I. Project Context

Country Context

1. The State of Sao Paulo (SoSP) is under various perspectives one of Brazil’s most advanced States: with a GDP of US$500 billion (2009) (The State economy mostly relies on services and industry with respectively 44% and 54% of the GDP (2009)), it accounts for 33% of Brazil’s total GDP; its population of 41 million (20% of the Brazilian population) has one of Brazil’s highest GDP per capita (US$16,200 in 2010, more than 50% above the national average), a wealth which is growing steadily (5% per year in average over the past years); its Human Development Index (HDI), at 0.833, is the third highest among the States of Brazil.

2. Yet, the State still faces a number of challenges to its development agenda, some of which are inherited from its past development patterns:
   • service and industry’s growth has mostly been relying on a limited number of economic poles resulting, on one hand, in an excessive concentration of activities and populations around the main city centers hindering the State’s economic growth and, on the other hand, in important development disparities between the State’s regions;
   • transport, unbalanced towards the road mode, has been concentrating on a limited number of radial road corridors to those largest economic poles, resulting in capacity and road safety issues and turning the State transport system vulnerable to disruptions due to natural disasters with
potential impacts on the economy;

- the early and widespread development of agriculture, has contributed to substantially alter the State’s natural ecosystem, and recovering quality environment is now a priority;
- the high density of population in some of the State’s regions coupled with informal urban development and sharp mountainous topography have turned the State particularly vulnerable to disasters, notably flash floods and landslide events.

3. The SoSP has traditionally led pioneer and responsible policies to manage its development challenges which, more than often, have had demonstration effects for other States and other countries. Such pioneering approach has recently been epitomized by the adoption of a law on climate change (Política Estadual de Mudanças Climáticas, PEMC) in 2009, which establishes the State’s long term commitment towards the challenges of climate change. The PEMC is one of the few such laws in the world that addresses the importance of climate change within the political and economic spheres in a progressive and inclusive fashion, covering such innovative ideas as polluter payment, civil society participation, government responsibilities, international cooperation, transparency, linkages between environment and poverty and recommended actions to address the global climate change challenge, supply appropriate adaptation measures, as well as contribute to reducing or stabilizing the concentration of GHG in the atmosphere.

4. The State’s ambition to position itself as a leader among the most dynamic emerging regions has been embedded in the new 4-year development plan (2012-2015 Plano Pluri Anual, PPA). Actions under the PPA are targeted towards stimulating rapid growth while fostering more balanced social development, equal opportunities, job creation and environmental sustainability. Those actions are inscribed in the State’s long term strategy to foster its place as a financial and logistical center for the continent and as a reference for trade entrepreneurship in the southern hemisphere.

II. Sectoral and Institutional Context

5. The State strategy to support the implementation of the PPA while fulfilling its long term ambition and meeting its commitments related to the Climate Change agenda, relies on three important pillars:

- Enhancing competitiveness by improving transport efficiency and safety, in particular, supporting the design and implementation of the Logistics and Transport Development Plan (PDLT, Plano de Desenvolvimento da Logistica e do Transporte), an updated encompassing version of the first long term transport development strategy in Brazil, formulated by the State in 2000. The PDLT aims at fostering quality service in transport, mobility of people and goods, and improved logistics and competitiveness of regional and national economies, while promoting sustainable development;
- Improving sustainability by a better environmental management, in particular, supporting the State strategic environment assessment (Avaliacao Ambiental Estrategica, AAE) and the economic and ecologic zoning (EEZ) respectively to evaluate environmental and socio-economic impacts of economic activities and regulate economic investments, so that growth will remain sustainable;
- Creating a multi-sectoral foundation for resilience, in particular, supporting the implementation of the Disasters Risk Management Program for Prevention of Natural Disasters and Reduction of Geological Risks (Programa de Prevencao de Desastres Naturais e Reducao de Riscos Geologicos, PDN). This innovative policy (see box 5 in annex 2) aims at increasing the State resilience to natural hazard risks in answer to increasing damages and costs resulting from natural disasters.
6. On the competitiveness side, while the SoSP transport system is one of the country’s most modern and diverse, transport and logistics capacity remains largely insufficient to match the State’s current and future needs and is recognized as a major bottleneck for the regional and national logistics. Road safety, with an estimated average yearly death toll rate of 7,200 in the State, is a growing matter of concern. Given its weight in the national economy and the concentration of regional logistics flows on its transport networks, the SoSP challenges towards transport are challenges for the country as a whole (Logistics costs in Brazil are estimated between 15 and 18% of GDP, higher than other BRICS and twice as much as OECD countries; death toll on Brazilian road networks exceeds 40,000 yearly, an extremely high figure compared to OECD countries) and improving the efficiency and safety of the transport sector in the SoSP is critical to ensuring that the sector adequately advances the State’s and the country’s development agendas.

7. Ensuring that growth is sustainable and resilient is also an acute challenge for the SoSP: the State’s environmental assets, some of the most deteriorated in the country (E.g. the State vegetation coverage has been divided by a factor 2 between the 1960’s and 2000), need to be preserved and rebuilt; economic costs of natural disasters are growing (An estimate from the Institute of Geology (IG) indicates over R$ 60 million in damage for 323 events that occurred in the State in the year of 2011), let alone the human consequences. Those three pillars initially envisaged as self-standing have progressively emerged in the vision of the SoSP as complementary public policy instruments of a broader land use planning and territorial management policy in support to the State’s green growth agenda.

8. Complementarily to those long term policies, short to medium term investments have been planned to fill the SoSP transport infrastructure gap and foster the State competitiveness while contributing to the development of its territories. This ambitious investment program (About R$10 billion (US$5 billion) are expected to be invested in interurban transport in the coming 5 years), while mostly targeting the road network given its weight in the transport and logistics matrix and its already overrun capacity, also supports the State strategy to progressively rebalance the transport matrix towards less polluting transport modes by (i) investing in infrastructures to improve the navigability of the Tiete river, and (ii) fostering the channeling of some of the truck flows towards alternative modes, including inland waterways, railways and pipelines.

9. The SoSP is seeking external support susceptible to contribute to its large investment programs in transport and to develop cutting edge practices in support to the above key sector policies. Given the size of the investment program and resulting financing needs, the SoSP is also proactively looking for ways to increase the participation of the private sector, including through concessions and PPP, as well as international private lenders financing. In that context, the SoSP and the Bank are looking at the possibility of using MIGA’s guarantee product known as Non Honoring of Sovereign Financial Obligations (NHSFO) (see box 1 below), as a possible credit enhancement instrument allowing to leverage additional private funding for the State’s program at interesting conditions.

Box 1: MIGA Credit Guarantee, NHSFO
The Non-Honoring of Sovereign Financial Obligations (NHSFO) is a credit guarantee offered by the Multilateral Investment Guarantee Agency (MIGA). This instrument protects the lender (or investor) against losses resulting from a government’s failure to make a payment when due. The NHSFO is expected to boost market confidence by mitigating the credit risk of a government or sub-
sovereign entity, minimizing cost and creating the opportunity to establish new lending relationships.

III. Project Development Objectives
The Project Development Objective is to contribute to improving the State’s transport efficiency and safety while enhancing the Borrower’s capacity in environmental and disaster risk management.

The objective is to be achieved through (a) upgrading selected key transport corridors including their rehabilitation and expansion, and mainstreaming transport planning and management, (b) capacity building in land use planning and territorial management and regulation focusing on addressing environmental impacts in support of a greener and more inclusive growth, and (c) improvement of the State’s capacity to manage disaster risk, particularly risks linked to climate change in the transport sector in SoSP.

IV. Project Description

Component Name
- Improving transport and logistics efficiency and safety
- Strengthening sustainable environmental and land use planning and territorial management capacity
- Increasing State’s resilience to natural disasters

V. Financing (in USD Million)

<table>
<thead>
<tr>
<th>For Loans/Credits/Others</th>
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<tr>
<td>Borrower</td>
<td>129.00</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
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<td>MIGA Guarantee</td>
<td>300.00</td>
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<tr>
<td>Total</td>
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</table>

VI. Implementation

16. The State of Sao Paulo is the Borrower and the Federative Republic of Brazil the Guarantor. The State of Sao Paulo will enter into a subsidiary agreement with DER-SP. The implementation of the Project will be centralized in a dedicated implementation unit of the implementing agency, the Road Agency (Unidade de Coordenação de Projetos, UCPR, of the DER). A consulting company will support the DER in the management of the Project (the Gerenciadora) with the consulting company to be hired by not later than xxxx after the Effective Date of the Loan. The following entities will be the main beneficiary agencies: (i) the Secretariat of Transport and Logistics (SLT) and the Road Agency (DER-SP) for the transport component, (ii) the Planning and Regional Development Secretariat (SPDR), the State Secretariat of Environment (SMA) and the State’s Environmental Agency (Companhia Ambiental do Estado de São Paulo, CETESB) for the land use planning and territorial management and environmental management component, (iii) the Geologic Institute (Instituto Geológico, IG), an agency of the SMA, for the disaster risk management component. All those agencies will co-benefit from cross sector activities.

17. The relationship between these beneficiaries and DER will be formalized through cooperation agreements that define the obligations of each entity to carry out the Project activities under their responsibility. These implementation arrangements and reporting requirements are detailed in Annex 3 and 5. A specific inter-Secretariats steering committee has been set up to
manage activities spanning across more than one component, notably the subcomponent on land use planning and territorial management.

18. As implementing agency, the DER-SP will be in charge of all fiduciary aspects for all components under the Project and for all beneficiary agencies. The technical responsibility for preparation, supervision, monitoring and evaluation of Project activities and monitoring and evaluation of outcomes/outputs will be shared between the different beneficiary agencies, in their respective areas of responsibility. Within the DER-SP, Project implementation will be handled by the entity’s relevant departments, under coordination of the DER. Each beneficiary agency will report to the DER-SP on a quarterly basis, information on, among others, procurement, resettlement planning, certification of bills, progress in the activities underway and achievement of outcome indicators. Specific units with trained specialists on procurement will be set up in each beneficiary to support the technical teams in the preparation of the procurement processes.

19. The DER-SP is implementing the Bank’s current loan, the State Feeder Roads Project (P106663), with the support of a Management consulting firm, the Gerenciadora. The DER-SP performance is considered satisfactory. While the volume of activities in the current operation is expected to substantially increase, a similar scheme has been set up for the proposed Project, with extra support from the Gerenciadora.

VII. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<th>No</th>
</tr>
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<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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<td></td>
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<tr>
<td>Natural Habitats OP/BP 4.04</td>
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<td>Forests OP/BP 4.36</td>
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<td>Projects on International Waterways OP/BP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
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</table>

VIII. Contact point

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