

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

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Operation Name	Service Delivery and Fiscal Management DPL
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector	Sub-national government administration (50%); Public administration – Health (20%); Public administration – Other social services (15%); Public administration – Water sanitation and flood protection (15%)
Operation ID	P153203
Lending Instrument	Development Policy Lending
Borrower(s)	MUNICIPALITY OF MANAUS
Implementing Agency	Municipal Secretariat of Finance (SEMEF), Municipality of Manaus, State of Amazonas
Date PID Prepared	December 3, 2014
Estimated Date of Appraisal	February 25, 2015
Estimated Date of Board Approval	May 29, 2015
Corporate Review Decision	TBD
Other Decision <i>{Optional}</i>	TBD

I. Key development issues and rationale for Bank involvement

Although poverty in Manaus is lower than in the rest of the state of Amazonas, it is still slightly higher than in the country. Manaus has average income levels similar to those of Brazil as a whole, due to the presence of a strong industrial cluster in the city – the Manaus Free Trade Zone (*Zona Franca de Manaus – ZFM*). Its Gross Domestic Product (GDP) amounted to R\$51 billion (US\$30.3 billion) in 2011. GDP per capita stands at R\$21,388 (US\$12,712), almost equal to the national average GDP per capita of US\$12,800.

However, in stark contrast to its outstanding economic performance based on GDP per capita, Manaus has the highest poverty rates of the Metropolitan Region’s capitals in the North/Northeast. In addition, due to the large population of Manaus – 2,020 million people in 2014 – in absolute terms the city concentrates one quarter of the State population in extreme poverty and 48 percent of the population in vulnerable condition. As a result of its large size - 11,401 Km² – and its location, Manaus presents a unique combination of rural and urban poverty. Despite Manaus’s high income per capita (comparable to the national average) which provides the city with a high potential revenue resource base, it is poorly utilized. This, together with deficient public sector management practices translates into poor public service delivery and high prevalence of poverty and vulnerability among the city population.

In this context, one of the main objectives of the Municipality of Manaus (MM) is to modernize its management practices to improve service delivery. The current government is committed to

eliminating the financial deficit generated in 2012 by the end of 2016. In order to achieve this goal, the Secretariat of Finance (SEMEF) has introduced a results-based management model with targets that include increasing revenue and expenditure reduction. These include the institutionalization of transparent and efficient processes for the procurement of goods and services and to control personnel expenditures, which are expected to result in greater efficiency and efficacy in public spending. Similarly, the municipality is seeking to improve the quality of its educational system by improving management practices such as the meritocratic selection of school directors, establishment of school-level targets and the creation of minimum standards for school staffing.

Over time, the city of Manaus has undergone considerable demographic and urban expansion. Combined with poor urban planning, this expansion has resulted in severe and constant traffic congestion. The average speed of the collective transportation system is 12 kilometers per hour, leading to long commute times for poor people living furthest from the city's center. To improve urban mobility, Manaus is taking steps to improve traffic flows in the main corridors of the city, prioritizing mass transportation over private vehicles, and promoting an overhaul of the city center, an area that is now in decay. The MM has created a Secretariat to coordinate all efforts to rejuvenate the Manaus City Center (*Secretaria do Centro - SEMC*) and create a business friendly environment, while preserving the historical and cultural landmarks of the city center. This strategy is aligned with the idea that it is more cost-efficient to rejuvenate central areas of a city, attracting people back than to expand the urban footprint, especially in a city surrounded by a protected ecosystem.

II. Proposed Objective(s)

The Program Development Objective (PDO) of this proposed operation is to assist the MM to implement sound practices in the areas of public sector and fiscal management in the support of improved innovative service delivery in transportation, education and urban management. By supporting the mobilization of revenue and the introduction of more modern public sector management practices, this operation will allow the municipality to expand and upgrade public service delivery in the areas of education, transport and urban services, which benefits mostly the poor and the vulnerable share of the population, and thus contributing directly to the World Bank's twin goals of ending extreme poverty and promoting shared prosperity.

The policy areas covered by this operation aim to support the MM's own goals in the areas of public sector management and service delivery. Therefore, the PDO is fully aligned with the local administration's longer-term development objectives. Furthermore, the proposed operation also complements other programs under implementation by the State of Amazonas aimed at improving their fiscal position and the quality of public sector management. For instance, the World Bank and IADB-supported Program of Consolidation of Fiscal Equilibrium for Social and Economic Development in the State of Amazonas (*Programa de Consolidação do Equilíbrio Fiscal para o Desenvolvimento Econômico e Social do Estado do Amazonas - Proconfins*) from SEFAZ.

The expected results from this operation are improvements in public sector management and performance, increased fiscal sustainability and enhanced service delivery in education and transport through increased efficiency and expenditure control. These efficiency gains will be perceived through several channels such as the implementation of streamlined procedures, and

implementation of best practice policies and systems for resource management, procurement, and human resources (in local administration and in the education sector) resulting in public sector savings; increased local tax compliance; and improved urban mobility. Given the breadth of these reforms, these measures would benefit all citizens of Manaus, but in particular those in vulnerable groups who are more dependent on government services.

From the area of financial management, procurement and human resources, several results are expected. In the areas of financial management and procurement the expected results include (i) an increase in fiscal sustainability through the implementation of results-based management model for the SEMEF with action plans and indicators that target financial goals; (ii) increases in the speed and transparency of public procurement through the use of electronic bidding and the *Manaus Compras* open access website to award contracts; and (iii) reductions in the cost due to the adoption of a centralized system for implementing framework agreements as well as through the implementation of a payroll audit routine and the establishment of a unit to manage Manaus's employee pension fund. In the area of the tax administration results are intended to reduce default rates and increase local tax revenue by implementing of new procedures for collecting overdue taxes, including criteria for payment installments, and establishing various channels of communication with taxpayers. Within the area educational management the expected results include (i) improvements on Basic Education Development Index (*Índice de Desenvolvimento da Educação Básica – IDEB*) scores through the implementation of a new Integrated School Management Model (*Gestão Integrada da Escola – GIDE*); (ii) increases in the number of school directors selected through meritocratic processes; and (iii) more efficient allocation of faculty and staff in schools through the adoption of a Minimum Standard Framework to regulate the appointment and dismissal of education professionals. In the areas of urban organization and transport expected results include (i) rejuvenation of the Manaus city center through the adoption of an integrated urban regeneration policy; and (ii) improved urban mobility and reduced travel time through enhanced urban bus management, traffic light coordination as well as policies to improve traffic flow in critical corridors.

III. Preliminary Description

The proposed operation is a one-tranche Development Policy Loan (DPL), in the amount of US\$150 million to the municipality of Manaus, in the State of Amazonas, Brazil and supports the program of the MM in areas of public sector management, education and urban transport and organization. The operation is structured around three pillars: (i) a financial management, procurement, human resources, and tax administration pillar; (ii) an educational sector management pillar; and (iii) an urban organization and transport pillar.

Pillar I. Improved Public Sector and Fiscal Management. The main objective of this first pillar is to improve public and fiscal management in the municipality, starting with SEMEF. The main reforms aim at increasing tax collection, improving efficiency, savings and transparency in procurement procedures, and controlling expenditures.

Due to expenditure arrears and lack of financial backing, the city government ended the year of 2012 with a deficit of R\$ 360 million. This situation began to be reversed in 2013 with a strong review and contingency of expenditure, along with measures to increase revenues. In order to achieve fiscal sustainability, the SEMEF gave vital importance to the introduction of modern management tools in public administration. In 2013, SEMEF created an undersecretary for

management for results (Gestão por Resultados) which developed goals and action plans, and trained employees in the PDCA (Plan, Do, Check and Act) methodology. The goals are monitored and action plans discussed weekly. The intention is to gradually expand this methodology to other secretariats of the MM, thus enhancing the overall capacity of the MM to deliver services. In total, approximately 25 indicators and targets are being monitored, such as for the collection rate of own revenues such. The proposed actions of the operation support the meeting of some of these establishment indicators.

The MM also has made strides to improve efficiency and transparency in the areas of (i) institutionalizing e-Procurement and disclosure of procurement processes; (ii) implementing framework agreements; (iii) establishing routine payroll audits; and (iv) improving pension management. The proposed actions of the operation support the adoption of the new policies, streamlined procedures and systems that will allow the MM to improve efficiency and financial control of resources, thus generating savings.

Regarding tax administration, practices in Manaus are catching up with national best practices. As part of a larger reform plan in tax administration, the Municipality has implemented a structured routine to recover tax arrears and has reduced the possibilities for delinquent taxpayers to consolidate and pay their arrears in favorable conditions. SEMEF prioritized the recovery of arrears from large taxpayers and adopted alternative mechanisms for small taxpayers such as resorting to credit bureaus. It has also formally instated a procedure to send email and SMS notifications to taxpayers to remind them of the upcoming payment dates as well as to call taxpayers soon after they have missed payments. These proposed reforms promote increases in tax compliance rates.

Pillar II. Enhanced Management and Quality of the Educational System. Policy actions to be supported under this pillar aim at improving the quality of the municipal educational system via enhanced management practices. This objective will be achieved through the meritocratic selection of school directors, establishment of school-level targets and the creation of minimum standards for school staffing.

The municipal school system is lagging behind according to the results of the Basic Education Development Index (Índice de Desenvolvimento da Educação Básica – IDEB). Although the school system has made improvements in recent years, Manaus remains ranked only 20th out of 27 capitals in Brazil based on IDEB scores. Performance in other education indicators has also been weak over the last decade as age-grade distortion, repetition and dropout rates are also high.

In this context, the main objective of the Municipal Secretariat of Education (*Secretaria Municipal de Educação E Cultura* - SEMED) is to improve the quality of the municipal educational system. To support this objective, SEMED has implemented a new Integrated School Management (Gestão Integrada da Escola - GIDE) model. This reform has already been implemented in many educational systems that have significantly improved the proficiency levels of its students, such as Minas Gerais, Rio de Janeiro, Pernambuco and Ceará. In MM, this model was aligned with two policies implemented in 2012: (i) the Secretariat's and schools' Targets Plan, and (ii) the school-level bonus pay program to achieve IDEB targets.

Moreover, SEMED aims to strengthen the management of municipal school through an accreditation process of teachers as potential school directors and a new merit-based selection of school directors. The Secretary will appoint the school directors in a transparent manner, based on their performance in the accreditation, for a three-year period contract, renewable for another three years. If the appointed directors do not achieve the IDEB targets, they can be replaced by other certified teachers. Staffing of schools also poses a challenge for SEMED. To address this, SEMED is defining clear and objective rules for the allocation of school staff to support the continuity of pedagogical programs, taking into account the number of classrooms in schools.

Pillar III. Improved Mobility and City Center Regeneration. Policy actions to be supported under this pillar aim at improving urban mobility in Manaus, as well as to rejuvenate the city center. This objective will be achieved through policies to improve traffic flow in the main corridors of the city, prioritization of mass transportation over private vehicles, and an overhaul of the city center, an area that is now decadent.

To recover public space in the city center, the MM has created a Secretariat to coordinate all efforts to rejuvenate Manaus City Center (Secretaria do Centro - SEMC). The strategy of this Secretariat is to create a business friendly environment at the city center, to attract and maintain private investment conciliating at the same time these investments with the preservation of historical and cultural landmarks of the city center. To achieve this, the SEMC has adopted an innovative policy to relocate and integrate street vendors into formal sector through training on entrepreneurship and registration under the category of Individual Micro Entrepreneurs (*Micro Empreendedor Individual* - MEI) as well as relocation into refurbished historical buildings where comprehensive municipal services will also be available in order to generate pedestrian traffic.

MM also faces growing challenges in mobility associated with the absence of urban planning. With the purpose of improving mobility and reducing travel time, the municipality has implemented policies to improve and upgrade traffic lights' coordination and interaction with the bus system operation. The objective of this activity is to reduce travel time, prioritizing bus movement around the city, through improved information and interaction with buses. Components under this activity include the replacement of the outdated bus management system currently in use and installation of a new traffic command-control center. .

Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Preliminary analysis suggests that:

i) Improved quality of public schools may have long-term positive distributional effects in a city in which levels of income are so deeply related with school attainment. Teachers and students from municipal schools might be the most benefitted from improvements in the quality of public schools envisaged under the proposed policies. These students may probably come mostly from low-income families. The municipal school system operates 362 schools, which attend more than 168 thousand students (46.8 percent of all students enrolled in the elementary school). The system hires 5,148 teachers.

ii) Formalization, retraining and relocation of street vendors may benefit the most extreme poor laborers, because they may increase labor security, improve incomes and promote access to social policies/security nets. An assessment of street vendors carried out by the city's government has identified 2,081 street vendors who, in their huge majority (95.6 percent), have just this economic activity as source of their livelihood. The average income of the majority of them (67 percent) equals less than three minimum wages and just 13.4 percent of them have access to credit lines. Nevertheless, 68.6 percent of them do not have interest on looking for other jobs. Most of them have not completed secondary school. Women count for a significant share of these street vendors (45.4 percent).

iii) Policies of urban mobility may bring the most benefits for people living in the newest, poorest and most remote neighborhoods, which are poorly served by the collective transportation system. The city of Manaus has observed large demographic growth and urban expansion, which generates a demand of 3 million trips daily. Collective public transportation answers to 46 percent of this demand, whereas cars are used in 12 percent of them and 28 percent are still done by foot. Poor urban planning is associated with the absence of planning of new bus lines. Consequently, the fleet of 1,620 buses attends 244 bus lines that often follow similar routes in a radial system, in which most of the lines start or end at downtown Manaus. Urban mobility also faces the challenge of a growing number of motorbikes and cars, which increased 382 and 142 percent, respectively, from 2001 to 2011. Consequently, traffic jams are a constant and the average speed of the collective transportation system is 12 kilometers per hour, leading to large times spend by poor people commuting.

iv) Finally, the policy related with public servants' pension system is critical to overcome the trend of increasing municipal debts due to the payment of pensions and to ensure the long-term sustainability of the pension system and the compliance with labor rights of retired public servants.

The Poverty and Social Impact Analysis (PSIA) will focus on the policies that may have the most direct distributional impacts – namely: those related with improvements in the educational sector, public servants' pension system, urban regeneration, and urban mobility. The PSIA will carry out a desk review of census data and other secondary sources as well as primary consultations with key stakeholders, including: representative organizations of school teachers and principals, street vendors and commercial associations, civil servants unions, representatives of users, providers and regulating agencies of public transportation in the city – to assess their views of the proposed policies, identify the potential distributional impacts on the short and long-term these policies may cause, and to understand how they will affect different social groups. The analysis will rely on gender-sensitive indicators.

IV. Tentative financing

Source: IBRD	(\$ 150 million)
Borrower: Municipality of Manaus	0
Total	\$ 150 million

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