

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC6680

<b>Project Name</b>	Bahia State Logistics for Regional Development (P147272)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Brazil
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (80%), General transportation sector (20%)
<b>Theme(s)</b>	Export development and competitiveness (60%), Regional integration (20%), Rural services and infrastructure (20%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P147272
<b>Borrower(s)</b>	State of Bahia
<b>Implementing Agency</b>	Infrastructure Secretariat of State of Bahia
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	04-Jun-2014
<b>Date PID Approved/ Disclosed</b>	04-Jun-2014
<b>Estimated Date of Appraisal Completion</b>	15-Oct-2014
<b>Estimated Date of Board Approval</b>	30-Dec-2014
<b>Concept Review Decision</b>	Track I - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Bahia is the largest state in the Brazilian Northeast. The state's GDP is the largest among the nine states in the Northeast Region and the sixth among the 27 states in Brazil. In 2012, it reached US \$88 billion, representing 30 percent of the regional GDP and 4 percent of the national GDP. In addition, Bahia has also the largest population in the Northeast and the fourth in the country. Its population is estimated to have reached 14.3 million inhabitants in 2012, corresponding to 27 percent of the Northeastern and 7.5 percent of Brazil's population.

In the last decade, the state of Bahia has improved its economic performance and achieved a remarkable track record in reducing poverty and boosting shared prosperity. Between 2002 and 2012, average household per capita income in Bahia grew at an annual rate of 4.8 percent, well above the national average of 3.3 percent. As a result, moderate and extreme poverty declined

sharply in the same period, dropping from 43.4 percent to 18 percent and 18.4 percent to 7.5 percent, respectively. Moreover, the income of the bottom 40 percent increased rapidly at 6.9 percent annually (1.9 percentage points higher than the growth rate of the average income), increasing their share in total income from 8 to 11 percent in 2012. Income inequality fell as well, with the Gini coefficient falling from 0.6 to 0.55 in this period.

Nonetheless, Bahia still lags behind national averages and continues to be the state with the largest absolute number of poor and extreme poor in the country. In 2011, Bahia's registered a per capita GDP of US\$5,920, higher than the regional average of US\$5,437 but well below the national GDP per capita of US\$11,235. Indeed, Bahia's per capita GDP is nineteenth in the country. Bahia's poverty rate is almost twice the national moderate poverty rate (9.5 percent) and its extreme poverty rate is 75 percent higher than the national one (4.3 percent). Large population and relatively higher poverty rates make Bahia the state with the largest population below the moderate and extreme poverty lines in the country, 2.6 million and 1.1 million respectively, which in both cases, corresponds to around 25 percent of the poor and extreme poor in the Northeast and 14 percent of the poor and extreme in Brazil.

Interventions geared to enhancing inclusive growth will help reduce poverty in the State and in poorest Brazilian Northeast.

### **Sectoral and Institutional Context**

In Bahia, as in the Brazilian North-East, trucks move ninety per-cent of all transported goods. Precarious road connectivity of small-scale family agriculture leads to high logistic cost and decreased productivity. In some sections, the transport of passengers and goods occurs through unpaved roads, which limits substantially the development of the local economies and the generation of logistics centers and services that can help reduce the cost of transport of the local products.

While State highway condition has significantly improved over the past six years, with the substantial effort of rehabilitation of about 3,700 km between 2008 and 2013, only half the State paved network is in good condition (out of a total of about 11,000 km). Such improvement in highway condition results partly from the substantial funding increase to the road sector (almost doubled from 2008 to 2012), and partly due to the successful outcome of the Bank-supported State Integrated Highway Management project (P095460), closed in September 2013, which piloted a performance-based road management approach. Yet, only about 12% of the State highway network is managed through performance-based contracts; the State objective is to consolidate and expand the model.

Rural connectivity suffers from virtually no maintenance of rural roads. Bahia includes about 120,000 km of rural municipal roads, feeding the state's structural highway network. This capillary network serves the state's remote areas, links small and poorer communities to services and markets and is key for farmers to get their production out. Feeder roads are usually low volume roads but some, for instance in Western Bahia (area of major production of soy and cotton), bear a heavy truck traffic, much damaging the road surface, during the harvest season(s). Typically, these are lateritic roads, with reduced geometric conditions. In particular, the poor condition of numerous wood bridges and other critical spots is a serious constraint to transitability, especially in the rainy season.

Road maintenance sustainability is an issue. The increase of funding to road sector over the past year could not bridge the gap created by the removal, in 2010, of a tax on combustible which was a key funding source for road infrastructure maintenance. In parallel, the State Road agency (DERBA – Departamento de Estradas de Rodagem) requires consolidation of the progress achieved through the previous Bank-supported project. Optimizing the allocation of dire budgetary resources, better investment and services planning, defining a new business model for the Road agency would participate to this objective.

Road violence is a critical issue in Bahia. From 2007 to 2013, the accidents and fatalities have respectively increased by 45% and 21%, on State roads only. While reliable data is missing, it is estimated that about 1,100 people died on Bahia's roads last year; this number is certainly an understatement, as traffic-related deaths in urban areas are not recorded in a consistent manner. Men and young people, often from lower income level, are disproportionately affected by road violence; on State highways only, 73% of fatalities are men and more than half traffic accident victims / injured are below 34-year old. While the State of Bahia has undertaken some actions, essentially on the awareness side, to improve road safety, there is no comprehensive policy to deal with this issue: the responsibilities are fragmented and an overall leadership is missing.

The proposed Project would assist the State of Bahia with its poverty reduction and shared prosperity goals by promoting improved and safer connectivity to/from rural areas in Bahia through enhancement of transport and logistics infrastructure and services along key corridors in the State. At identification, discussions were held with the State of Bahia regarding the possible use of World Bank Group guarantees, in order to leverage private funding and scale-up the Project development impact. The State could be interested but has not made any decision yet. This note therefore only presents the concept of a \$300 million project; yet, in order to be ready if the Bahia decides to move forward with a guarantee mechanism, the Project technical would encompass a wider project.

### **Relationship to CAS**

The proposed Project is fully aligned with The World Bank Group's Country Partnership Strategy (CPS) 2012-2015, Report No. 63731-BR discussed by the Executive Directors of the World Bank Group on November 1, 2011. Specifically, the Project will support the third strategic objective, Promote regional economic development through strategic investments and policies, though improved transport infrastructure and management. By supporting more efficient and safer transport, the Project will also contribute to strengthening the State's role in Brazil's agribusiness industry. Brazil is already the third largest exporter of agricultural products after the United States and Europe and its role as leader in the global market of agricultural commodities is expected to grow in the future.

Over the last 20 years, the State of Bahia and the Bank have gradually built a solid and comprehensive partnership for development, consistent with the State's long-term development strategy and priorities. This partnership materialized in particular through the Sao Francisco Reimbursable Advisory Services (P126072), to which the State of Bahia was associated, and the Pro-Inclusao Development Policy Loan (P126351), which including a policy action on logistics. More directly, , the proposed project builds on the Bahia Integrated State Highway Management Project (loan 7411-BR), closed in September 2013, by: (i) consolidating and scaling-up the performance-based highway management program and (ii) expanding the project scope to feeder roads, as key elements of connectivity, and road safety.

## II. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

The Project Development Objective is to contribute to enhance the condition and the safety of state highways and feeder roads in selected regions. This objective seeks to underpin the broader goal of spurring sustainable development in those regions.

### Key Results (From PCN)

- Improve accessibility to the structural highway network – measured by the number of people with access to all-weather roads;
- Improve road safety – measured by reduction in road deaths in the pilot corridor to be implemented;
- Improved condition of the State paved highway network – measured by the share of the State paved network in good condition, as evidenced by the international Roughness Index;
- Beneficiary assessment (divided by gender).

## III. Preliminary Description

### Concept Description

The proposed Project would consist of four components, totaling \$300 million.

- Institutional strengthening (\$25 million). Besides of the Project Coordination unit operating costs, this component would finance selected institutional strengthening activities in line with sustainability: (i) identify new options for sustainable road sector funding mechanisms, bridging the sector funding gap; (ii) improve road asset management; (iii) “DERBA 100 years”: prepare Bahia’s road agency for its upcoming challenges; (iv) improve logistics efficiency in Bahia; (v) monitor/ evaluate, better capturing the socio-economic impact of investments, transport in particular.
- Performance-based State highway rehabilitation and maintenance (\$210 million). Building on the success of the previous Bahia road project, this component aims at consolidating the performance-based road management in Bahia. Approximately 2,000 km of State roads have been pre-identified, based on the following criteria: (i) strategic importance of the road corridors for Bahia’s logistics needs, (ii) overall road condition of the corridors, (iii) looking for logistics synergies with the new railway line under construction in Bahia (FIOL, Ferrovia de Integracao Oeste – Leste); and (iv) inclusion of the previous Bahia road project’s corridor, aiming at sustainability of the maintenance. These will be 5-year rehabilitation and maintenance contracts, part of the contractors’ payments being based performance. Lessons learned from the previous project, as well as from latest best practice, will be factored in the contract design. Pushing further the limits of the model, the State has agreed to implement a pilot 10-year performance-based contract; Bahia will continue to be at the innovation forefront.
- Feeder road improvement (\$50 million). This component will finance the suppression of critical points on rural local roads, either state or municipal. Works would primarily include replacing wood bridges by standardized concrete bridges, as well as the construction of adequate drainage. These investments would contribute to the infrastructure sustainability. This component complements the State highway one, providing capillarity to the road network, for integrated logistics (farm to markets). While the areas of focus of this component are not yet defined, the concept is, as much as possible, to find synergies with the areas of focus of the Bahia Sustainable Rural Development Project (P147157). This latter project, under preparation, will foster rural

production and development, for eight product chains, in the poorest areas of the State. The combination of both projects could have a multiplying effect on beneficiaries.

- Road safety (\$15 million). This component would finance two kinds of activities. First, institutional strengthening activities, specific to road safety governance and knowledge. These activities could include: building a momentum for road safety in Bahia, working towards the creation of a Bahia road safety lead agency, working on road safety monitoring and reporting, drivers licensing, etc. The second activity would establish a road safety pilot corridor; the concept is to address road safety in a holistic manner and demonstrate a best practice replicable example. Interventions would range from communication campaigns to infrastructure retrofit, in a road safety perspective, including law enforcement (primarily, speed and drink-driving) and detailed monitoring/evaluation.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36			x
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	300.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			100.00
International Bank for Reconstruction and Development			200.00
Total			300.00

#### VI. Contact point

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