

HIGHWAY CORRIDOR INTEGRATION PROGRAM FOR THE STATE OF BAHIA

(BR-0278)

EXECUTIVE SUMMARY

BORROWER: Government of the State of Bahia

GUARANTOR: Federative Republic of Brazil

EXECUTING AGENCY: Department of Transportation Infrastructure of the State of Bahia (DERBA)

AMOUNT AND SOURCE:

IDB:	US\$146 million (OC)
Local:	US\$ 98 million
Total:	US\$244 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Grace period:	5 1/2 years
Disbursement period:	5 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	basket of currencies

OBJECTIVES:

The goal of the program is to contribute to the economic and social development of the state of Bahia. The purpose is to reduce transportation costs on the road system under DERBA's responsibility.

The program includes actions to consolidate the state's network of secondary transportation corridors, rehabilitate roads whose paved surface is in a critical state of deterioration, and improve maintenance. On the institutional front, DERBA will be equipped to manage its network efficiently by strengthening its planning, management, traffic safety and environmental management capacity.

DESCRIPTION:

This operation is a global multiple-works program with the following main components: (i) paving and improvement of other technical aspects of approximately 600 km of transportation corridors in the DERBA network, connected directly to the primary interstate highway system; (ii) rehabilitation or reconstruction of some 600 km of state highways; (iii) sealing and other improvements on some 270 km of state highways, stabilization of 250 km of unpaved roads, and 300 km of routine maintenance under performance contracts; (iv) paving of 240 km of roads that provide access to productive areas; (v) procurement of road maintenance equipment, engineering tools, and computer, traffic safety, and weight-control equipment; and (vi) technical assistance for institutional strengthening, including the use of the performance-based training method.

ROLE OF THE PROJECT IN THE BANK'S COUNTRY

The Bank's strategy as set forth in the country paper supports the Government of Brazil's focus on decreasing the causes and consequences of inflation

**AND SECTOR
STRATEGY:**

by improving the productive infrastructure to reduce the so-called 'Brazil cost', together with government modernization at the federal, state, and municipal levels, including improvements in managerial and planning capacity. Better environmental management and the reduction of regional inequalities and poverty are also sought. The aforementioned document singles out the transportation and energy sectors in terms of reducing the high costs of productive processes and involving the private sector to cut costs and boost efficiency. The proposed program attaches priority to improving planning and management capacity and reforming public-sector activities. This will be achieved through institutional strengthening of DERBA and expansion of private-sector participation in routine maintenance. The program is thus consistent with the Bank's strategy in Brazil of supporting government modernization and investments in productive infrastructure. In addition, it provides for institutional strengthening activities related to environmental issues and includes measures to repair the environmental damage related to old works and environmental protection for new works.

**ENVIRONMENTAL
REVIEW AND
SOCIAL
CONSIDERATIONS:**

The environmental impact of the works is limited and predictable and can be mitigated. The program will have a positive impact on the management of environmental issues in the state, including the transportation of hazardous materials and measures to repair previous environmental damage and strengthen DERBA's environmental management capacity (paragraphs 3.6 and 5.19 to 5.30). DERBA has conducted public consultations with the affected communities and other interested entities and will continue to do so during preparation of the designs of the new sections to be included in the program. The environmental report was approved by the CESI on October 10, 1998, and sent to the PIC on December 16, 1998.

BENEFITS:

The program will help to reduce transportation costs on the state's road system, thereby contributing to the economic and social development of Bahia by making modern productive activities possible in regions that are currently not connected by paved roads or where connections are indirect or interrupted by unpaved sections. Travel time between the main production and consumption centers of Bahia will be reduced as will the costs of providing road infrastructure, including those associated with environmental damage and the risk of accidents. The program will thus facilitate the supply of agricultural and industrial production to state and national markets, making the products more competitive on international markets and stimulating tourism.

Improvements in highway administration will allow the State to improve service to users despite a reduction in force. The orderly transfer of additional tasks to the private sector will give the latter and the authorities the opportunity to work under a new institutional framework without the disruptions that frequently accompany radical changes.

RISKS:

The costs of the rehabilitation projects may increase if there are significant delays in starting the proposed works. Reasons for delays outside DERBA's control could be, for example, protests that interfere with bidding processes or contractors that fail to fulfill their contracts.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement (already fulfilled):

(a) Extension of the life of the program coordinating unit (PCU); (b) staffing of the PCU; and (c) hiring of the firm that will provide support to the PCU (see paragraph 3.2).

Other conditions:

- a. Prior to the call for bids for any works or equipment: (i) when required, have the necessary environmental permits and, when necessary, population resettlement plans (paragraph 3.14); and (ii) interagency agreements where applicable (paragraphs 2.17, 2.18, 3.4, 3.16, 3.17).
- b. Three months after signature of the contract, hire a firm to provide environmental advisory services (paragraph 5.25).
- c. Six months after signature of the contract: (i) commission the studies and plans for transportation of hazardous materials and macro-zoning of western Bahia; (ii) approve general specifications for road works; (iii) approve DERBA's new bylaws (condition already met); and (iv) appoint qualified staff to head the Environmental Management Office (condition already met) (paragraph 5.26).
- d. Submit the first maintenance plan 12 months after the physical initiation of the works or the procurement of equipment with program resources. The plan is to be presented annually through year 5 following the last disbursement of the program components and until the last disbursement for DERBA's entire road system. In addition, it will contain a chapter on environmental issues and another on progress achieved with the program's institutional activities (paragraphs 3.26 and 5.30).
- e. Twenty-four months after signature of the contract, submit the results of the studies and plans mentioned above (paragraph 5.27).
- f. Adopt procedures similar to those followed in the sample to prepare the other program projects (paragraphs 2.8 and 3.10).
- g. Have works supervision services available prior to the start of the respective works (paragraph 3.11).
- h. Costs of up to US\$3.5 million from the

counterpart will be recognized (paragraph 3.25), and up to US\$8 million in payments will be reimbursed from the financing.

- i. Maintain the network adequately, with a suitable level of resources and up-to-date collection of necessary data (paragraphs 2.19, 3.26, and 3.27).
- j. Maintain a data bank to allow the Bank to perform an ex post evaluation if it wishes to do so (paragraph 3.28).
- k. External audit by the Audit Office of the State of Bahia (paragraph 4.11).

**IMPACT ON POVERTY
AND SOCIAL SECTOR
CLASSIFICATION:**

Eighty percent of the population of the state of Bahia is classified as low-income (monthly incomes below US\$109 per capita in 1996) and the average per capita income in Bahia is below the country average.

The works will be constructed in all the major regions of the state, to correlate with the population distribution. All the state's inhabitants use the road system directly or indirectly and are beneficiaries of the program. From the geographical standpoint, the program fulfills the requirements of a program targeting the low-income sectors. This operation qualifies as a project focussed on social equity enhancement and poverty reduction, as described in the key objectives of the Bank's activity contained in the Report on the Eighth General Increase in Resources (paragraphs 5.17 and 5.18).

**EXCEPTIONS TO
BANK POLICY:**

The federal government guarantees repayment of the loan to the Bank (amortization, interest, and fees included), but not the local counterpart or any other obligation undertaken by the executing agency which, by law, it does not have the authority to assume. The financial analysis shows that the borrower has the financial capacity to supply the counterpart financing necessary for the program (paragraphs 4.16 and 5.7 to 5.9).

PROCUREMENT:

International competitive bidding (ICB) will be used for contracts valued at more than US\$5 million in the case of works (paragraph 3.21) and US\$350,000 in the case of equipment (paragraph 3.22). International open calls for proposals will be required for consulting services contracts valued at more than US\$200,000 (paragraph 3.23).