

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

March 4, 2015
Report No.: 95112

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	March 4, 2015
Estimated Date of Appraisal	March 23, 2015
Estimated Date of Board Approval	June 17, 2015
Corporate Review Decision	TBD
Other Decision <i>[Optional]</i>	TBD

I. Key development issues and rationale for Bank involvement

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\$50 billion (US\$25.5 billion) in 2012. GDP per capita stands at R\$26,760.96 (US\$13,695), 18 percent higher than the national average GDP per capita of US\$11,589.

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 – 2.02 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 conditions. 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 improved its management model, introducing

action plans, monitoring of indicators and targets to increase revenue and cut expenditure. These include measures to institutionalize 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, 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 improve the management of its finances as well as its educational and transport sectors, via upgraded revenue and expenditure processes, as well as meritocratic and results-oriented management of schools, and improved control of bus concessions, among others. 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, of which Manaus is the capital, 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*) supporting SEFAZ. Some of the reforms supported by this proposed DPL have resulted from a partnership with the State government.

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. 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.

Concretely, from the area of financial management, procurement and human resources, several results are expected. These include (i) improved management of SEMEF and of its fiscal accounts; (ii) faster, more transparent and economical procurement for goods and services, greater standardization in procurement of high-volume simple goods, and timely collection of data; and (iii) reductions in payroll cost and of the actuarial deficit pension scheme. In the area of the tax administration results are intended to increase municipal tax compliance rate.

Within the area educational management the expected results target (i) improvements on Basic Education Development Index (*Índice de Desenvolvimento da Educação Básica – IDEB*) scores; (ii) increases in the number of school directors selected through meritocratic processes; and (iii) more efficient allocation of faculty and staff in schools.

In the areas of urban organization and transport expected results include (i) rejuvenation of the Manaus city center; (ii) improved transit mobility; reduced travel time and increased service compliance; and (iii) improved safety and service control. .

III. Preliminary Description

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

Pillar I. Strengthened 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 to control expenditures, improve efficiency, savings and transparency in procurement procedures, and increase local tax collection.

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 thorough expenditure review and limits on spending, along with measures to increase revenues. These measures increased revenue by approximately 14 percent in 2013, while at the same time capped spending growth to only 4 percent. 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 is making strides to become more efficient, economical and transparent in its purchases of goods and services. The Municipality of Manaus is embarking on a major reform of its government procurement system, the backbone of which is the *Compras Manaus* the e-

Procurement system. This reform encompasses a complete overhaul of the processes and procedures to plan and implement procurement, manage and monitor contract implementation, and inspect delivery of goods and services to beneficiaries. The plan is to execute and conclude this comprehensive program from March 2014 to June 2016. This ambitious goal is made possible at a very swift pace because of a close cooperation with the government of the State of Amazonas.

Another important source of savings is expected to come from the introduction of routines for auditing the payroll system across all secretariats. The largest municipal expenditures are on payroll. Total workforce has remained roughly stable, but public sector wages have increased in real terms every year since 2008. SEMEF created a subsecretariat for internal control (*Subsecretaria de Controle Interno*) which is responsible for designing the necessary regulations and procedures to routinely conduct payroll audits. With this, the SEMEF will be able to improve the conformity of payments, as well as improve existing control tools to ensure correct payments. SEMEF has started to disclose data on audit findings, regarding the inconsistencies and irregularities found.

The MM is also responsible for the retirement payments of its civil servants. This retirement fund is managed by a specialized Government agency, known as *Manaus Previdência*, which was created in 2013 in order to adjust the finances and improve governance and management of the retirement fund. Under the current administration, *Manaus Previdência* has implemented the capitalization fund, recognized the debt between the Municipal Treasury and the retirement fund and agreed on payment plan. Manaus has also instituted a formal process for approving investment allocations with the creation of an investment committee, requiring its employees to become certified in financial planning by an external organization and having a third party assessment of the proposed investment. The process is also overseen by the fiscal committee and the municipal pension council.

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 Manaus' the Educational and Transport Sectors. Policy actions to be supported under this pillar aim at improving the quality of the municipal educational system and urban mobility via enhanced management practices. In the area of education, 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. To improve urban mobility, Manaus is upgrading its capacity to monitor and control public concessions and regulate certain transportation services, such as minibuses and moto-taxis.

Education Sector

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 SEMED 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. Adequate 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.

To recover public space and rejuvenate the city center, the MM has created a Secretariat to coordinate all efforts to rejuvenate Manaus City Center (*Secretaria do Centro* - SEMC). As part of its program, 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. While receiving the MEI training, vendors were given a stipend and the MM has also extended loans on preferential terms.

Transport Sector

With the purpose of improving mobility and reducing travel time, and increasing safety the municipality has implemented policies and approved investments in infrastructure to build integrated terminals connecting low capacity bus lines with high capacity Bus Rapid Transit (BRT) operating along the primary transport corridors. The MM is also upgrading traffic lights' coordination and interaction with the bus system operation in order to prioritize bus movement around the city, through improved information and interaction with buses. This is accomplished through the implementation of a new traffic command and control center designed to strengthen the management of public transportation by increasing information and interaction with individual buses which will allow for intelligent traffic coordination. In order to promote this

integrated management of bus services and monitor implementation of the transport concessions, the MM has implemented a clearing system (*câmara de compensação tarifária*), which balances costs of services rendered, revenues and gratuities established by law. This also involves the adoption of a formal agreement between bus companies to implement a management facility, which tracks bus services in real-time, curbs delays and non-conformities and balances revenues and remuneration. These policies and investments are being consolidated as a part of a City Mobility Plan, which will contain guidelines and measures to meet the sector's demand and increase efficiency in the short to long term.

The MM is also implementing policies to increase public control over informal services provided to the low-income population. Specific interventions include formalizing other public transport services by awarding municipal service provider permits to 200 minibuses and 3303 moto-taxis through a public bidding process. These regulatory measures will establish formal control over vehicles and transport workforce, which will permit further control on vehicle quality, workforce accreditation and pollutant and noise emission.

IV. Poverty and Social Impacts and Environment Aspects

Distributional impacts of the prior actions have been considered in the scope of a Poverty and Social Impact Analysis (PSIA). The PSIA team carried 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 and retirees, representatives of users, providers and regulating agencies of public transportation in the city. These consultations focused on their views of the policies proposed to be supported by this operation, aiming to understand how they will affect different social groups as well as to assess the potential distributional impacts (on the short, medium, and long-term) that these policies may cause. The meetings have been held in the period of January 13-16, 2015. A full report of the PSIA is included in the project files. Its main conclusions are summarized below.

Overall the policy changes supported by this operation are expected to have positive impacts for the Manaus society and particularly the low-income population. Improved public management through a results-based approach may benefit society by increasing efficiency and the value-for-money of public services, enhancing accountability and transparency, reducing risks of collusion and corruption, rendering public biddings more attractive for local small and medium enterprises and, consequently, contributing for an enabling business environment and private sector-led growth. Better delivery of public services may have the most positive impact upon the poor, because they are the ones that most rely on public services in the most diverse sectors to carry out their lives. A strengthened public pension management increases trust and incentivize better performance among public servants (who count for more than 30,000 people) insofar as ensures their labor rights as well as the wellbeing of the elderly and their families are protected. As a requisite for ensuring the maintenance of the transference of federal funds to the municipality, improvements in the public pension system are also a pre-condition for providing and ameliorating public service delivery.

Policy changes supported on the education, urban upgrading and urban mobility sectors are expected to have direct and positive pro-poor impacts. As evidenced by outcomes achieved in other Brazilian states, the introduction of policies related with results-based school management

may contribute to improve the quality of education provided by the municipal schools where most of the children enrolled come from low-income families (among the children living in families at the bottom quintile of per capita income up to 95 percent are enrolled in public schools). In the short and medium-term, these poor children will benefit through better learning, access to knowledge and enhanced endowments. In a society in which school attainment has a huge influence on economic activity and earnings, these poor children will benefit at the medium and long-term from more opportunities at the formal job market and get out of chronic poverty.

The rationalization of operation of the bus transport system in the city of Manaus benefits the most the low-income population. Low income people are the majority of the users of this modal of transportation. Positive impacts are expected because the policy contributes to reduce commuting time, to improve coverage on under-served areas as well as to increase comfort, accessibility and affordability. Additionally a highly deprived parcel of the poor population directly benefits from the door-to-door special transportation for low-income people with severe motor disabilities that need health assistance. The “Transporta” program already benefits 900 people. Broader and more general environmental and social co-benefits (GHG emissions may be reduced and may have positive effects on health conditions at the city) are also expected from the rationalization and increased efficiency of the bus transport modal in the city.

Street vendors (of whom women count for 45.4 percent) get the most benefits from the prior action related with their relocation, retraining and formalization. These benefits are achieved through improved access to social protection and retirement policies, enhanced skills and access to credit lines, safer and healthier working places, heightened social status and self-esteem. Other stakeholders – formal shopkeepers and merchants as well as owners of premises located at the center of city – will also benefit from this policy. The commercial enterprises already reported growths in their sales during the Holliday Season, because more consumers have visited the revamped and safer central areas. From the perspective of urban managers, the policy is one critical step to recover the touristic potential of the historical center of Manaus, to protect the historical and cultural heritage, and to create a business environment more conducive to attract and keep investments.

Income in Manaus is strongly related with school attainment, formalization, gender, and ethnicity. Thus, the average earning of individuals with undergraduate degrees (R\$ 4,372) equals 5.3 times the average earning of people without school education or incomplete fundamental education (R\$ 822). Urban dwellers earn 3.3 times the wages of rural dwellers. Laborers with formal jobs earn in average 51.9 percent more than laborers in the informal labor market. Women’s average earnings correspond to 70.9 percent of their male counterparts. The graph below shows the gaps in average earnings by self-ascribed skin color. School attainment is strongly correlated with ethnicity Indigenous peoples and people from Afro-descent origins are overrepresented among the lower levels of school attainment.

Figure 1 – Comparative average earnings

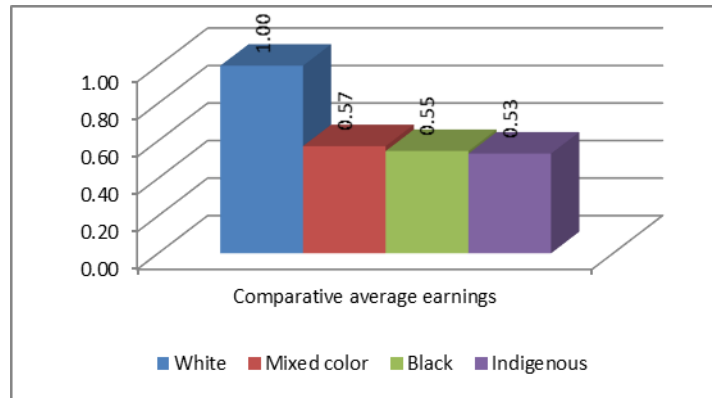
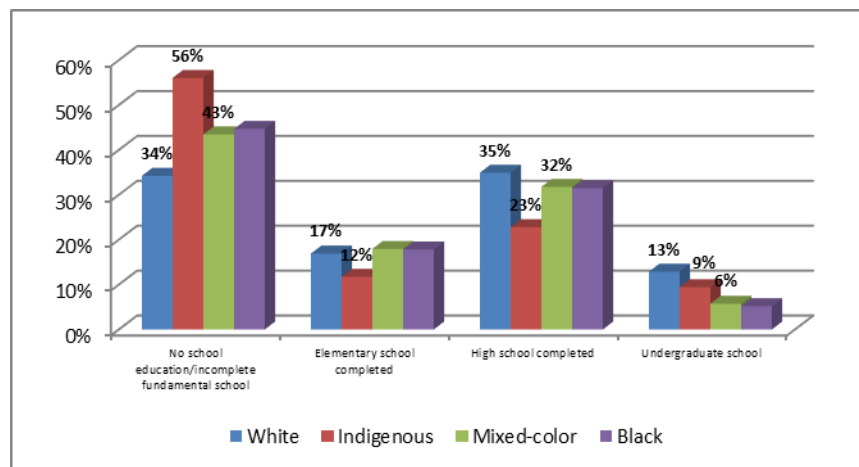


Figure 2 –School Attainment by ethnicity, Manaus (2010)



Access to some basic services is a major issue in Manaus. Over 10 percent of the population lives in households which lack access to sanitation and water and have children who are not enrolled in school. Inadequate water and sanitation is a major issue, with almost 20 percent of the population deprived in the former and 40 percent deprived in the latter. The moderate poor have less access to services than any other income group, including the extreme poor people. Up to 49 percent of the moderate poor have no access to sanitation and less than 20 percent of them have attained secondary education. Meanwhile the extreme poor people face the severest hurdles in the labor market with high levels of unemployment (74 percent) and informality (89 percent). Thus, while access to services should be expanded especially to the moderate poor, facilitating a more permanent inclusion of the extreme poor in labor markets in order to tackle poverty in the city.

The policy reforms supported by this operation are not expected to cause significant negative effects on Manaus' environment, forest, and other natural resources. Quite the opposite, the two pillars contain prior actions that could enhance proper environmental management. The first pillar, Strengthened Public Sector and Fiscal Management, will potentially increase tax collection, strengthen expenditure controls and increase transparency. These objectives could potentially free up resources and improve the institutional management that might have positive spillovers on the environmental management. Prior actions related to the Education sector have little impact on the environment. If any, impacts are driven by indirect channels that are quite challenging to isolate unambiguously. Finally, prior actions related to transport and urban mobility will improve the coordination, traffic and control of public transportation reducing travel time and increasing control of vehicle maintenance. These prior actions can generate environment- friendly effects through the potential reduction of emissions and pollution.

V. Tentative financing

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

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