist, and a financial management specialist, from the Assessoria de Captação de Recursos Externos. Financial management will be carried out using the existing central systems of the Municipality overseen by central secretariats. Most activities will be carried out by civil servants with tenured government appointments and other tasks outside the project, although they will need to be fully dedicated to the Project especially in the early stages of implementation and after the mid-term review. The PCU will report directly to the World Bank, on behalf of the Government.

30. The implementation arrangements would also include a Project Coordination Committee that consists of technical focal points from each of the implementing agencies. The Committee will meet periodically and help with the oversight of the Project. The focal points will coordinate the monitoring and evaluation of the Project progress as well as technical aspects of procurement activities. The Project Coordination Committee will be constituted by:

- A representative from the Education Secretariat
- A representative from the Health Secretariat
- A representative from the Environment Secretariat
- A representative from the Secretariat of Finance
- A representative from the Secretariat of Public Works
- A representative from the Secretariat of Education
- A representative from the Secretariat of Health
- A representative from the Secretariat of Environment
Committee will be supported by a Procurement Advisory Team. Annex 3 of the PAD describes in detail the implementation arrangements, including a table with the roles and responsibilities of the different agencies involved. The Implementation Support Plan is included as Annex 5.

VII. Safeguard Policies (including public consultation)

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