

Brazil: a tale of two cities

Districts have same powers, but face radically different challenges



REUTERS/CAETANO BARRERA

A slum fronts on the Hilton Hotel in Sao Paulo. Brazil's cities generate wealth, but not enough revenue to meet the needs of their residents.

BY BRIAN NICHOLSON

DEEP IN THE AMAZON JUNGLE, THERE'S ALTAMIRA, A SPARSELY populated municipality, bigger than most U.S. states, covered with rainforest and Indian reservations. Nearly 2,000 kilometres away sits Diadema; a densely packed, low-rent sprawl in the grimy industrial belt around São Paulo, the largest metropolitan area in the southern hemisphere. Uniting them both is the challenge facing Brazil's local leaders, how to improve living standards in a decentralized, three-tier federal system in which the balance between resources and obligations can often seem lopsided.

Altamira, which covers 159,700 square kilometres, cuts a swath through the south-east Amazon in the state of Pará. It is by far the largest of Brazil's 5,560 municipal districts – local officials like to claim the world record – although the population of 100,000 is dwarfed by 14 Brazilian municipalities with one million or more people. Although Altamira is mainly rural, its population is heavily concentrated in the municipal seat, where jobs are scarce.

"Our biggest challenge is the lack of work," Deputy Mayor Silveiro Albano Fernandes said in an interview. The scarcity of

employment is caused by a primitive, undeveloped economy that has a low tax base, generating insufficient revenues to spend on a better infrastructure and education, which could help attract investment and generate jobs. "We do what we can, but there's simply not enough to go around; if we build one school, we can't repair another," Fernandes said.

Municipal transport by plane

The daunting size of the municipality of Altamira compounds the problem. Mayor Odileida Sampaio was away visiting an outlying district, Fernandes said in the interview, and would be gone for several days. Parts of her turf lie three hours away by single-engine plane, with the flights mostly skimming virgin forest. The alternative is a circuitous, 1,400-kilometre expedition along mainly earth roads wending through eight neighbouring municipalities.

"A municipality is easier and cheaper to administer if it's smaller with a higher concentration of people, rather than various remote rural communities," Fernandes said. "If we need to build a health centre, for example, we have to provide one for a community of maybe 1,000 people or less. But it could serve 5,000."

The federal constitution determines that Brazil's local governments can raise taxes themselves, mainly on property and services, but they also receive shares of a host of other revenues from the federal and state spheres. Economists José Roberto

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Afonso and Erika Amorim Araujo wrote in the World Bank's 2006 book *Local Governance in Developing Countries* that Brazilian municipalities raised 5.5 per cent of all taxes in the country, but ended up spending 17.1 per cent, thanks to transfers. In 2005, local governments raised US\$17.1 billion and spent US\$52.8 billion – an average of US\$9.5 million per mayor. Current dollar values are probably 40 to 50 per cent higher because of economic growth, increased tax revenue and, mainly, a stronger local currency.

Altamira, with a budget of about US\$32 million this year, more than 90 per cent of it from federal and state governments, is ahead of the pack. The lion's share of transfers is related to population size, and Altamira has three times the national average. But the huge distances create problems that are only partly compensated for by the smaller adjustments made to some transfers to help compensate for the vast land area. Overall, Fernandes said, it's a bad business being big.

Ban on dividing municipalities

The obvious solution is to split up into several smaller municipalities, initially probably three or four. Local officials have been planning such a move for some time. But in 1997, the Federal Congress placed a 10-year freeze on all municipal subdivision moves.

Until 1988, municipalities were created by, and in many ways subordinated to, state governments, which now number 26, plus the Federal District. In 1988, a new federal constitution, introduced after the end of the military dictatorship, gave municipalities independent status and made their creation a matter for local plebiscites. Their number rose dramatically, increasing by 24 per cent since 1990. In many cases, the new administrative units lacked viable size and reflected more a desire by local political leaders to expand their power bases. The net result was a diversion of public resources into legislative and administrative structures, "at the expense of more productive spending on, for instance, social programs and urban infrastructure," according to a World Bank report. The moratorium prevents Altamira from resolving part of its problem, but the deputy mayor said its leaders hope to move ahead with subdivision by 2009.

Another source of constant irritation is land use. Fernandes estimates about two-thirds of the municipality is taken up with various kinds of reserves, including Indian reservations, national forests and environmental reserves. Most come under federal jurisdiction while others are state-controlled. Either way, it's municipal territory over which the local authority has no control.

"Two or three years ago, the state government produced an economic and ecological zoning plan for the whole state, telling us what could happen in each area; for example arable agriculture, pasture, preservation and so on. But we were hardly consulted. Things like that tend to come down from top to bottom, in final form," Fernandes said.

Compounding the problem is that many rural properties have unreliable title deeds. "Some people have been occupying an area for 15 or 20 years, and still can't get good documents," he said. Often the solution lies in state or federal hands, depending on where the contested land might be. But as long as such questions are unresolved, the loss is municipal, because without proper title deeds, the land owner cannot get authorization for development projects. For example, sustainable exploitation of timber could create jobs and boost the local economy.

From forests to factories

More than 2,000 kilometres to the south, Mayor José de Filippi Jr. has basically the same constitutional and legal instruments to handle what is in many ways a different situation. Just 50 years ago, Diadema was a quiet town of 8,000 people about 16 kilometres southwest of the city of São Paulo. But Diadema missed out on the huge post-war investments that brought General Motors, Ford and Volkswagen to better-located areas nearby, and consequently failed to form a prosperous middle class. Today, its 390,000 mainly poor inhabitants are packed into 30.7 square kilometres of urban sprawl within the seemingly endless industrial hinterland of Greater São Paulo.

When Brazil opened its economy to foreign competition in 1990, this sparked a large exodus of traditional industry from the São Paulo metropolitan region to lower-cost locations

[CONTINUED ON PAGE 21]

Brazil: another view of the two cities

BY FERNANDO REZENDE

It may seem at first glance that Altamira – in the Amazon basin – has a bad deal in comparison to urban Diadema, but the actual situation is not quite as simple as that.

The economic problems that Altamira faces – environmental barriers that keep it from exploiting its natural resources and a lack of jobs – are beyond the scope of the local administrators' responsibilities. Altamira's problems will not be solved by lifting the ban on dividing large rural municipalities.

On the other hand, Diadema benefited from the dispersion of

the manufacturing industry around different parts of the São Paulo Metropolitan area. Getting a share of industrial plants helped to boost its finances and therefore to improve living conditions in the city.

The finances of large rural municipalities and small metropolitan ones respond to very different factors. Rural municipalities depend heavily on federal transfers and small cities depend on their share of their states' value added tax.

Would Altamira be better off if its urban core could secede from the vast rural hinterland? In my opinion, no.

The suggestion by Altamira administrators that "the obvious solution is to split into several smaller municipalities" simply exports Altamira's problem from the city centre to rural areas, which could end up worse off than before.

What Altamira really needs is a better coordination of federal, state and local policies to increase its prospects for development.

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BRAZIL - [FROM PAGE 14]

within the state, or out of it. Diadema, the “ugly duckling” of the industrial south side, perhaps had less to lose, but it also had less to fight with. At the same time, starting in the mid-1990s, mayors faced severe budgetary constraints under a public-sector squeeze imposed by the federal government to end hyperinflation that had plagued Brazil since the mid-1980s.

“Cities faced new challenges, partly because of the new reality of the Brazilian economy, but also because of the new world economic order,” the mayor said. “We had to start fighting for economic development within the context of globalization that was more and more hostile, more and more competitive.” That meant working more efficiently, reducing costs and creating attractive conditions for new investment.

Escaping urban decay

Using a special team of policy advisers, Filippi – mayor in 1993-96 and again in 2001-08 – has managed to escape the low-revenue, low-investment trap, boosting tax revenue and spending the new funds in ways that attract further investment. Industrial output rose seven per cent in 2006 and another four per cent in 2007, after falling for eight straight years. The municipal budget is up 70 per cent in real terms from 2001, to a projected 2008 level of about US\$270 million. His key measures include:

- **Urban violence:** In 1999, the municipality had the highest murder rate of the São Paulo metro region, at 109 per 100,000 population. The murder rate fell 59 per cent, thanks to a 2002 decree forcing all bars to close at 11 p.m. – a measure that sparked widespread interest in other cities.
- **Urban development:** Diadema built three large flood control reservoirs to catch water from heavy rains. This allowed development of low-lying areas, one of which attracted a major industrial investor who is now the city’s largest single taxpayer.
- **Urban renewal:** New sidewalks, public lighting, street repair, litter bins, park benches and flower beds help create a more pleasant environment, which in turn becomes a safer environment, including for investors. “We make small revolutions – three years ago, one neighbourhood had 40 small commercial establishments, now it has 250. That’s a lot of investment in small business, shops and services, and consequently a bigger tax base. This is a direct consequence of urban renewal,” the mayor said.
- **Creative incentives:** Diadema shunned simple tax breaks, but offered reduced land taxes for investors who increased payments of other taxes.
- **Social spending:** Infant mortality declined to 12.9 per 1,000 births in 2006 from 85 in 1983 – improving from double the state average to slightly better than average.

“The best investment any mayor can make is in social programs,” Filippi said. In Diadema, innovation by municipal leaders has made real improvements. For rural municipalities like Altamira to make comparable gains, a stronger role for local municipalities in joint planning with the state and federal governments could allow such local innovations to begin. 