

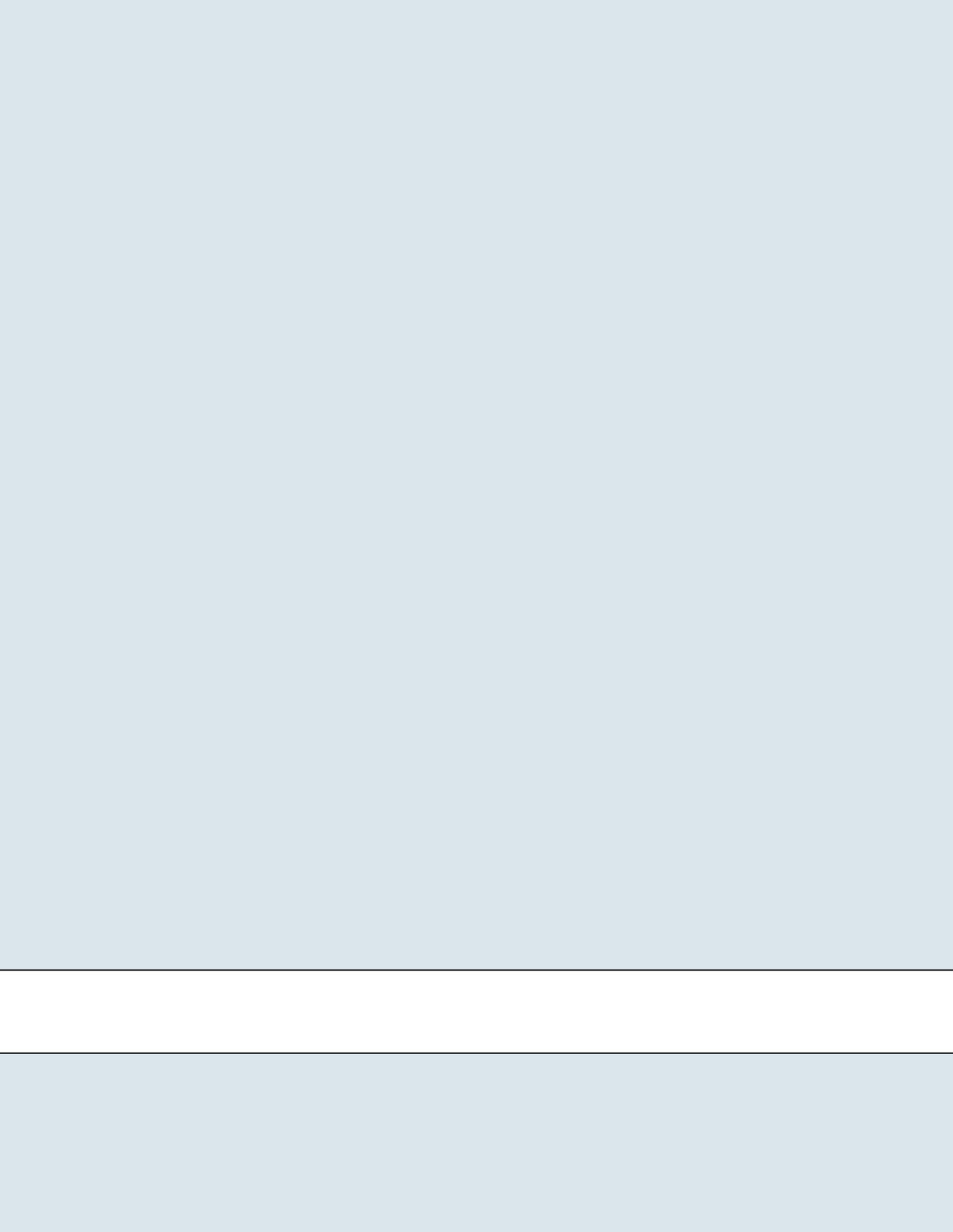


METROPOLITAN GOVERNANCE IN BRAZIL:

Inputs for an Agenda and Strategy

May 2015





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ABBREVIATIONS AND ACRONYMS

BH	Belo Horizonte
BNH	Banco Nacional da Habitação (National Housing Bank)
CAF	Comitê de Articulação Federativa (Committee for Federal Articulation)
CETESB	Companhia Ambiental do Estado de São Paulo (Environment Company of the State of São Paulo)
CONDEP/ FIDEM	Agência Estadual de Planejamento e Pesquisa de Pernambuco (State Agency of Planning and Research of Pernambuco)
FGTS	Fundo de Garantia por Tempo de Serviço (National Pension Fund)
FPM	Fundo de Participação dos Municípios (Fund of Municipal Participation)
CONISUD	Consórcio Intermunicipal da Região Sudoeste da Grande São Paulo (Inter-municipal Consortium of the Southeast Region of Greater São Paulo)
DNER	Departamento Nacional de Estradas e Rodagem (National Department of Highways)
EMPLASA	Empresa Paulista de Planejamento Metropolitano (Metropolitan Planning Company for the Greater São Paulo Metropolitan Area)
FGTS	Fundo de Garantia por Tempo de Serviço (National Pension Fund)
FUNDEB	Fundo de Manutenção e Desenvolvimento da Educação Básica (Fund for the Development of Basic Education)
GDP	Gross Domestic Product
IBGE	Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics)
ICMS	Imposto sobre Circulação de Mercadorias e Prestação de Serviços (State Value-Added Tax)
IPEA	Instituto de Pesquisa Econômica Aplicada (Institute of Applied Economics Research)
IPTU	Imposto sobre a Propriedade Predial e Territorial Urbana (Municipal Property Tax)
ISS	Imposto sobre Serviços
MR	Metropolitan Region
MRBH	Metropolitan Region of Belo Horizonte
MRSP	Metropolitan Region of São Paulo
MTE	Ministério do Trabalho e Emprego (Ministry for Labor and Employment)
OECD	Organisation for Economic Co-operation and Development
ONG	Non-governmental organization
PAC	Programa de Aceleração do Crescimento (Growth Acceleration Program)
PDDI	Plano Diretor de Desenvolvimento Integrado (Participatory Metropolitan Master Plan)
PLAMBEL	Planejamento da Região Metropolitana de Belo Horizonte (Planning of the Metropolitan region of Belo Horizonte)
PMCMV	Programa Minha Casa Minha Vida (My House My Life Program)
PNAD	Pesquisa Nacional por Amostra de Domicílios (National Household Sample Survey)
PPP	Public Private Partnership
RSLs	Registered Social Landlords
RIDE	Região Integrada de Desenvolvimento Econômico (Integrated Economic Development Region)
RIDE DF	Região Integrada de Desenvolvimento do Distrito Federal e Entorno (Integrated Development Region of the Federal District)
ZEIS	Special Zones of Social Interest (Zonas Especiais de Interesse Social)

FOREWORD

In less than fifty years, Brazil evolved from a predominantly rural society and economy to a highly urbanized country in which 85 percent of its people now live in urban areas and more than 90 percent of the country's GDP is generated in the cities. This rapid urbanization process was characterized by a lack of planning and an enduring framework of inequality, resulting in high degrees of concentrated poverty in the urban areas.

Much of this urbanization has taken place in metropolitan regions (MRs). MRs have grown more rapidly than the rest of the country, both in population and in GDP terms. In 2010, per capita GDP was higher in MRs than in the rest of the country and metropolitan economies accounted for 70% of GDP. At the same time, half of the Brazilian poor and 90 percent of the people living in subnormal conditions were found in metropolitan regions.

MRs present diverse realities. To begin, there are differences between core and peripheral areas in each region, with peripheral areas characterized by lower access to basic infrastructure and services, mobility, jobs, affordable land, and housing. There are also important differences between MRs, e.g in terms of scale and wealth. Over 19.7 million people lived in the São Paulo MR (one in ten Brazilians) while only 2.1 million people lived in the Belém MR. The São Paulo MR produces almost 1/5 of Brazil's GDP and, in 2012, generated 1/4 of Brazil's tax collection; in contrast, the Recife MR makes up 64% of Pernambuco's GDP but represents only 1.6% of the Brazilian economy. Finally, there are large differences in the racial composition of the MRs with residents of the North and Northeastern cities of predominantly self-identifying as pardos (mixed origin) while residents of the South and Southeastern cities have larger populations that call themselves brancos (white).

After years of discussion, the recent approval of a new framework for metropolitan governance in Brazil – the Statute of the Metropolis – creates the opportunity for debate and evolution regarding several key issues. These include: a) placing metropolitan matters at the forefront of the development arena in Brazil; b) reviewing what has been learned about inter-municipal governance and service delivery; c) estimating resource mobilization needs for metropolitan development; d) coordinating metropolitan land use with transport and housing; e) including metropolitan concerns in any revision of fiscal federalism; and f) promoting environmental sustainability, social inclusion and resilience to disasters and climate change plans at the metropolitan scale.

The World Bank can be a partner in addressing these issues. In responding to Client demand, the Bank has been providing a range of support to Brazilian states and cities and especially their low-income populations in the areas of infrastructure, social services, slum upgrading, institutional development, river basin management, local economic development, environmental protection, water and sanitation, and transportation. In the future, we hope that this support can increasingly be delivered at the metropolitan level and through metropolitan structures.

This work is part of the Bank's knowledge generation and dissemination agendas. It is aimed at enriching and building a discussion space among our network of Clients and Partners.





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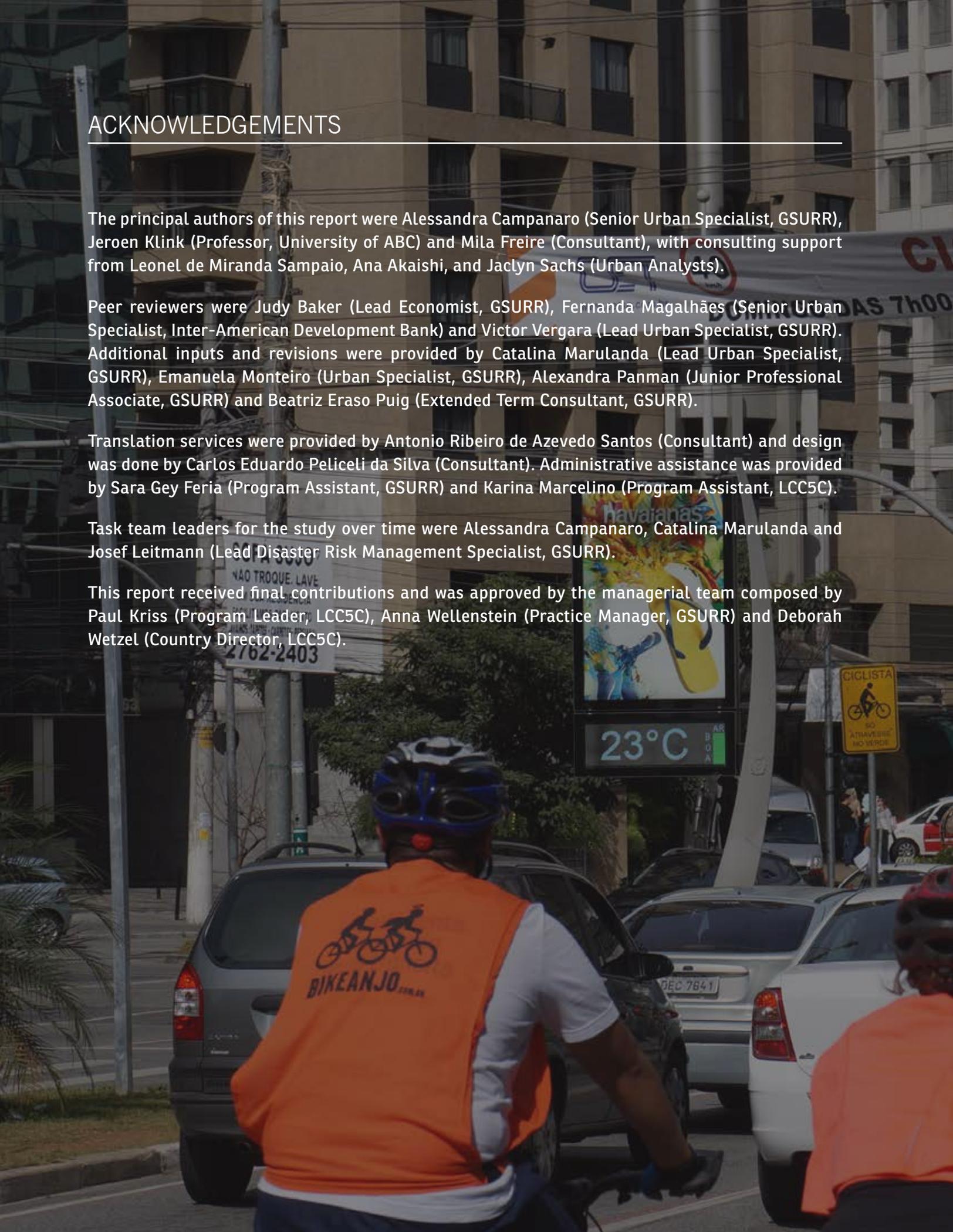
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EXECUTIVE SUMMARY

Brazil urbanized at a very rapid pace: the share of people living in cities dramatically increased in the past 40 years, growing from 56 percent in 1970 to 84 percent in 2010. Since the turn of the century, Brazil's real GDP per capita has grown by 32 percent, while official poverty rates have fallen from 25 percent to less than 9 percent. Urbanization led to concentration of economic activity and population in selected areas, mostly around state capitals where infrastructure and economic growth acted as a magnet to private investment and job creation. Metropolitan areas¹ were formed through aggregation of municipalities of different sizes and levels of specialization, linked by connectivity, labor flows and economic exchanges. The metropolitan areas in Brazil together account for half of the population, about 60 percent of national GDP, and most of the country's economic and urban growth.

The rapid economic development of the last decade led to deep spatial transformation. Cities grew rapidly, but access to services was biased against the periphery where the new migrants were settling. Restrictive federal land use policies, lack of resources and insufficient planning lead to unresponsive supply of affordable housing in the proximity of labor markets. Low and middle income households settled in the outskirts, mobility became difficult and commuting times long. Economic geography dictates that during the early phase of urbanization, differences in income and services across regions are likely to increase. Core cities typically have higher incomes and better services than peripheral areas. As mobility increases and education and health levels improve, both income and access to services become more equally distributed. This convergence process is underway in Brazil, but it will take time to complete.

1. The Brazilian Observatorio das Metr opoles defines metropolitan areas as "conurbanated areas that are functional and integrated under the influence of a core city".

As of today, contrasts across metropolitan regions are still significant.

In this process of spatial change and inclusion, what role has metropolitan governance played? Would inequality and access to basic services be improved with a more aggressive metropolitan collaboration? What can be learned from metropolitan governance in Brazil and elsewhere? This report is a contribution to this discussion. Drawing from literature and data from Brazil, the report reviews the main concepts related to metropolitan governance, presents international examples, and discusses ideas relevant to the Brazilian case. The report is organized in seven sections: (i) principles and framework for metropolitan governance; (ii) metropolitan evolution in Brazil; (iii) economic and spatial dynamics of 15 selected metropolitan regions; (iv) case studies of three metropolitan areas (S o Paulo, Recife e Belo Horizonte); (v) financing; (vi) the new framework for metropolitan governance in Brazil – the Statute of the Metropolis (Estatuto da Metr opole); and (vii) observations and suggestions for the short and medium terms.

ANALYTICAL FRAMEWORK

The literature on metropolitan governance discusses criteria and modalities for efficient, equitable and accountable public service provision. While there are large variations across countries and metropolitan regions, and it is well accepted that there is no one-size-fit-all model, some basic modalities for metropolitan governance can be defined, notably: jurisdictional fragmentation (or fragmented one-tier model), amalgamation (or one-tier consolidated model), two-tier government model, special purposes agencies, and voluntary cooperation.

The most typical model in highly decentralized countries is jurisdictional fragmentation, where local governments are responsible for delivering and financing public services. Amalgamation and two-tier models enlarge the size of the jurisdiction and enable greater efficiencies in service delivery, at the cost of merging several local governments. Horizontal collaboration can take the form of voluntary agreements or special purpose agencies that execute specific function on behalf of local governments.

THE EVOLUTION OF METROPOLITAN GOVERNANCE IN BRAZIL

The model of metropolitan governance in Brazil has evolved since the 1970s. Several metropolitan areas gained legal status in the 1970s when the central government created nine metropolitan regions (MRs). Their function was mainly to channel investment for infrastructure in support of the industrial policy of the country. Financing was provided by national financing institutions such as the National Housing Bank (*Banco Nacional da Habitação*, BNH) and the Transportation Department. The 1988 Constitution transferred the power to create metropolitan regions from the central government to the state governments, in line with the decentralization trend. Municipalities were granted full federal status and made responsible for providing and funding basic services at the local level. Investment for infrastructure became scarce due to the fiscal crisis and several adjustment plans were necessary to control inflation. Per constitutional amendments in 1995 and 1996, pro-poor national policies were implemented in sectors such as education and health, with state and local roles clearly defined, including the share of revenues to be allocated to these sectors. The new Constitution did not provide a frame-

work for metropolitan governance, i.e., it did not lay out cooperative mechanisms to manage metropolitan regions or specific resources to finance them.

The discussion of metropolitan coordination has been quite active since early 2000s. The new millennia brought the approval of the City Statute (*Estatuto da Cidade*, in 2001), the creation of the Ministry of Cities (in 2003), and the approval of the Law of Public Consortia (in 2005), the later responsible for legalizing contractual arrangements among local governments for the delivery of services. The long debate about metropolitan governance has resulted, more recently, in the enacting of the *Statute of the Metropolis* in January 12, 2015. The Statute lays out basic principles aimed at improving coordination at metropolitan level, outlining responsibilities and proposing modalities for metropolitan governance.

Tension between state governments and municipalities, lack of resources and continuing regional inequalities have increased the complexity of metropolitan governance. The Constitutional arrangement in Brazil precludes the use of governance models existing in other countries and described in this report. The provision of services at a metropolitan scale tends to either be the outcome of inter-municipal cooperation or upper-level (federal or state) policy decisions, as is the case in education and health. Health is the sector with the largest number of cooperation agreements, as states and the federal government encouraged consortia among local governments to speed the implementation of the National Health System. Other municipal agreements have been promoted by the federal government, such as inter-municipal consortia, which are increasingly being used for a wide range of services.



ECONOMIC AND SPATIAL DYNAMICS OF SELECTED METROPOLITAN REGIONS

MRs are engines of economic growth, but socio-spatial disparities persist. MRs have grown more rapidly than the rest of the country, both in population and in GDP terms. In 2010, per capita GDP was higher in MRs than in the rest of the country. In terms of concentration of high paid jobs, core cities concentrate a higher share of people earning more than 10 minimum wages and with higher education degrees. Based on Census data from 2000 and 2010, Gini coefficient values estimated for the core cities of São Paulo, Vitoria, Recife, Rio de Janeiro and Porto Alegre demonstrate a consistent increase in income inequality during 2000-2010. While some improvement was observed in Campinas, Manaus, Brasília, Goiânia, Belém and Curitiba, it was not enough to compensate for the exacerbation of income inequality that occurred in

the 1990s. Higher wages in the core cities attract skilled workers. However, while the absolute number of high-income skilled workers in MRs increased from 2000 to 2010, their share in total employment decreased. By 2010, half of the Brazilian poor and 90 percent of the people living in subnormal conditions were found in metropolitan regions. Socio-spatial disparities persist, both in terms of income and access to basic services.

The provision of basic services is gradually improving in metropolitan regions, but inequalities between the core and the periphery persist. Although data show a clear trend of improved service provision in urban areas, particularly in the Southern and Central-West Regions, access to basic infrastructure (particularly sewage) remains deficient, primarily in peripheral municipalities. Growing and new population cannot afford the prices of land serviced with infras-

structure or close to the core city. Lack of adequate land use planning and absence of pro-active slum prevention characterizes most of the MRs, especially in the periphery. Housing units have grown in areas with relatively poor infrastructure, and slums have grown in the outskirts of metropolitan areas, aggravating mobility issues in already congested urban areas. This indicates the low elasticity of land supply for housing and shelter and shows the dynamics of the informal markets to answer a very clear demand for affordable land and shelter that is not adequately being addressed.

CASE STUDIES: SÃO PAULO, RECIFE AND BELO HORIZONTE

Three selected case studies - São Paulo, Recife and Belo Horizonte - offer an in-depth, qualitative look at metropolitan governance in Brazil and reflect the absence of a unique one-size-fits-all model of metropolitan governance. The experiences show distinct approaches to metropolitan governance currently in place in these three MRs, which have taken an active role in shaping their institutional and policy structure. They exemplify the dynamism of metropolitan governance, whether led by the state or by municipalities, and offer an opportunity to extract lessons that could be of use in other MRs. São Paulo presents a compelling case due to the sheer scale of its challenges, the number of metropolitan initiatives that have taken place, as well as its experimentation with inter-municipal consortia and other forms of metropolitan governance. Recife's historic legacy of metropolitan planning sheds light on innovative participatory planning initiatives. Belo Horizonte is an interesting case study for demonstrating how civil society can contribute to metropolitan institutions.





FINANCING

In the comprehensive literature on Brazilian metropolitan governance, financing of metropolitan structures and/or services is rarely addressed. The discussion often revolves around the best form that metropolitan committees can assume or who can mandate policies or investment decisions that have impacts at the territorial level. However, the definition of funding mechanisms, which is central to ensuring that metropolitan policies and investments can be implemented, is often lacking. At present, there is no legal or institutional framework for metropolitan regions to access resources. This topic is beyond the scope of this work, and therefore the report is limited to summarizing secondary sources of relevant fiscal data. However, an in-depth review of this issue is necessary to advance the metropolitan agenda in Brazil. The existence of reliable and predictable financial resources is an essential feature of any metropolitan arrangement that aims at planning and implement development projects, including infrastructure and long-term spatial development.

THE NEW STATUTE OF THE METROPOLIS

Following several years of discussion, in January 2015 the Statute of the Metropolis² was enacted. This new law presents an opportunity to review metropolitan issues in Brazil and look at the most appropriate models and typology. It: (i) sets up general principles and guidelines for the planning, management and implementation of metropolitan-related matters of common social interest; (ii) encourages collaboration and partnerships for shared metropolitan management and governance across the various tiers of governments, through existing instruments (such as Public Private Partnerships – PPPs, Consortia, Urban Operations, Cooperation Agree-

ments, Concession Contracts, etc.); (iii) defines arrangements for metropolitan governance; and (iv) defers to states, through specific regulating laws, the responsibility of detailing such arrangements. In particular, the Statute of the Metropolis reaffirms the central government's responsibility to define a general policy framework for metropolitan areas.. States would continue having the responsibility of creating metropolitan areas, and establishing the guidelines and criteria for MR creation. However, and within the proposed governance structure, they are now obliged to develop integrated plans for metropolitan development. Cities, on the other hand, shall articulate their master and land use plans with the integrated state and metropolitan plans. By Constitution, cities will continue to be autonomous and free to enter into any metro arrangement they choose.

Although the proposed legislation is a welcome development in Brazil's metropolitan policy, it does not fully address a critical aspect, which is the financing of the metropolitan agenda. The principles are a solid point of departure from the past and reflect the preoccupation of the country to improve service delivery, reduce poverty and accelerate growth. The proposed development of a national policy framework for metropolitan areas is commendable and very useful. While the statute opens the possibility of financial support from the central government, its actual provisions are not so clear about it, as the original article on the creation of an specific fund for integrated urban development was vetoed. At the state level, the idea of using criteria for the establishment of new MR is practical, and used widely in the US and Europe. Experience shows that it will be better to keep the number of criteria small to reduce the bureaucracy in establishing new governance modalities. The mandatory preparation of metropolitan plans is another positive development. Integrated plans are useful and

2. Law no. 13.089/ January, 2015.



urgent to define land-use and other regulations to manage the location of new settlements. Finally, information on metropolitan and regional economy will be the basis of analysis and good policy. Therefore, attention should be given to: (i) the definition of data and diagnosis on economic and social patterns of metropolitan areas as an input to the long-term planning and to forecast investment needs; (ii) the collection of data on expenditures by sector and by MR; (iii) the analysis of the effectiveness and efficiency of spending.

FINAL OBSERVATIONS

Brazilian MRs are not exploiting the opportunities brought by agglomeration economies³, as evidenced by strong inequalities between the core city and the rest of the MR. While strategic in terms of concentrating opportunities of economic development and addressing social deficits, MRs traditionally lack an appropriate institutional framework to guide the planning, management, and finance of their development trajectory. Metropolitan efforts across levels of government in the past decade have been significant – but yielded insufficient results. Consequently, the economic dynamism that is concentrated in MRs has not translated into proportionally better urban development and housing conditions. Metropolitan areas are still characterized by intense socio-spatial disparities and mismatches between land use, the availability of infrastructure, and the degree of accessibility.

Much has been discussed on whether some forms of metropolitan government should be imposed as a way to promote forced collaboration or integration. The federal status enjoyed by Brazilian local governments is not compatible with some forms of metropolitan governance such as amalgamated or two-tier structures. While these solutions are effective in handling redistribution in the provision of services, they

are unlikely to be a reality in Brazil, as they would require approval of the merged municipalities that would be losing their authority and taxing powers. The present system of one-tier or jurisdictional fragmentation is likely to continue, with local governments taking care of provision of services at local level, and re-distribution and equity being the function of the central government via national norms and policies. Voluntary associations have been successful, in line with what has happened around the world. Special purpose agencies to coordinate transport services and infrastructure, as in the case of São Paulo and Recife, will have an increasing role to play in extending urgent infrastructure and services.

The analysis of the Statue of the Metropolis, the experience of MRs in Brazil and the international experiences, point to a number of priority areas for the short and medium term.

Short term:

- A. **Raise the profile of the metropolitan issue.** The *Statute of the Metropolis* provides an opportunity to position the metropolitan matters – planning, participation, tools and governance structure – at the forefront of the discussions. It would be important for the discussion to include the identification of key services or inequalities in service delivery at metropolitan level, and extend to include issues of economics, competitiveness, investment climate and comparative advantages.
- B. **Focus on what has worked.** A critical review of what has been learned with the voluntary collaboration among municipalities is urgent and could bring a great deal of ideas. Consortia that are effective in providing services at metro or regional level could evolve into wider special purpose agencies.
- C. **Estimate financing needs and strategies in metropolitan areas to mobilize resources.** There is a persisting gap which needs to be filled in the

3. Agglomeration economies refer to the the benefits that firms and workers enjoy as a result of proximity (WDR, 2009)



discussion around economic and financing aspects. A multi-source infrastructure fund to leverage investment financing should be considered in the future. This would require defining criteria, terminology, financial partners, and schemes to prepare project finance.

D. *Instill the need to coordinate land use with transport and housing* in all city and state plans and help cities to raise land-based revenues to finance infrastructure and social development. Planning visions for transit and land-use integration are crucial, and so is the adequate funding for successful execution. Transit and land-use integration can yield the income needed to expedite and support the process.

Medium term:

E. *Evaluate whether a common framework for all metropolitan regions or flexible structures would be more efficient.* It is important to

understand if the establishment of a common framework for the MRs – as set forth in the new Statute of the Metropolis – is the best option or if the definition of guidelines for flexible metropolitan structures would be more appropriate in the Brazilian context.

F. *Include metropolitan concerns in any revision of fiscal federalism arrangements that may be discussed in the coming years.* The fiscal federalism in Brazil has been a source of debate in recent years. If eventually a revision is undertaken by the government, it would be appropriate to include metropolitan finance issues into the debate.

G. *Address sustainability.* Promoting sustainability, reducing greenhouse gas (GHG) emissions, and preparing resilience plans are the focus of the international community dealing with cities and metropolitan areas.



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