1. Key development issues and rationale for Bank involvement

The Federal District’s public sector and infrastructure were envisioned to serve a maximum of half million people by 2000. However, the DF has now approximately 2.5 million inhabitants, and suffers from the same challenges observed in other major metropolitan areas: high population density; unequal distribution of wealth between the capital city and satellite cities, which reflect poorly in the education and health sectors; unemployment; high rates of violent crime and traffic accidents; a partially saturated transport system and the degradation of urban transport services. The government elected in 2006 launched an ambitious reform program to address these issues. The proposed project would support government efforts to tackle some of these issues.

2. Proposed objective(s)

The proposed project development objectives (PDOs) are the following: (1) improve public sector management and accountability; and (2) increase access to and the quality of basic education, primary health care and urban transport.

3. Preliminary description

The project would improve public sector management and accountability by implementing results-based management and financing, simplifying public administration, and launching related governance initiatives, including strengthening of financial management and procurement; and increase access to and the quality of key services such as basic education, primary health care and urban transport by implementing results-based management in these sectors, and strengthening their institutional capacity.
The Project would co-finance the $400 million GDF Multisector Public Management Program through a Sector Investment Loan (SIL) of US $71 million to be disbursed in three years (2009-2011). The project would follow a Sector Wide Approach (SWAp). The Bank would co-finance a percentage of eligible expenditures of the government reform program. The project would use state government systems, procedures and staff, which would contribute to foster ownership. The project would contribute to the establishment of a results-based financing system - from the Bank to the GDF, within the GDF, and from the GDF to other parties (e.g., contractors).

The project would have two components with the same focus, but different implementation and disbursement arrangements. For Component 1, loan funding would be pooled with the GDF funding to finance Eligible Expenditure Programs (EEPs) on public sector reform, focusing on the education, health and transport sectors. For Component 2, loan funding for technical assistance would be disbursed against approved contracts. The GDF and the Bank would review annually the budget execution of key programs included in Component 1, aiming at guaranteeing at least 70% execution, and achievement of agreed results – as measured by global indicators and key indicators, which would trigger disbursements. Necessary adjustments would be made by the project Mid-Term Review.

**Component 1.** This component would support four critical GDF programs linked to sector reform objectives, as follows: (i) **Public Sector Management** (a) Management by results; (b) Financial Management and Procurement efficiency; (ii) **Education** (a) Modernization of the Education Management System, including management by results strategies in primary education schools; (b) Program Tempo Integral for primary education; (c) Improving Quality of Basic Education Schools; (iii) **Health** (a) Management by results, including establishment of a managerial and clinical information system and of the Electronic Health Card; (b) Development of primary health care, including the establishment of 127 Family Health teams in the Entorno; and (iv) **Transport** Urban Transport Institutional Strengthening Program.

**Component 2.** This component would finance technical assistance on M&E, results-based management, fiduciary matters, and education, health and transport key reforms to support the timely and evidence-based implementation of the GDF Program. This component would follow Bank procurement guidelines and disbursement methods (SOE).

### 4. Safeguard policies that might apply

The Environmental Assessment (OP/BP/GP 4.01) safeguard policy would be triggered. Given that no new construction is envisaged, the project is considered a Category C.

### 5. Tentative financing

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>329</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
<td>71</td>
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<td><strong>Total</strong></td>
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</tbody>
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6. Contact point

Contact: Joana Godinho  
Title: Sr Health Spec.  
Tel: (202) 458-1988  
Fax: (202) 522-1201  
Email: Jgodinho@worldbank.org

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Keith Hansen  
Sector Manager, LCSHH