Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jun-2023| Report No: PIDC35647

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Brazil	P179182	Rio de Janeiro Fiscal Management and Sustainable Development Policy Loan (P179182)	P178729
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
LATIN AMERICA AND CARIBBEAN	Oct 26, 2023	Transport	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Municipality of Rio de Janeiro	Secretaria Municipal de Fazenda e Planejamento, Secretaria de Transporte		

Proposed Development Objective(s)

The Program Development Objective of this programmatic series is to support the Municipality of Rio de Janeiro in: (i) strengthening fiscal management to improve medium-term fiscal sustainability; and (ii) accelerating the transition towards a low-carbon, resilient and inclusive urban development .

Financing (in US$, Millions)

SUMMARY

Total Financing	135.24

DETAILS

Total World Bank Group Financing	135.24
World Bank Lending	135.24

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The COVID-19 pandemic worsened Rio's public finances, further reducing the municipality's capacity to invest in advancing its environmental, social, and economic objectives, including low-carbon, resilient and inclusive urban development. MRJ fiscal balances were weakened even before the pandemic, caused by the rapid growth of personnel expenses and declining revenues. Investments went down from a peak of BRL 5.2 billion (US$ 959 million) in 2015 to only BRL 746 million (US$ 138 million) in 2019. In 2020, Rio experienced the second highest number of deaths among Brazilian states' capitals (38,247), only surpassed by São Paulo city (44,921).[1] The crisis reduced the services sector activity and increased the municipal's unemployment rate to the peak of 16.4 percent in the third quarter of 2020. Although emergency federal fiscal support helped Rio to safeguard investments in 2020, its declining revenues resulted in an increase of its personnel expenditures and an accumulation of arrears in 2020. Supported by reforms under this DPF series, Rio's fiscal balances improved significantly in 2021 and 2022 and arrears were repaid in full. Rio improved its credit rating under the Federal Treasury methodology in 2022. Most of fiscal measures implemented in 2021 have medium-term fiscal effects and will continue to benefit the municipal's fiscal consolidation between 2023 and 2026.

In addition, Rio de Janeiro plays a significant role in Brazil's carbon footprint as the country's second most populous city, particularly through its transport sector, which is central to its climate mitigation agenda. However, the public transportation system was until recently facing a serious financial sustainability crisis, preventing investments in low-carbon vehicles, and contributing to a steady loss in ridership, especially among lower income households. Policies promoted under DPF1, have begun to transform the sector and encourage individuals to shift from cars and motorcycles to public transportation and active mobility options. Despite being at the forefront of Brazil's climate agenda for the past forty years, the city faces substantial adaptation challenges due to the looming threats of rising sea levels, landslides, heat waves, and floods. Against this backdrop, the proposed Rio de Janeiro Adjustment and Sustainable Development Policy Loan (ASD-DPL) series will support the Government's efforts to advance a sub-set of reforms to strengthen fiscal management to achieve medium-term fiscal sustainability and support the transition towards low-carbon, resilient and inclusive urban development.

Overall, Brazil's macroeconomic policy framework is deemed adequate for this proposed operation. The World Bank considers the Guarantor's macroeconomic policy framework adequate for this DPF. The government has announced a package of measures to consolidate public finances and achieve a primary surplus of 0.1 percent of GDP in 2023 and has submitted a new fiscal anchor to Congress, which would set public debt on a firm downward trajectory. Also, the Central Bank independence law approved in February 2021 reassures the conduction of monetary policy away from external interferences, allowing to tame inflation in the medium-term and reduce risk premiums. The recently approved financial sector reforms helped to boost competition in the financial markets, financial inclusion, and market access. The labor market reform enacted in 2017 and recent reforms approved in 2020 and 2021 have supported market entry and private sector participation in key infrastructure sectors (water and sanitation, telecom, and energy). In the medium-term, structural growth reforms would be needed to boost potential GDP growth. Two taxation reforms under discussion (one focusing on indirect taxes replaced by a simple VAT and the other on income taxation) will probably advance through 2023, making taxation more progressive, diminishing the heavy tax burden on the poorest population, while improving business environment and productivity prospects through tax simplification.

Relationship to CPF

[1] Data as of May 31, 2023.

The proposed DPF is fully aligned with the World Bank Group's Country Partnership Framework (CPF) for the period FY2018–23[2]. The World Bank Group FY18-23 CPF for Brazil (Report no. 113259-BR, discussed by the Executive Directors on July 13, 2017) was prepared against the backdrop of the deep 2014–16 economic recession that led to a fiscal crisis and increased unemployment and poverty levels. The main premise of the CPF was the need to revisit the country's growth model to improve its sustainability and inclusiveness. The CPF is built on three pillars: (i) fiscal consolidation and government effectiveness; (ii) private sector investment and productivity; and (iii) equitable and sustainable development. In line with the CPF, this proposed operation is part of a series of subnational DPFs to support fiscal adjustment and sustainable low-carbon and climate-resilient development in subnational entities. [3] The proposed activities are fully aligned with the Brazil CPF. The first pillar is aligned with Focus Area 1, *Fiscal consolidation and government effectiveness*, and Objectives 1.1 (Strengthening Fiscal Management at all levels of government) and 1.2 (Increase fiscal sustainability and fairness of pension system) of the CPF by strengthening its public management systems though (i) improving fiscal accountability and internal audit capacity, and (ii) strengthening the pension record management and audits. The first pillar is also aligned with Focus Area 3, *Inclusive and sustainable development*, and Objective 3.1 (Support the achievement of Brazil's NDC) by (iii) supporting measures to promote a green economy. The second pillar is aligned with Focus Area 2, and Objective 2.3 (Mobilize greater investment in infrastructure to improve services) by: (i) focusing on optimizing the transport sector; and (ii) supporting the mobilization of greater investment in infrastructure to improve services. Pillar 2 is also aligned with Focus Area 3, *Inclusive and sustainable development*, and Objective 3.1 (Support the achievement of Brazil's NDC), and Objective 3.2 (Provide more inclusive and sustainable urban services) by: (i) revamping the BRT system; (ii) making the public and active transport more accessible to the most vulnerable; (iii) supporting the implementation of a Low Emission District in the city center to decrease GHG emissions; and (iv) supporting the achievement of the municipality's and the country's NDCs on reducing CO_2 emissions.

C. Proposed Development Objective(s)

The Program Development Objective of this programmatic series is to support the Municipality of Rio de Janeiro in: (i) strengthening fiscal management to improve medium-term fiscal sustainability; and (ii) accelerating the transition towards a low-carbon, resilient and inclusive urban development .

Key Results

This operation is expected to contribute to strengthening Rio's fiscal management to achieve medium-term fiscal sustainability and support its transition towards a low-carbon, resilient, and inclusive development. The fiscal reforms supported in this series are expected to curb recurrent expenditure growth, strengthen tax revenues, and improve the accountability and efficiency of the government. The resulting increase of the municipalities' operating balance will allow it to reduce its debt payments, reduce arrears, and provide space to create fiscal incentives to encourage investments in climate adaptation and mitigation. Reforms in this series are expected to improve the efficiency, safety, and modal

[2] The CPF was endorsed by the World Bank's Board of Executive Directors on July 13, 2017 (Report no. 113259-BR).

[3] The proposed operation is the sixth under this framework, following the Mato Grosso Fiscal Adjustment DPF (P164588), the First Amazonas Fiscal and Environmental Sustainability Programmatic DPF (P172455), the State of Goias Sustainable Recovery DPF (P177632), the Rio de Janeiro Adjustment and Sustainable DPF (P178729), the first of this series, and the BR State of Ceará Sustainable DPF (P180497), which is under preparation.

integration of Rio's public and non-motorized transport to help avoid the migration of riders to higher-emitting transport modes, strengthen the municipality's cross-sectoral strategy to reduce GHG emissions and promote a green economy, and foster mitigation and adaptation to climate change, thus promoting sustainable urban development. Finally, they are expected to eliminate a possible transport barrier for low-income female survivors of domestic violence to access the support of the Specialized Network for Combating Violence Against Women.

D. Concept Description

This DPF seeks to strengthen public management and promote a business environment in Rio that aligns with the demands of the new climate-smart economy. The quality of public accounting in the Rio de Janeiro municipality has been a subject to concern and scrutiny. The municipality has faced challenges in ensuring accurate and reliable financial reporting, which has implications for transparency, accountability, and fiscal sustainability. To address these challenges, this DPF supports (i) measures that enhance auditing procedures, which are crucial to assure that financial resources are used efficiently and effectively. In addition, this operation supports the introduction of a (ii) legislation that provides a tax incentive to firms that achieve mitigation outcomes, thus using fiscal space opened through the fiscal consolidation to introduce green fiscal policy measures. The municipal pension system has been decentralized, with multiple secretariats being responsible for assessing the retirement requirements and benefits of their own staff, leading to fragmented processes and inefficiencies. To address these issues, the municipality embarked on (iii) a reform aiming to centralize the management of the public pension system into one single agency.

The Municipality of Rio expects to shift to a low-carbon, safe, and inclusive urban mobility and put in place institutional arrangements for multi-sectoral low-carbon development in central Rio. Since the approval of the first operation, the MRJ has maintained momentum on a broad program of policy reforms, incentives, and investments to promote inclusive and sustainable urban mobility, but further reforms are needed. The Municipality acknowledges the need to advance in greening the transport system, the highest emitting sector of greenhouse gases (GHG) in the city, and its vulnerability to climate change shocks. To address these challenges, the city is introducing reforms to increase the reliance on sustainable mobility modes and reduce GHG emissions. This DPF supports the Municipality in improving public and non-motorized transport and enhancing the effective integration of sustainable transport modes to avoid the migration of riders to cars and motorcycles. It also strengthens the Municipality's cross-sectoral strategy to reduce GHG emissions and foster mitigation and adaptation to climate change. To do so, the package of reforms includes (i) measures to improve the operational efficiency of the BRT system to attract passengers to public transport, (ii) critical regulations that improve public transport services available to low-income populations and the overall integration of the city's public transport system, (iii) the approval of legislation that facilitates the access by female survivors of domestic violence to referral services via free public transport, (iv) measures to promote low-carbon non-motorized transport through regulations that expand the cycling network and improve safety for all road users, and (v) actions that establish a governance and monitoring and evaluation framework to promote low-carbon and climate-resilient mobility, energy, and waste management in a Low Emission District.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Overall, most prior actions included in this operation have the potential of positive equity and social impacts. Policy changes included in the first pillar – a continuation of the reforms launched as part of the state's Fiscal Equilibrium Plan –

are expected to allow the municipality to improve the efficiency of their spending. Policy changes related to the adoption of public sector accounting standards and an improvement in the pension record management and audit system may open more fiscal space for public investments on the government's priorities which, based on an analysis of the budget allocation, are likely to support the provision of basic public services, benefiting social groups in the bottom of society and boosting equality of opportunity. Meanwhile, policy changes included in the second pillar have both direct and indirect poverty and social impacts. Improvements in the public transportation system, on which the low-income population disproportionately relies, will positively impact the wellbeing of Rio residents by lowering the transportation costs (both pecuniary and non-pecuniary) of connecting to the city's economic opportunities. Direct positive social impacts are also expected from the support to women suffering from domestic violence. Finally, other policies are expected to have indirect positive effects through the reduction of congestion and pollution.

Environmental, Forests, and Other Natural Resource Aspects

1. **The prior actions supported by this DPF are likely to have positive effects on the environment through the significant emission reduction measures.** Pillar one contains strengthening fiscal management reforms that are not likely to cause direct negative impacts on the environment, forests, or other natural resources. On the contrary, the pillar encompasses prior actions which are likely to have significant positive effects on the environment, all linked to the goal of promoting green growth and reducing GHG emissions. The DPF is designed to promote a low-carbon economy (under Pillar I) and the transition towards a low-carbon, climate-resilient and inclusive urban development (Pillar II), by strengthening and promoting public and active transportation and implementing a Low Emission District in the city center.

CONTACT POINT

World Bank

Ana Waksberg Guerrini, Aiga Stokenberga, Fabiano Silvio Colbano
Senior Transport Economist

Borrower/Client/Recipient

Municipality of Rio de Janeiro
Andrea Senko
Municipal Secretary of Finance
arsenko@smf.rio.rj.gov.br

Implementing Agencies

Secretaria de Transporte
Maína Celidonio
Municipal Secretary of Transport
mcelidonio.smtr@gmail.com

Secretaria Municipal de Fazenda e Planejamento
Andrea Senko

Municipal Secretary of Finance
arsenko@smf.rio.rj.gov.br

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Ana Waksberg Guerrini, Aiga Stokenberga, Fabiano Silvio Colbano

Approved By

Country Director:	Johannes C.M. Zutt	16-Jun-2023