**PROGRAM INFORMATION DOCUMENT (PID)**

**CONCEPT STAGE**

July 28, 2011

Report No.: AB6674

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| **Operation Name** | RIO STATE DEVELOPMENT POLICY LOAN III |
| **Region** | LATIN AMERICA AND CARIBBEAN |
| **Country** | Brazil |
| **Sector** | Sub-national government administration (50%); Secondary education (30%); Health (20%) |
| **Operation ID** | P126465 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | THE STATE OF RIO DE JANEIRO |
|  | Secretaria de Fazenda  42 Rua da Alfandega  Centro Rio de Janeiro  Rio de Janeiro  RJ  Brazil  Tel: (55-21) 2334 4300  ptafner@fazenda.rj.gov.br |
| **Implementing Agency** | SECRETARIA DE FAZENDA |
| **Date PID Prepared** | July 28, 2011 |
| **Estimated Date of Appraisal** | November 14, 2011 |
| **Estimated Date of Board Approval** | January 31, 2012 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |

1. **Key development issues and rationale for Bank involvement**

Brazil and the World Bank Group have a long-standing partnership. The Country Partnership Strategy (CPS) for Brazil,[[1]](#footnote-1) recognizes significant achievements in tackling development challenges using innovative approaches, and contributing to shaping the global policy agenda. The CPS also responds to the demand for more flexible and efficient products that are better suited to the country’s evolving needs, while maintaining a focus on key long-range development issues.

The aim of this operation is to strengthen the partnership with the state of Rio de Janeiro by consolidating reforms which address complex and challenging development issues that have significant long-term implications. The proposed operation responds to the needs of the state government of Rio de Janeiro. The DPL will help the GORJ reinforce fiscal discipline and public service delivery, in the face of increasing pressures on expenditure. It will support the improvement of the public financial management of the State and strengthen policies in the education and health sectors to deliver better services.

The proposed operation is fully consistent with and closely linked to the objectives of the Brazil CPS, 2008-2011. This operation is one of a number of sub-national DPLs and SWAps designed to reinforce fiscal discipline, public financial management and service delivery as an integral part of the Bank’s Country Partnership Strategy in Brazil. By focusing on a State with such a large economy and high inequality as Rio de Janeiro, the DPL will address both the Growth and Equity pillars of the CPS. In particular, the policy measures supported by the loan are aligned with the CPS objectives of (i) strengthening macroeconomic fundamentals; (ii) reducing poverty, vulnerability and social exclusion by increasing efficiency, quality of spending and accountability of the health and education sectors, especially at the sub-national level; and (iii) improving public financial management. By supporting policies such increasing State revenue performance, improving efficiency in tax collection, implementing a merit-based selection process for school directors, the DPL will contribute to improve such CPS outcome indicators for the whole country.

1. **Proposed Objective(s)**

### The objective of the proposed operation is to support the fiscal consolidation and the efficiency of the public financial management and service delivery of the Government of Rio de Janeiro (GORJ), through improved (i) tax policy and administration, (ii) coverage and quality of health and education services, and (iii) strengthened management of investment and costing of policies.

1. **Preliminary Description**

The proposed operation is a stand-alone development policy loan. The ($485 million) will be disbursed once the loan goes into effect and is contingent upon the government’s completion of prior policy actions, which will be set forth in the loan agreement.The four DPL policy areas supported by this DPL are described in the next section and in more detail in Table 8. These policy areas are: (i) Fiscal Consolidation; (ii) Public Financial Management; (iii) Quality and Efficiency of the Education System; and, (iv) Coverage and Efficiency of Health Services. The World Bank and GORJ have tentatively agreed upon the prior actions listed as conditions for presenting the DPL to the Bank’s Boardfor approval.

The policy actions supported by the Bank will go beyond the prior actions agreed upon. The operation supports a much broader set of government policy actions in the four policy areas. Following good practice principles on conditionality the operation’s policy matrix will use a limited number of prior actions that have been chosen according to their importance in achieving results. These actions are part of a comprehensive reform plan with a solid track record of implementation.

1. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

The specific policies supported by this DPL are expected to have significant positive social impacts. Poverty and social inequality are high in the RMRJ. The poverty rate reached 10.2 percent in the city of Rio de Janeiro in 2008 and 13.7 percent in the metropolitan region as a whole. In peripheral areas it rose to over 30 percent, and in the informal settlements it ranges from 16 percent to 24 percent. Nearly 45 percent of the city’s poor live in informal settlements. The metropolitan Gini Index remained stable during the past decade, dropping slightly from 0.578 to 0.576.

The policies and reforms supported by this operation include consolidating fiscal sustainability, improving the delivery of health and educational services and improving the efficiency of public financial management. Each of these policies has a likely overall positive poverty and social impact. Reforms in health and education are expected to generate the most rapid positive gains for poor people and vulnerable populations.

**Fiscal Consolidation**. Improved fiscal sustainability and expansion of fiscal space for investment would likely have positive social impacts due to government's ability to improve public services and public investments. When public services improve, low income groups with a history of very low access to these services experience relatively larger gains. More investments are also likely to benefit lower-income groups via increased job opportunities in construction and related activities.

**Education.** Since poverty and extreme poverty is closely correlated with lower-levels of education, the Government's program to improve education quality and efficiency is expected to have highly positive social outcomes with markedly greater gains for poor people and vulnerable groups who usually have no alternative to the public school system.

**Health.** Increasing access and efficiency of health services in small municipalities and outside of the Metropolitan area are expected to have overall positive social impacts, especially for the poor and more vulnerable groups who must rely on public health services. The UPA model for urgent and emergency care is already demonstrating its effectiveness, especially for the poor in Metropolitan Rio. The main risks include the need for: (i) better inter-institutional coordination of health services overall; and (ii) better informed consumers and positive interactions between the UPA and the community where it is located. The first is being addressed by the introduction of an inter-institutional and interagency system to improve coordination among services, as well as implementation of a real-time information monitoring system for UPAs. The community issues are being addressed by public awareness campaigns, as well as consultations with and involvement of communities in their local UPAs. The PAHI is also expected to produce positive social and distributional impact due to improvements in the delivery of maternal and child care in the smaller municipalities, which would benefit disproportionately poorer people.

1. **Tentative financing**

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| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 300 |
| Borrower/Recipient |  |
| IBRD  Others (specifiy) |  |
| Total | 300 |

1. **Contact point**

**World Bank**

Contact: Yaye Seynabou Sakho

Title: Sr Country Economist

Tel: (202) 458-9732

Fax:

Email: ysakho@worldbank.org

**Borrower**

Contact: Paulo Sergio Braga Tafner

Title:

Tel: (55-21) 2334 4300

Email: ptafner@fazenda.rj.gov.br

1. **For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: http://www.worldbank.org/infoshop

1. CPS 2008-2011 (Report No. 42677-BR) discussed by the Executive Directors on May 1, 2008, and the Progress Report (Report No. 53356-BR) discussed by the Executive Directors on April 20, 2010 [↑](#footnote-ref-1)