1. Key development issues and rationale for Bank involvement

Key development issues

Rio de Janeiro is Brazil’s third largest state in terms of population (15 million people, or about 8% of Brazil’s estimated population), and has the second largest economy in Brazil. In 2007 the state’s Gross Domestic Product (GDP) was US$222 billion – or about 12 percent of national GDP. (The Rio de Janeiro economy is smaller than São Paulo’s, but roughly equivalent in size to that of Portugal or Venezuela.)

While Rio de Janeiro is one of the wealthiest states in Brazil, it compares unfavorably to other states on a number of social indicators. Nearly a quarter (22%) of Rio’s population is categorized as poor and almost 10% live in inadequate housing (the largest share of any state). There are more workers in the informal sector (3.4 million) than in the formal labor market (3.2 million); and Rio de Janeiro’s homicide rate is now the highest in Brazil (57 per 100,000 inhabitants).¹

Education outcomes in Rio de Janeiro State are the lowest in the Southeast Region. Fewer than half of students enrolled in state secondary schools graduate (44.5%), compared with 60% for the other Southeast states and 50% for Brazil as a whole. Likewise, the percentage of age-grade distortion for primary education (45.3% in 2006) is among the worst in the country, and for secondary school (ensino medio) age-grade distortion reached nearly 64% in 2006. According to a 2009 UNICEF report, only 44.5% of students are completing secondary school.

¹ The homicide rate more than doubled during the past 20 years; in 2005 it was 38.93 per 100,000 inhabitants.
In the health sector, as well, Rio de Janeiro’s performance is disappointing relative to the state’s level of economic development. Despite some progress in reducing infant mortality and other basic health maladies, health outcomes in Rio de Janeiro still trail well behind other states in Brazil’s Southeast Region. These deficiencies are most apparent in two key areas: (i) the coverage of basic health programs (including PSF – family health program – and PACS – community health visitors program); and (b) the health outcomes for emergency care hospital interventions.

Rio de Janeiro’s poor social indicators are not simply a consequence of low public expenditures. In 2007 Rio state ranked 12th (out of 26 states) in per student expenditure – with an expenditure slightly higher than the average for Brazil as a whole (R$2,284 vs. R$2,061).\(^2\) In regard to per capita health expenditures, Rio state ranked 20th in 2007.\(^3\) Meanwhile, in 2005 the state spent more per capita on public safety (R$ 237) than any other state in Brazil. However, expenditure increases have not been accompanied by commensurate improvements in either the coverage or quality of public services.\(^4\) Clearly, Rio de Janeiro is underperforming relative to its economic and human resource capacity.

The Government of the State of Rio de Janeiro (GORJ) is seeking to improve the way it converts public expenditures into concrete results for the state’s citizens. The government’s commitment to fiscal discipline\(^5\) and push for results in public management provide a basis for optimism.

To tackle the more difficult management challenges, the GORJ announced a reform program in 2008 aimed at improving the effectiveness and efficiency of public services.\(^6\) The program is to develop new results-based management tools, and focus these on a set of priority “Areas of Results”, which include inter alia: (i) renovation and strengthening of public administration; (ii) development of human capital; and (iii) expansion of preventative care and modernization of the health system. The Pró-Gestão TAL will focus on supporting these three Results Areas.

**Rationale for Bank Involvement**

First, in addition to the TAL described here, the Bank is supporting the GORJ reform priorities through a large DPL. The complementary technical assistance activities provided through this operation, particularly those in the education and health sectors, will provide valuable help to the GORJ and increase the likelihood of success for the DPL.

Second, the TAL activities are centered not on expanding service coverage, but on improving the efficiency, quality, and effectiveness of government services. This focus is entirely consistent with the CPS goal of seeking high-value-added interventions.

Third, the Bank brings to this partnership with Rio State the examples and insights from other state-level operations where the Bank is working to support improved public sector performance. Indeed,

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3 Ministério da Fazenda/STN-COREM; IBGE/Censo 2000 and PNAD.

4 Nominal expenditures by the Secretariats of Education and Health increased by 12% and 20%, respectively, between 2007 and 2008. [Source: Sistema de Informações Gerencias]

5 The fiscal situation of the state Government of Rio de Janeiro (GORJ) has been strong in recent years. In 2007 and 2008 the primary balance exceeded R$3 billion, whereas the overall fiscal balance topped R$2 billion in 2008. The main fiscal concern is the drop in revenues from the oil and gas sector following the onset of the international economic crisis, as these revenues impact funding for the social security Fund, Rio Previdencia.

6 Lei N° 5232/2008.
some of the activities in the TAL are mirrored in other state programs (e.g., accreditation and health unit cost-accounting system supported under the Ceará SWAp).

2. Proposed objective(s)

The proposed Technical Assistance Project will support the GORJ’s actions to: (i) reduce operational costs; (ii) promote results-based management in key line departments, including training specialized public managers and developing information systems to improve efficiency and expand evidenced-based policy making; (iii) improve human resources and management in the education sector to drive learning improvements; and (iv) improve quality monitoring and resource utilization in the state’s health network.

3. Preliminary description

The GORJ “Pró-Gestão” program was approved at the Cofiex meeting in April 2009. The overall size of the government’s program is US$ 34.6 million, with US$18.67 million to be financed by the Bank. The project will be implemented in four years, from 2010 to 2013. The loan will support GORJ programs for Public Sector Modernization in three critical areas: core of government, education, and health.

4. Safeguard policies that might apply

*Not Applicable*

5. Tentative financing

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6. Contact point

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