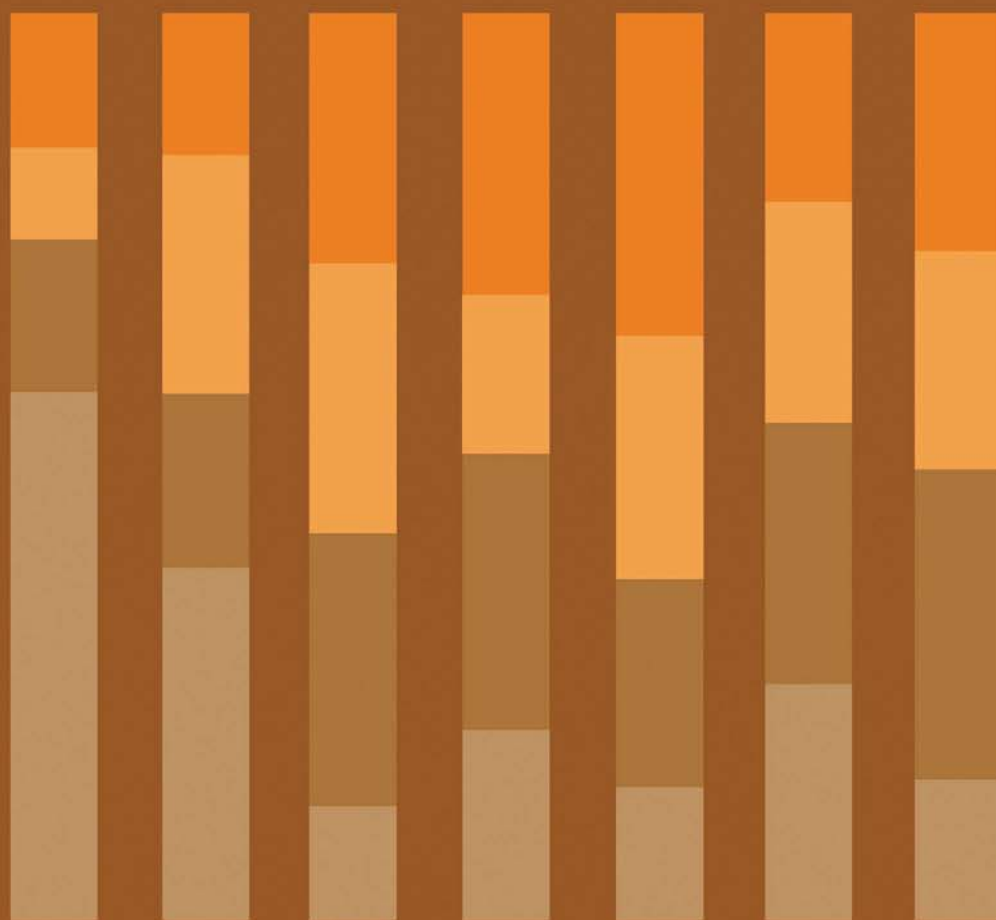


# The state of the cities in Brazil

THE 2000-2009 REPORT







Executive Coordination



Instituto Pólis

General Coordination



Associação Brasileira de Municípios



Frente Nacional  
de Prefeitos



ONU HABITAT  
POR UN MEJOR FUTURO URBANO



Banco  
Mundial

Aliança de Cidades  
Cities Without Slums

CAIXA

Ministério das  
Cidades

GOVERNO FEDERAL  
BRASIL  
PAIS RICO E PAIS SEM POBREZA

# The state of the cities in Brazil

## THE 2000-2009 REPORT

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**Building and using synthetic indicators in social urban policies** by Haroldo Torres (Cebap) and Maria Paula Ferreira (Seade).

**Security and cities: notes on the theoretical and institutional framework and possible indicators** by Ignácio Cano (Laboratório de Análise da Violência – LAV/ UERJ), Paula Miraglia (Ilanud) and Eduardo Ribeiro (Laboratório de Análise da Violência – LAV/UERJ).

**The meaning of a sample for the report State of the World's Cities** by Jan Bitoun (UFPE – Observatório das Metrôpoles).

**The municipalities' GDP as indicator of the productive profile of Brazilian municipalities** by Ligia Duarte and Andréia Ferreira (Seade).

**Estimation of the Number of Inadequate Households** by Marcelo Pitta e Mitti Koyama (Seade).

**Brazilian Urban Mobility** by Eduardo Vasconcelos, Adolfo Mendonça and Marcos Bicalho (ANTP).

**Public administration variables** by Roberto Pires (UFMG).

**The population's pendular movements: information necessary for classifying cities into categories** by Rosa Moura (Observatório das Metrôpoles –Ippardes/ Secretaria de Estado de Desenvolvimento Urbano, Paraná).

**Management capacity as strategic competence for governmental action and its indicators and its relation with the contents of the report State of the World's Cities in Brazil** by Maria Teresa Augusti (IFF).

**Contributions on the analytical model, methodology and strategy for consolidating cross-analyzing data** by Marta Arretche and Eduardo Marques (CEM-Cebap).

# Summary

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**T**he general objective of the Report on the state of the cities in Brazil is to help understand the present situation of the urbanization conditions in the country and inform so that the Federation states and all the parties interested in the subject can formulate and implement in the country an urban development policy able to handle the great diversity and heterogeneity among Brazilian municipalities and promote an including, democratic and sustainable urban development model.

The main subject of the study is the conditions for adapting Brazilian households whose core elements are identified in this survey. These aspects are approached from a cross-sectional view that transcends the strictly sector-based one.

Approaching this issue lays challenges in two different fields. The first one is the integral and cross-sectional treatment itself of what should be the object of an urban development policy, that is: adequate urban conditions by promoting basic urbanization levels for all dwellers through a good urban infrastructure for the economic development. The second challenge is to identify those elements interfering with urban conditions: the level and nature of the wealth that is produced within the municipality, the capabilities and conditions for the public financing of urban development, the municipal administrative capabilities, the conditions for a federal articulation, and the municipal government's capabilities for communicating with the citizens.

For this Report, the initial intention was to present a picture of all Brazilian municipalities from the perspective of their great diversity and heterogeneity. Next, items such as households adequacy, different ways of wealth production and appropriation, alternatives for financing urban development and infrastructure, and instruments for managing urban development within the municipality were mapped, including improvements and possibilities for a democratic and participative administration of new federal arrangements.

The Report started with the initiative of a group of stakeholders that carried out the project's general coordination. The group consisted of the National Front of Mayors (FNP), the Brazilian Association of Municipalities (ABM), the Ministry of the Cities, the state-owned bank Caixa Econômica Federal, the World Bank, the IDB, the Cities Alliance – besides the Regional Office for Latin American and the Caribbean of the UN's Human Settlements Program (UN-Habitat), which produces the State of the World's Cities Report for Latin America and the Caribbean.\* General coordinators conducted the Project development and took part in core discussions and decisions along the preparation process. Polis Institute was in charge of executive coordination, which involved a network of researchers and institutions that built on an agenda to put together capabilities and expertise on the subjects selected. One group coordinated the work of the technical team and consultants responsible for the

\* Initially, also the National Confederation of Municipalities (CNM) took part as proponent, but then in July 2009 they decided to keep away from the Project.

\*\* The full list of the technical team, consultants, participating institutions, specialists involved in workshops and the production of papers, date of the encounters and participants can be found in the project's fact sheet.

methodological and conceptual direction. Different institutions and organizations specialized in urban matters were involved along the process with the objective to supply conceptual and methodological subsidies for the core matters and contents.

In June 2009 a nation-wide workshop took place and put together specialists who discussed a proposal for classifying municipalities into categories so as to grasp their diversity and heterogeneity. In October and November 2009 workshops were held with the purpose of presenting, detailing and consolidating the report's methodology. In January and February 2010, theme workshops were held to select the indicators and deepen the analyses for each one of the axes. In March 2010 a debate on the Report was held at the World Urban Forum in Rio de Janeiro. In June of the same year was held the final workshop where these results were presented and discussed.

Many of the discussions that took place during the meetings were based on specific papers prepared by the relevant institutions' specialists. These works contributed with methodological data, as well as information for selecting and building the indicators for data treatment.\*\*

As a result of the discussions and the analyses of the preliminary indicators, a set of questions was prepared to serve as reference for furthering the works:

- ◆ What is the present situation of Brazilian municipalities regarding the conditions of the relevant households, different ways of wealth production and appropriation, alternatives for financing urban development and infrastructure, and instruments for managing urban development?
- ◆ Do municipalities with more dynamic economies have better households? Do those municipalities with less dynamic and more dependent on government transfers economies have poorer households?
- ◆ Which are the predominant economic activities that generate higher revenues for the relevant municipalities?
- ◆ What kind of local economy governance allows for better households? Do local productive arrangements and investment in innovation produce better conditions?
- ◆ Does the existence of participation and democratic management produce better households and a more equitable distribution of the urban quality?
- ◆ In low-income, transfer-dependent municipalities, can democratic management produce better results?
- ◆ Can the participation of such municipalities in collective federal arrangements produce better results?

Intersections and correlations were based on the set of questions above as a way of arriving at wider ideas on the decisive conditions of households in Brazilian municipalities. To answer to these questions, the works were structured along four main axes:

- ◆ Indicators of household conditions;
- ◆ Local economic development;
- ◆ Financing of urban development within the municipalities;
- ◆ Municipal management of urban development.

After analyzing the data available for each of the theme axes, those considered as better meeting such criteria were selected, such as time convergence, repeatability, use of official sources, nationwide coverage, and data available for all the municipalities. The incompatibility between the data supplied at state level determined that they could not be used.

The sources selected are relevant to the 1991 to 2008 period. Since these activities were conducted before the 2010 Census was made and released, the fact that most of the data available was from the 2000 Census was a major limitation, as there was no information on the changes occurred during the 2000-2010 period. Another problem was rendering the different official sources compatible with each other for the different axis. The resulting methodology included some statistical tools so as to facilitate the analyses and intersection of different databases.

The purpose of obtaining a data analysis methodology was its repeatability in future editions taking into account the perspectives of new data gathered from the 2010 Census which would enable the checking of hypothesis, deepening of analysis, and a more accurate measuring of the transformations occurred in the previous decade.

We sought to recognize the municipalities diversity and avoid any forms of ranking definitions. An effort was made to classify municipalities into categories taking into consideration a series of variables regarding the different trends in the Brazilian urbanization process as well as a set of reference works on the characterization and classification of Brazilian municipalities.

Two main analysis keys were employed for classifying Brazilian municipalities into categories: the municipality's territorial integration, and its position within the country's cities network. The municipalities classification methodology can be found in chapter 1. In the other chapters we have tried to identify relationships between those categories and household conditions, any existing urban policy management instruments, and the existing conditions for economic development and financing in those municipalities.

Chapter 2 builds up an indicator that we used throughout the report and which we consider as revealing the conditions of households nationwide. This indicator is based on the Census data and therefore eligible for analysis in different scales – from households nationwide, to the urban territory, the municipality, the State and the region – thus permitting the formulation of historical data series.

Then comparative charts were produced and multiple regression analysis techniques were applied on the groups so as to assess correlations between household conditions and the other dimensions approached in the Report: local economic dynamics (economic development's dynamics and nature); financing of urban development (revenue, investment capacity, and revenue's degree of autonomy); public administration (institutional management capabilities and democratic administration).

The Report is organized in six chapters. Chapter 1 features the subjects divided in three main parts. Part one presents Brazil's historical urbanization process. Part two gives systematic data on transformations in institutional and financing structures in urban development since the times of the BNH until the Ministry of the Cities. Part three presents the municipal categories that were used as reference for producing the Report analysis based on studies also used as reference.



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The final observations are presented in chapter 6. The picture depicted in the Report shows that in certain municipalities household conditions have been progressively improving since the '90s, in a process that seems to have gained momentum in the 2000-2010 period. Even so, fragilities persist: an incomplete urbanization patterns, and big regional differences. It points out at a significant increase in the availability of public funds for urban development and the improvement of municipal urban management capabilities, not necessarily in connection with the improvement of household conditions.

Throughout this Report, hypotheses more than conclusions are presented, which will hopefully contribute to build an agenda for research as well as a policy for the production of information on urban development in our country.

## CHAPTER 1

### URBAN NETWORK IN BRAZIL

The picture of Brazilian municipalities is highly diversified and varies not only with regard to the size of their territory, population, and relevant urban density, but also to the conditions of towns for facing urban development challenges. Since the first centuries, historical Brazilian urbanization processes contributed to an extremely heterogeneous occupation of the territory and an unequal distribution of the economic and social development throughout the country's regions, a situation that traversed different economic cycles as shown in this Report's first chapter.

Acknowledging such diversity, this Report sought to present the situation of Brazilian cities with regard to their urban development by organizing the information according to "city types" categories, taking into account not only the different population sizes – a factor that has been very present in the country's urban policies – but also their regional and urban hierarchy position. For this classification into categories we used as reference a set of past studies on the complexity and diversity the Brazilian urbanization process that propose ways of dividing the national territory so as to render the city network more legible.<sup>1</sup> Based on these studies' contributions, our Report sought to go ahead and check the availability of new reference data on Brazil's urban network and analyses on the country's regional diversity.

The process had many of the researchers who participated in previous studies and ended up by defining the methodological approach that guided the readings of each of the analytical axes in the report. The first step was to determine main analysis keys by defining groups of cities according to their present position in the cities network and their regional insertion. The main references were two works: Areas of Influence of Cities – Regic (IBGE, 2007),<sup>2</sup> and the Study of the Territorial Dimension for Planning (MPOG, 2008).<sup>3</sup>

Regic determined the levels of centrality for cities in the urban network based on the observation of the levels of concentration of management functions both in the public sphere (executive and judiciary) and the private sector (corporate headquarters), besides the availability of services and equipment. The Regic analysis reveal a complex country with different networks of cities throughout several economic regions consisting of centers with several social and territorial configurations, different degrees of regional polarization, strong or weak administrative command positions, different population sizes and sociability, diverse production bases, more or less efficient logistic systems, different degrees of integration with the domestic economy, and inserted differently in the socio-environmental contexts, among other ever-changing attributes.

**1** The studies that have preceded this Report and inspired its methodology were: "Trends and perspectives of Brazil's urban network" (Ipea-Nesur/Unicamp/IBGE1999); "New Brazil's economic geography: a regionalization proposal based on economic hubs and their areas of influence" (Cedeplar/UFMG, 2000); and "Typology of Brazilian cities" (Ministry of the Cities/Fase/UFPE, 2005).

**2** The study Areas of Influence of Cities (Regic) updates a series of studies on the Brazilian urban network and hierarchy that have been prepared by the Institute since the 1970s.

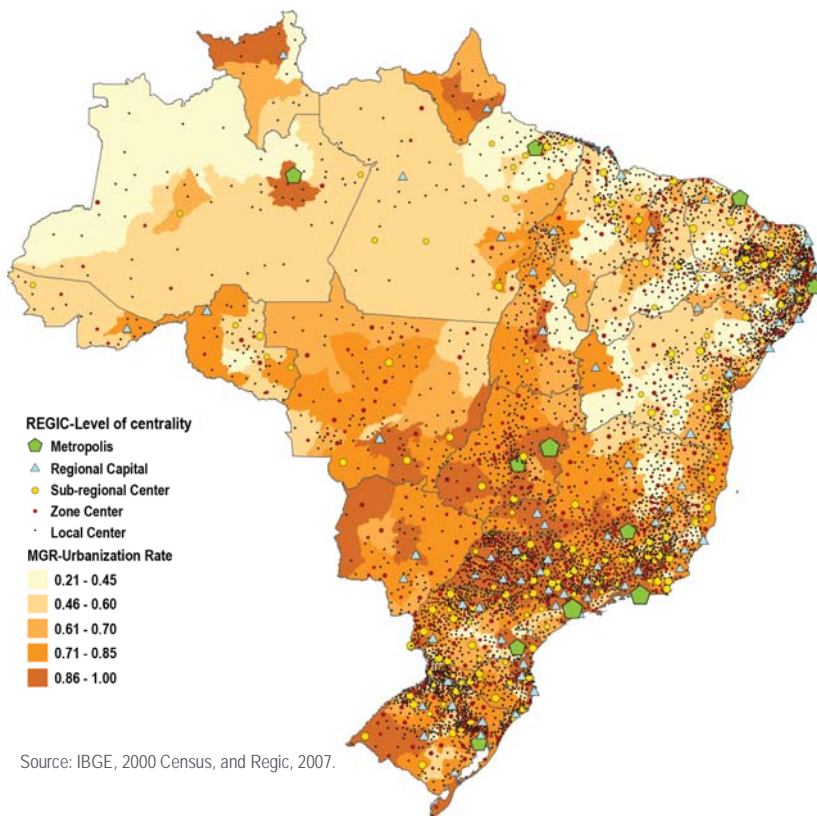
**3** The study Territorial Dimension for Planning contains a series of diagnoses on the present territorial situation and assesses opportunities and risks related to development. In this study, the identification of the country's big social and economic contrasts is the first step towards formulating strategic policies aiming at reducing these inequalities and promoting an even economic development.

Regic classifies cities into five levels: Metropolis, Regional Capitals, Sub-regional Centers, Zone Centers, Local Centers. Once the cities' centrality level was determined, the study defined each pole's areas of influence by analyzing a series of primary and secondary data.

For big urban concentrations Regic defined as units the Population Concentration Areas (ACP): big urban agglomerations featuring continuous occupation and characterized by population size and density, degree of urbanization, and the region's internal cohesion as shown by the population's displacements for work or study. ACPs do not correspond with the existing Metropolitan Regions, but result from the analysis of functional interconnections between municipalities. In all, were identified 41 ACPs consisting of 330 municipalities. The biggest of them is São Paulo with 47 municipalities and a total population above 19 million inhabitants.

### MAP 1

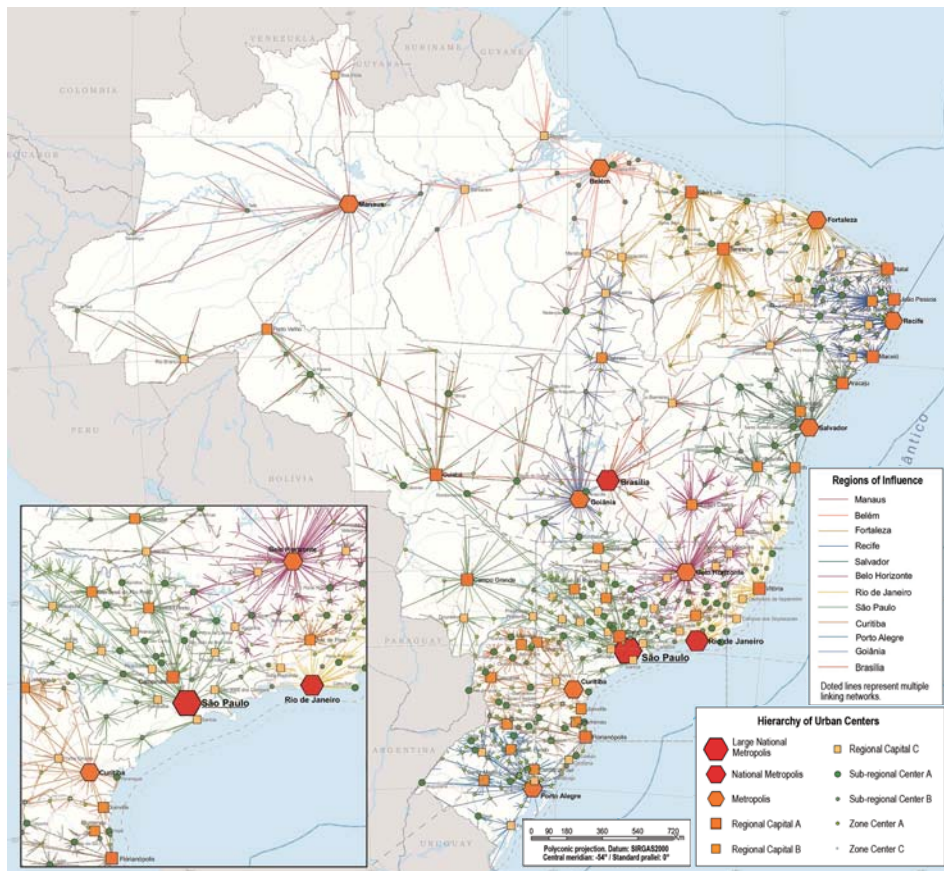
Urbanization rates and urban networks (2000)



Source: IBGE, 2000 Census, and Regic, 2007.

**MAP 2**

Brazil urban network – Regic (2007)



Source: Regic-IBGE 2007.

For this Report we started off the five levels of the urban hierarchy defined by Regic and redesigned the groups. The municipalities in the first level of the urban hierarchy (Metropolis) contained in ACPs were divided into two groups with population above 50,000 inhabitants (G1 – Big Urban Poles), and below 50,000 inhabitants (G1p – periphery of the big poles). Likewise, the municipalities in the second level of the urban hierarchy contained in ACPs (Regional Capitals and Metropolis) were divided into two groups with population above and below 50,000 inhabitants (G3 and G3p). The municipalities in the first two levels of the urban hierarchy (Metropolis and Regional Capitals) outside the ACPs were aggregated in a group (G5 – Big Isolated Cities). Municipalities in the intermediate levels of the urban network (Sub-regional Centers and Zone Centers) were aggregated in a group (G6), and the cities in the

lower level of the urban network (Local Centers) were put in a separate group (G7). This way we arrived at a seven-group configuration as follows:

**BIG URBAN POLES (G1)** – Cities in the first level of the urban hierarchy (Metropolis) contained in ACPs, with population above 50,000 inhabitants.

**PERIPHERY OF BIG POLES (G1p)** – Cities in the first level of the urban hierarchy contained in ACPs, with population below 50,000 inhabitants.

**REGIONAL URBAN POLES (G3)** – Cities in the second level of the urban hierarchy (Regional Capitals) contained in ACPs, with population above 50,000 inhabitants.

**PERIPHERY OF REGIONAL POLES (G3p)** – Cities in the second level of the urban hierarchy contained in ACPs, with population below 50,000 inhabitants.

**BIG ISOLATED CITIES (G5)** – Cities in the first two levels of the urban hierarchy not contained in ACPs.

**SUB-REGIONAL CENTERS (G6)** – Cities in the intermediate levels of the urban network (Sub-regional Centers and Zone Centers).

**LOCALITIES (G7)** – Cities in the lower level of the urban network (Local Centers).

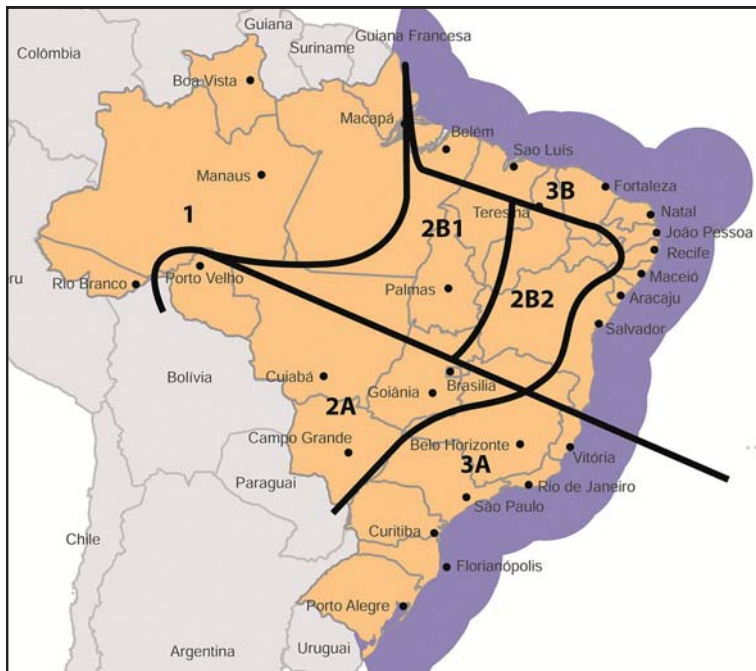
The MPOG study started by recognizing the historical and geographical inequalities and diversity throughout the national territory with the purpose of identifying big portions of territories to reflect regional-specific characteristics. The study draws lines that define such regional characteristics: a basic line dividing the country north to south, and three rings marking the boundaries of areas with different anthropization and demographic density patterns. Emerging from this division is the historic inequality between the country's Northern and Southern regions, and other territorial aspects: the Amazon Forest biome, a region with high levels of environmental preservation and low demographic density; the coast line where the most populated areas and most of the big cities can be found; the central region, the occupation of which has become more intense in recent years driven by the ever growing agricultural activity and the foundation of the Federal Capital there. The awareness of the peculiarities existing in the center-north region and in the northeastern semiarid ended up by defining a subdivision between this region and the territories of the agricultural expansion. This way, the MPOG study defined six divisions that sum up Brazil's territorial diversity (map 3): Amazon (1), Center-North (2B1), Northeastern Semiarid (2B2), North/Northeast Coastline (3B), Center-West (2A), and Southeast (3A).

While preparing this Report, the different characteristics of the South and the Southeast became more and more evident, which prompted us to divide this territory in two (South and Southeast), as can be seen in map 4 showing the seven territories, which together with the seven groups of cities according to their positions in the urban network served as analytical keys for this work.

The objective of dividing municipalities into groups and territories is not to produce rankings but to visualize the regional trends and groups of cities with similar characteristics, an important basis for formulating urban policies able to approach the country's different territorial realities.

### MAP 3

Territories of the National Development Strategy



Source: MPOG-CGEE, 2008.

## MAP 4

Territories proposed by the Report



**TABLE 1**

Distribution of Brazilian municipalities by groups and territories

Groups of cities	Amazon	Center-West	Center-North	NE Semi-arid	South	Southeast	N/NE Coastline	Grand Total
Big Urban Poles (G1)	4	12			18	62	23	119
Periphery of Big Poles (G1p)	1	5			8	33	11	58
Regional Urban Poles (G3)	2	2		8	19	42	17	90
Periphery of Regional Poles (G3p)				3	20	23	12	58
Big Isolated Cities I (G5)	4	5	5	6	8	12	2	42
Sub-regional Centers (G6)	18	96	62	142	168	177	62	725
Localities (G7)	148	459	350	991	947	1081	495	4471
<b>Grand Total</b>	<b>177</b>	<b>579</b>	<b>417</b>	<b>1150</b>	<b>1188</b>	<b>1430</b>	<b>622</b>	<b>5563</b>

Source: MPOG-CGEE, 2008.

## CHAPTER 2

### HOUSEHOLD CONDITIONS IN BRAZILIAN MUNICIPALITIES

In order to analyze the country's household conditions, a cross-sectional indicator was defined and based on the Census data, repeatable along time and available for all of Brazil's municipalities.<sup>4</sup> The data from the 1991 and 2000 Census were selected and grouped into four subjects: location, rooms; water and electricity supply; sewer and waste collection, as per the variables contained in the micro data, aggregated as shown in table 2. Every household censused was classified either adequate or inadequate for each one of the four subjects, and as having zero, one, two, three or four inadequacies. For the general analyses only those households having zero inadequacies were considered adequate on the assumption that these are minimum requirements and that any urban development policy is to guarantee adequate conditions for 100% of the households.

After processing the Census data, quantitative and comparative maps and analyses were prepared regarding the adequacy of the households; the urban and rural households of the municipalities were also analyzed. Estimations of the variables were conducted on the data of the National Household Sample Survey (PNAD-IBGE) for 2006 and 2008 to allow for hypothesis on the changes occurred during the 2000s, anticipating the results of the 2010 Census.

The situation at the beginning of the 90's was extremely precarious. In 1991 Brazil's scenario was the following: 27.5 million households with some kind of inadequacy, less than 23% of households totally adequate, and approximately half of the municipalities without a single household totally adequate.

In all, the 90's were not a "lost decade" in terms of household conditions, even if considering the big restrictions of access to federal funding in the first half of the decade. The efforts made by municipalities and states, and a moderate recovery in federal financing in the second half of the 90's resulted in improved household conditions, though in a very heterogeneous fashion throughout the country.

The number of adequate households practically doubled in 9 years and jumped from 8 million to 15 million. However, many of the new households during this decade were constructed with some kind of inadequacy: while 10 million new households were built in the period, the total number of adequate new households was 7 million.

The urban conditions picture in the 2000s remains worrisome. At that point, only 33% of Brazilian households were totally adequate; 30.5 million

4 The methodology for building the household adequacy indicator was originally developed in 1996 from data obtained by the Regional Household Sample Survey, which was coordinated by Neide Patarra and enhanced for the 1991 and 2000 Census by Aurílio Caiado, with the support of Nepo-Unicamp. See: Aurílio S.C. Caiado, "Metropolis, medium-sized cities and small municipalities of São Paulo: a comparative study on the quality of life and socio-spatial dynamics". In: Neide Patarra et al. (Orgs.). *Migrations, life conditions, and urban dynamics: São Paulo 1980-1993*. Campinas: Institute of Economics/Unicamp, 1997, v. 1, p. 115-152. The methodology was adjusted for the study *Urban Land and Regulation for Popular Housing*, prepared by the School of Architecture and Urbanism of the University of São Paulo and coordinated by Raquel Rolnik, with the support of Fapesp and the Lincoln Institute of Land Policy in 2009. For this Report, the data methodology and treatment were discussed and adapted in the workshops held with the group of specialists; these variables were discussed and adapted, and the data then processed by Nepo technical team.



**TABLE 2**

Adequacy criteria for each variable

	VARIABLE	CHARACTERISTIC
URBAN	water supply (water)	public utility reaching at least one room
	electric lighting (light)	yes
	sanitation (sewer)	public utility
	waste (waste)	directly collected by public service
	number of toilets (toilet)	higher than 0
	type of household (type)	private permanent
	household location (location)	outside the subnormal agglomerate
	dwellers per room (density)	lower than or equal to 2
RURAL	water supply	public utility reaching at least one room well or spring with internal piping
	electric lighting	yes
	sanitation (sewer)	public utility septic tank
	waste	directly or indirectly collected by public service burnt
	number of toilets	higher than 0
	type of household	private permanent
	household location	outside the subnormal agglomerate
	dwellers per room	lower than or equal to 2

Source: Own-prepared and based on IBGE 1991 and 2000 Census.  
Between parenthesis are the terms employed in this text.

households had some kind of inadequacy, and no municipalities had 100% of their households adequate. The municipality with better conditions had 87.2% totally adequate households.

Taking into consideration the groups of cities (G1 to G7), the worst situations appear more intensely in the Localities (G7). However, this happens to be a very heterogeneous group: the municipality with the highest percentage of adequate households in 2000 (87.19%) also belongs to the G7, and almost 10% of G7 municipalities have more than 60% adequate households.

**TABLE 3**

Household adequacy conditions in Brazil (1991 and 2000)

	1991	2000
Brazil total households	35,43,416	45,506,983
Total adequate households	8,058,718	15,015,826
Percentage of adequate households	22.74%	33.00%
Total municipalities with 0% adequate households	2,362	913
% of municipalities with 0% adequate households	52.61%	16.58%
Maximum % of adequate households in one municipality	72.00%	87.20%

Source: Own-prepared and based on IBGE 1991 and 2000 Census.

**TABLE 4**

Average household adequacy percentage per groups of cities (1991 and 2000)

PERIOD	Big Poles in urban areas (G1)	Periphery of Big Poles (G1p)	Urban Regional Poles (G3)	Periphery of Regional Poles (G3p)	Big Isolated Cities (G5)	Sub-regional Centers (G6)	Localities (G7)
1991	34.0%	21.6%	30.5%	21.0%	25.0%	17.8%	9.0%
2000	43.2%	24.3%	41.3%	30.7%	35.7%	32.1%	17.0%

Source: Own-prepared and based on IBGE 1991 and 2000 Census.

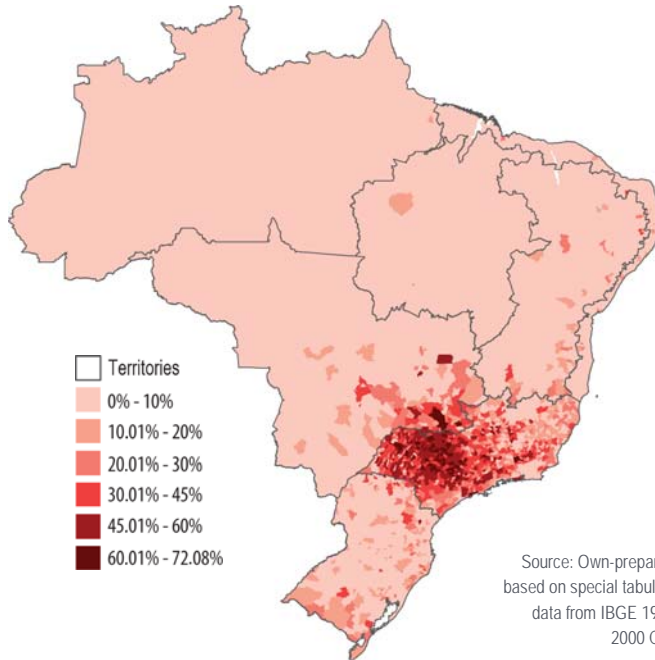
The best conditions appear in the Big Urban Poles (G1), the Regional Urban Poles (G3), and the Big Isolated Cities (G5). The conditions in the Regional Urban Poles (G3) are very similar to those in the Big Urban Poles (G1), but the Periphery of Regional Poles (G3p) have improved more than the Periphery of Big Poles (G1p), widening the gap between these groups of municipalities in that decade.

More than the size of the population or the position in the urban network, the variable that most likely affects the household conditions is the regional integration. Both in 1991 and in 2000 the best adequacy percentages are clearly concentrated in the Southeast and those Center-West municipalities closest to the Southeast (Southern Minas, the Minas Triangle, and Southern Goiás).

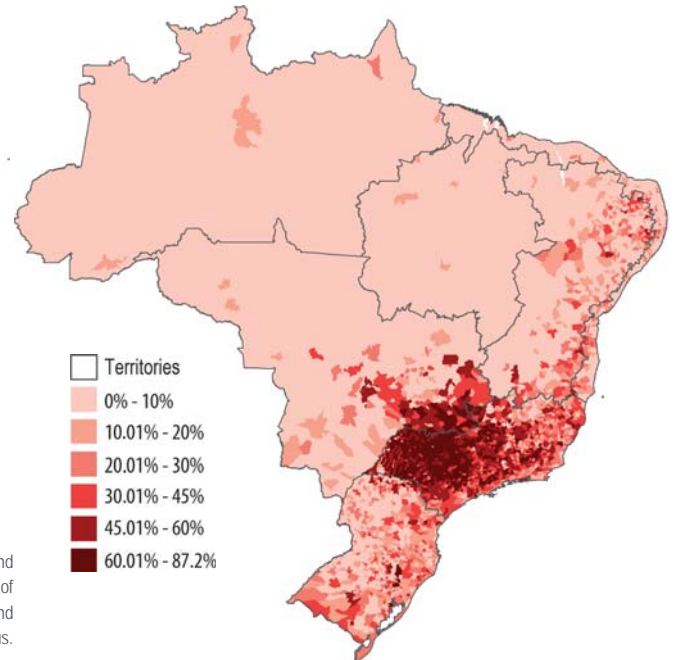
## MAPS 5 AND 6

Percentage of adequate households

1991



2000



Source: Own-prepared and based on special tabulation of data from IBGE 1991 and 2000 Census.

Southeast conditions are much higher than those in the rest of the country. Its adequacy average is almost twice as much that of Brazil's. If we disregard the Southeast, the average of adequate households in 2000 drops from 33% to 19%. Meanwhile, precarious conditions are present also in this region having only half of its households totally adequate in 2000.

In 2000, the Center-West municipalities closest to the Southeast showed important improvements in their adequacy conditions. At these two moments in time – and more specifically in 2000 – the Center-West appears as a divided territory, with Southern Goiás and Minas Triangle households in conditions similar to those in the Southeast, and very precarious conditions in the rest, similar to those in the Amazon territory.

Eighty-one percent of municipalities showed improvements in household conditions in the 90's, although such improvement was not significant in 55% of them, only reaching 20%. Only 0.3% of the municipalities worsened their conditions.

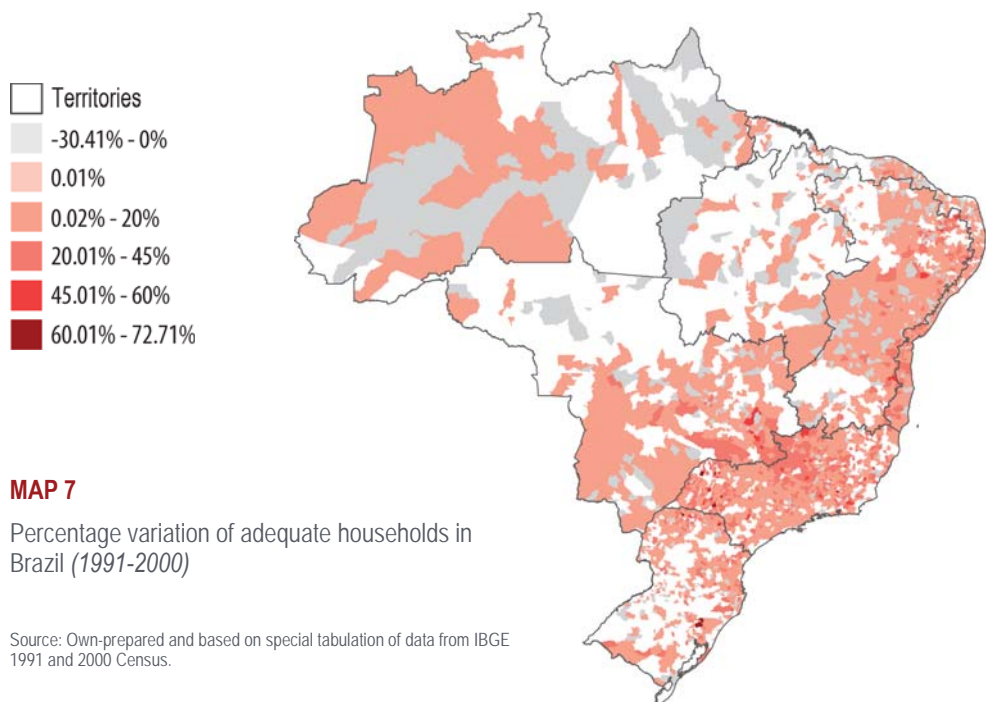
The greatest positive variations in the decade appeared where conditions were already better in 1991 – the Southeast – followed by the South and the Center-West. The territories with the worst conditions – Amazon,

**TABLE 5**

Municipal household adequacy per Territory (1991 and 2000)

PERIODS	Amazon	Northeastern Semiarid	North/Northeast	South-Southeast	South	South-Southeast	Center-North
1991	1.2%	3.3%	8.5%	40.4%	12.6%	19.9%	0.7%
2000	7.0%	12.9%	18.2%	51.6%	26.2%	27.3%	2.0%

Source: Own-prepared and based on special tabulation of data from IBGE 1991 and 2000 Census.



Center-North and the Semiárid – showed a significant number of municipalities with worsened conditions. This shows that during the 90's there is a still existing vicious cycle in which more precarious situations tend to remain stagnant, while more advanced situations show significant improvement. On the other hand, a dissemination of better conditions is happening based on an already well-structured Southeast, as shown in maps 5 to 9. This suggests a review of the territories focused by this Report based on the MPOG study: from the household conditions viewpoint, Southern Minas Gerais, the Minas Triangle and Southern Goiás have indicators more similar to those in the Southeast than to those in the Center-West.

The municipalities that in 1991 had a high percentage of households with only one inadequacy (that is, those households more likely to eliminate their inadequacies) were the region with better conditions in 2000 (map 10), and the 2000 data shows the increase in municipalities in such condition towards the South and Center-West territories, which suggests that this process probably continued during the following decade (map 11).

Estimations based on the results of the 2008 PNAD confirm such presumption and highlight the improvement in the South, which in 2000 had a great concentration of households with only one inadequacy, followed by the Center-West, also with great concentration of households in such condition. The Southeast continues to have the best percentages.

Most of the household conditions indicators show a country divided in two: the South about to have good adequacy conditions and a poorer North.

The regional mapping of variables such as “water supply” and “number of toilets” also shows a similar Brazil. In 2000, the territories in the North had 16.95% of adequate households with regard to water supply, while in the South such number reached 59.77%. With reference to toilet in the household, the numbers are 18.69% for the North, and 62.88% for the South.<sup>5</sup>

Also, the indicators revealed big differences between rural and urban areas throughout the country. In 1991 and 2000 the urban households adequacy situation was similar to Brazil as a whole. In 1991 rural regions had very precarious adequacy conditions, with only 3.04% of adequate households, which went up to 6.82% in 2000, even with adequacy criteria significantly lower than those adopted for urban regions.

In Brasil as a whole, in 1991 urban areas showed a concentration of better conditions in the territories of the Southeast and part of Center-West, followed by South and Northeastern Semiárid. In rural areas, the territory of the South is the one with the best conditions.

<sup>5</sup> We consider as North the territories of Amazonas, the Northeastern Semiárid, the Center-North, and the North/Northeast Coastline.

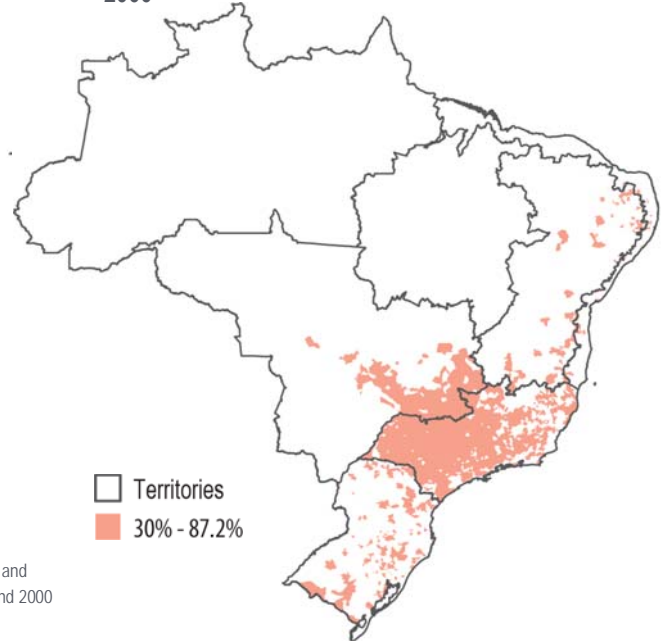
### MAPS 8 AND 9

Municipalities with adequate households higher than 30%

1991



2000

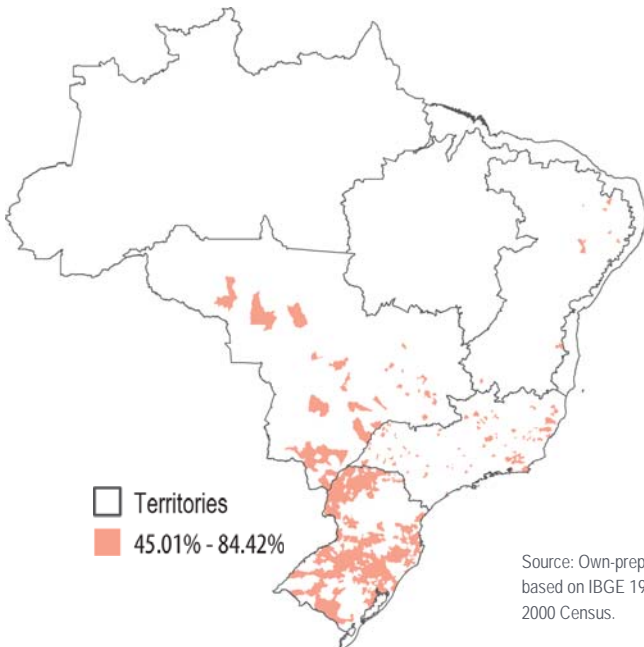


Source: Own-prepared and based on IBGE 1991 and 2000 Census.

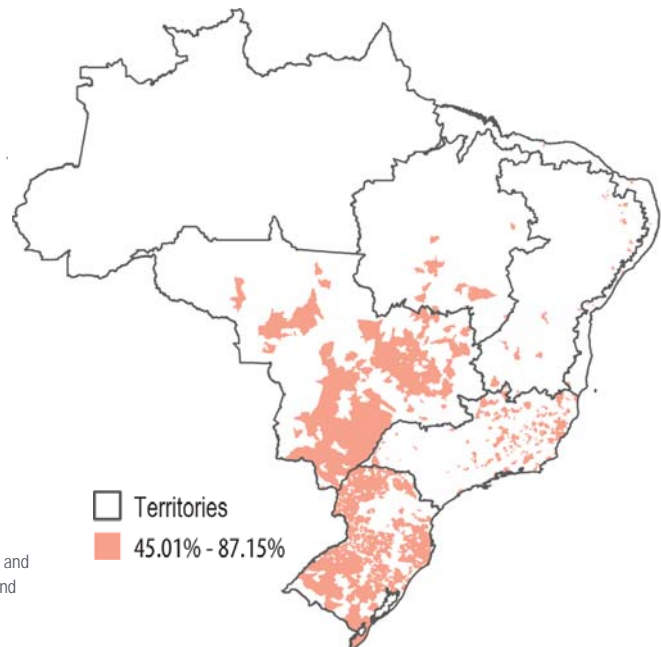
### MAPS 10 AND 11

Municipalities with over 45% of households with only one inadequacy

1991



2000

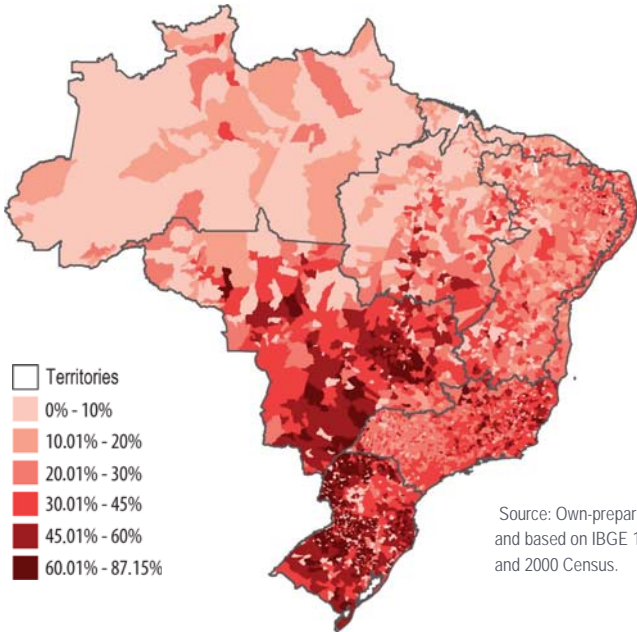


Source: Own-prepared and based on IBGE 1991 and 2000 Census.

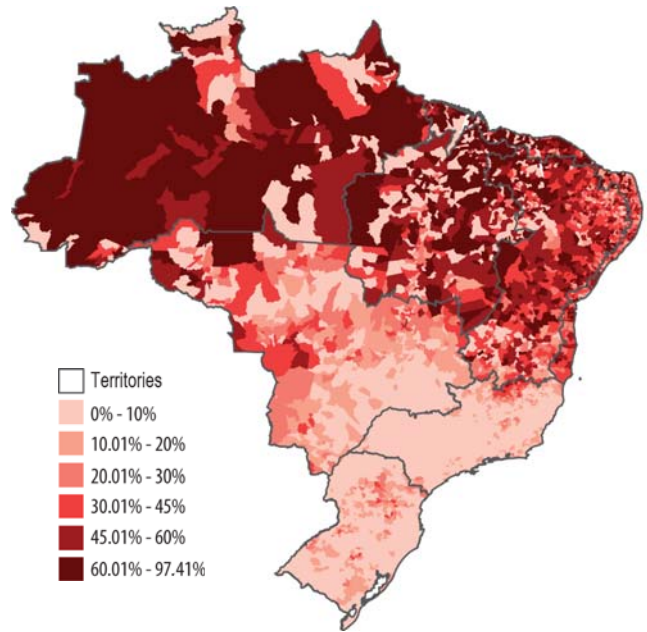
**MAPS 12 AND 13**

Percentage of households with one and three inadequacies per municipality (2000)

**WITH ONE INADEQUACY**



**WITH THREE INADEQUACIES**

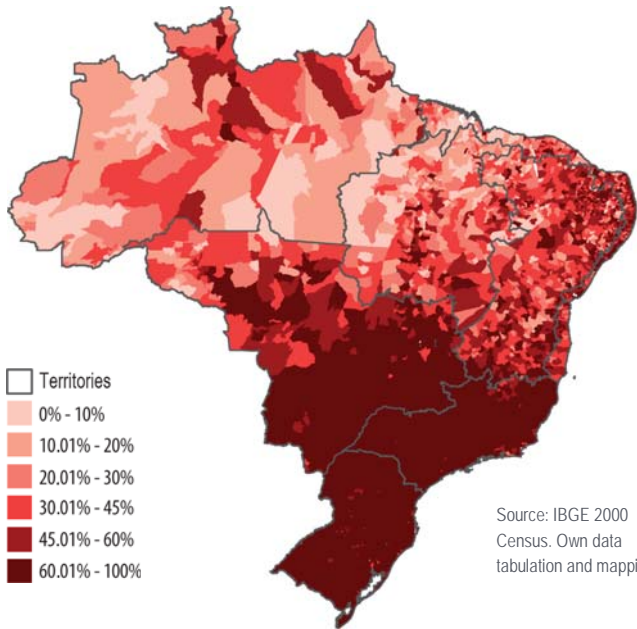


Source: Own-prepared and based on IBGE 1991 and 2000 Census.

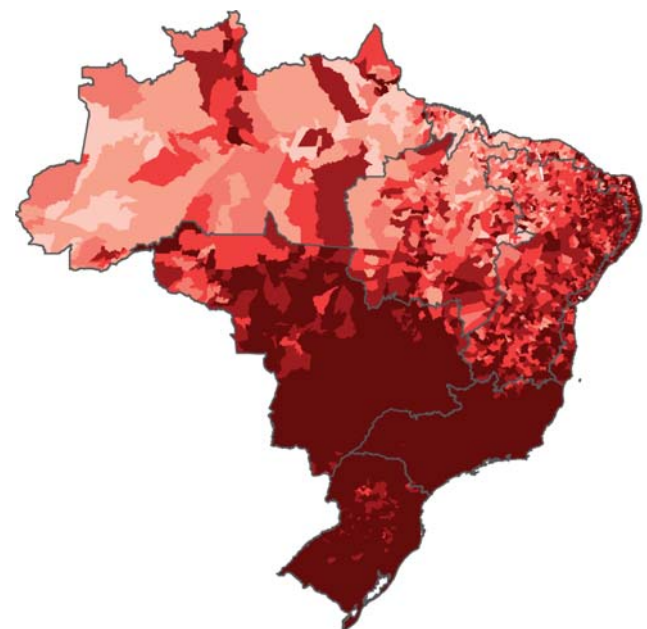
**MAPS 14 AND 15**

Percentual de domicílios adequados nos municípios (2000)

**WATER**



**TOILET**



Source: IBGE 2000 Census. Own data tabulation and mapping.

In the 1990s there was progress in the situation of rural areas, especially in the Southeast and South of the country, although rural areas also showed a higher percentage de municipalities in worsened situation (2% in urban; 6.5% in rural). The advancement was greater in urban areas and reproducing the country's regional inequalities, with greater advancement in the Southeast and the territories of Amazon, Center-West, Center-North and Northeastern Semiarid showing some municipalities going backwards regarding rural household conditions.

**TABLE 6**

Average household adequacy percentage in the Territories (2000 and 2008 estimation)

Year	Amazon	Northeastern Semiarid	North/Northeast Coastline	South-Suottheast	South	Center-West	Center-North
2000	7.0%	12.9%	18.2%	51.6%	26.2%	27.3%	2.0%
2008 estimation	13.0%	22.5%	27.9%	65.1%	49.6%	34.6%	7.6%

Source: Own-prepared and based on special estimation on the IBGE 2000 Census and IBGE PNAD 2008.

**TABLE 7**

Summary of urban and rural household adequacy conditions (1991 and 2000)

	1991			2000		
	Brazil	Urban	Rural	Brazil	Urban	Rural
Total households	35,435,416	28,024,597	7,410,819	45,506,983	37,920,167	7,586,816
Total adequate households	8,058,718	7,833,532	225,186	15,015,826	14,498,774	517,052
% adequate households	22.74%	27.95%	3.04%	33.00%	38.23%	6.82%
Total municipalities with 0% adequate households	2,362	2,906	2,832	1,420	1,875	2,213
% of municipalities with 0% adequate households	52.61	64.72	63.68	25.79	34.05	40.19
Maximum % of adequate households in the municipalities	72.08%	83.75%	74.19%	87.20%	94.86%	100.00%

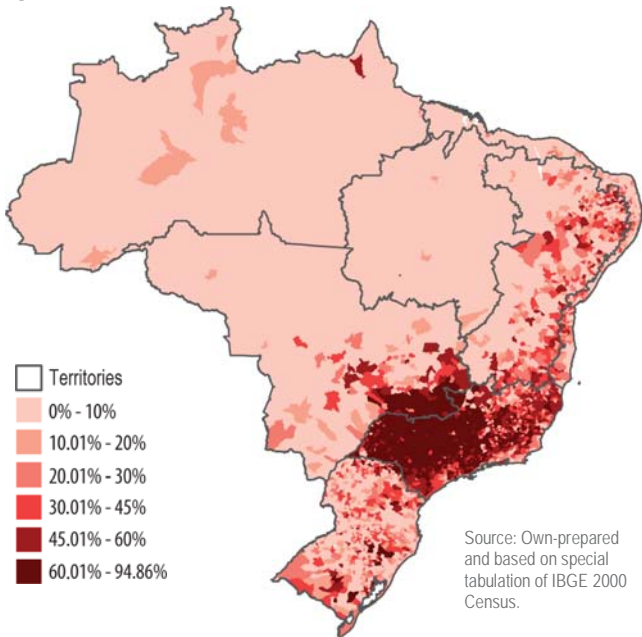
Source: Own-prepared and based on IBGE 1991 and 2000 Census.



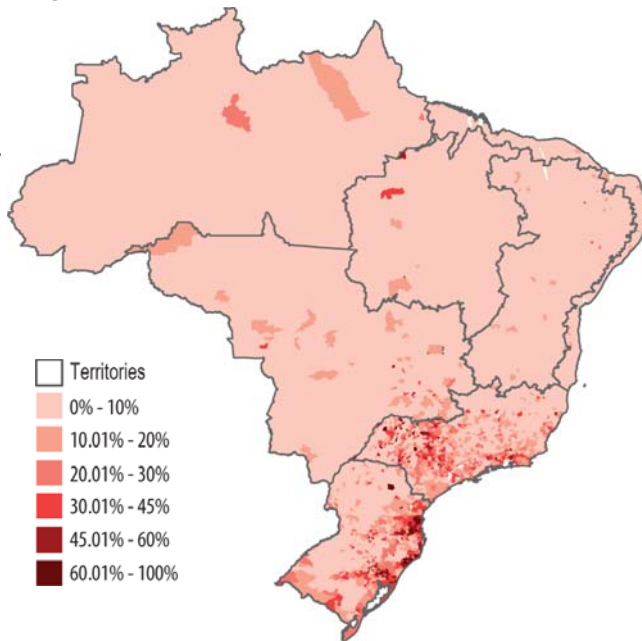
**MAPS 16 AND 17**

Percentage of adequate households per municipality (2000)

**URBAN**



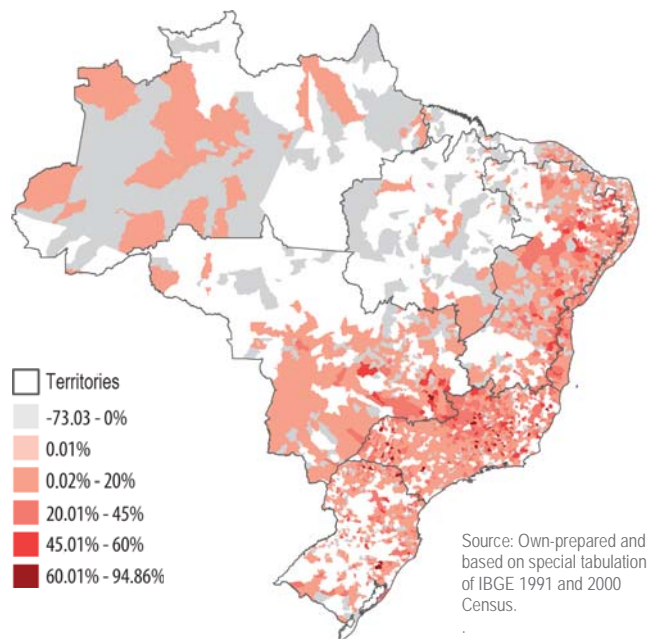
**RURAL**



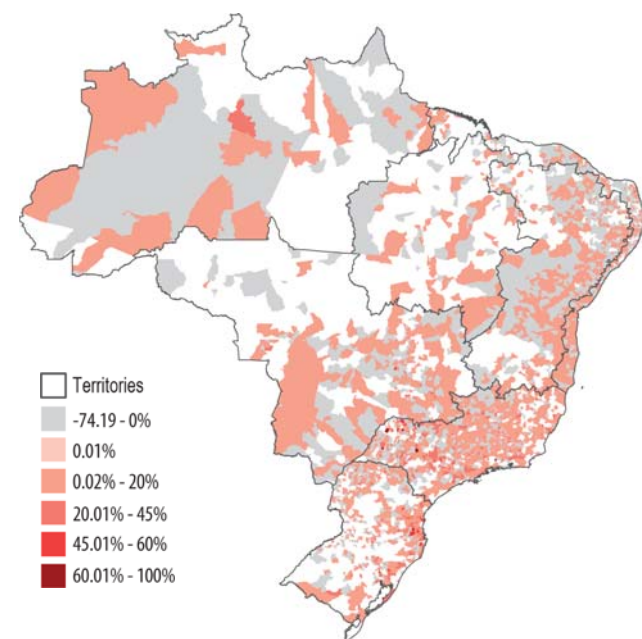
**MAPS 18 AND 19**

Variation of the percentage of adequate households (1991-2000)

**URBAN**



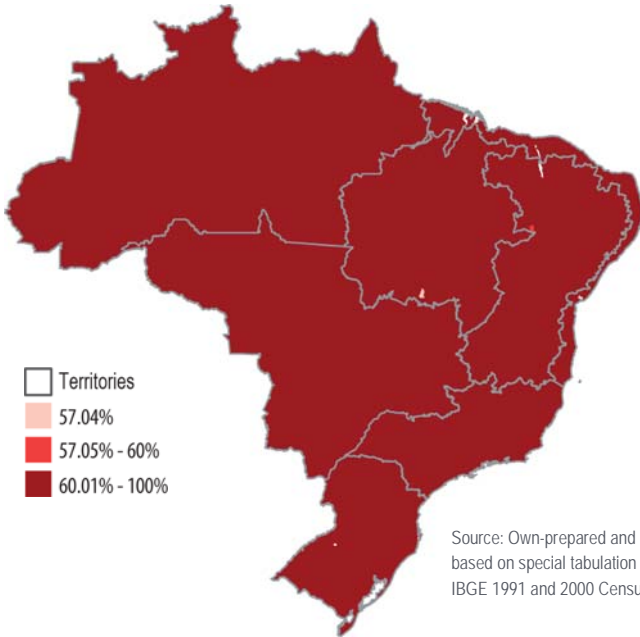
**RURAL**



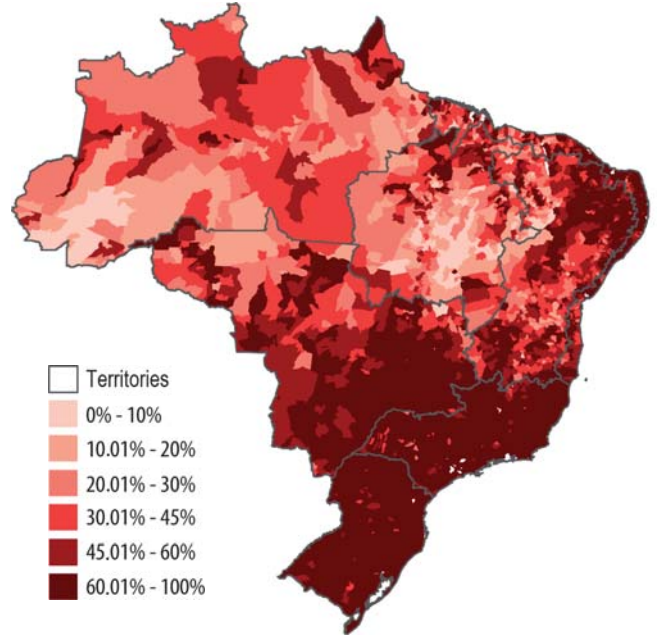
## MAPS 20 AND 21

Percentage of adequate households in the municipalities with regard to electric lighting (2000)

### URBAN

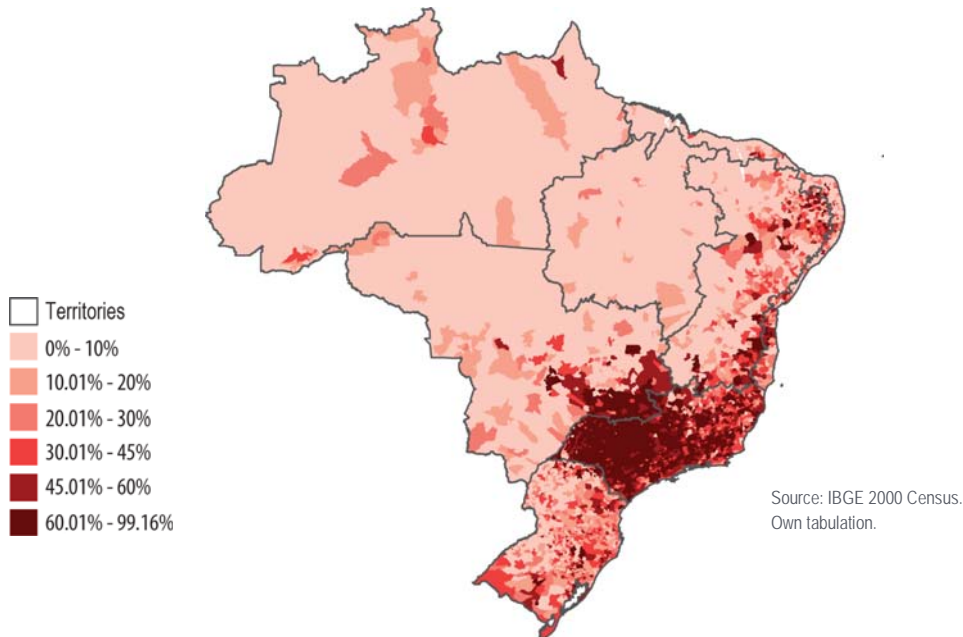


### RURAL



## MAP 22

Percentage of adequate households in the municipalities with regard to sewer network (2000)



**TABLE 8**

Variation of adequate households per variable (1991-2000)

		1991		2000		1991-2000
		Absolutes figures	%	Absolutes figures	%	Variation
Water	Rural	2,343,650	31.62	3,415,083	45.01	13,39
	Urban	18,206,377	77.87	4,171,716	83.68	5,81
	Brazil	20,550,027	66.74	7,586,799	77.23	10,50
Toilet	Rural	2,826,324	38.14	3,517,475	46.36	8,23
	Urban	19,876,295	85.01	33,909,320	89.42	4,42
	Brazil	22,702,619	73.73	37,426,795	82.24	8,52
Sewer	Rural	582,199	7.86	994,015	13.10	5.25
	Urban	9,752,771	41.71	21,120,533	55.70	13.99
	Brazil	10,334,970	33.56	22,114,548	48.60	15.03
Type of household	Rural	7,262,773	98.00	7,383,637	97.03	-0.97
	Urban	22,801,206	97.52	37,054,343	97.72	0.20
	Brazil	30,063,979	97.63	44,437,980	97.57	-0.06
Waste	Rural	2,258,567	30.48	4,584,519	60.43	29.95
	Urban	16,692,925	71.39	32,470,391	85.63	14.24
	Brazil	18,951,492	61.55	37,054,910	81.43	19.88
Population density	Rural	4,034,765	54.44	4,873,184	64.23	9.79
	Urban	14,824,063	63.40	27,515,977	72.56	9.16
	Brazil	18,858,828	61.24	32,389,161	71.17	9.93
Location	Rural	7,208,095	97.26	7,564,778	99.71	2.45
	Urban	21,867,823	93.52	36,286,056	95.69	2.17
	Brazil	29,075,918	94.42	43,850,834	96.36	1.94
Ligth	Rural	3,443,532	46.47	5,293,489	69.77	23.31
	Urban	22,218,477	95.02	37,037,798	97.67	2.65
	Brazil	25,662,009	83.34	42,331,287	93.02	9.68

Source: Own-prepared and based on special tabulation of data from IBGE 1991 and 2000 Census.

With regard to the “electric lighting” variable, in 2000 there were no municipalities with less than 57.04% of adequate urban households in the country, while almost a fifth of the municipalities had less than 45% of rural households with electric lighting.

The lack of sewer network is the variable with the highest degree of precariousness, both in rural and urban regions. Numbers are alarming: 51.40% of households (23.4 million) were inadequate regarding access to sewer network in 2000. This is also the variable most strongly affecting the regional and state differences: the map of adequate households with regard to

access to sewer network shows a picture very similar to the country's general urbanization conditions map (map 22). It is worth noting that the variable used for sewer network only deals with the availability of sewer network to the households, but not with the destination given to the resulting sewage as the 1991 and 2000 Census did not provide such information.

Some of the differences may be the result of state-level policies. At urban level the Southeastern states stand out: São Paulo, Minas Gerais, Espírito Santo, and Rio de Janeiro, with adequacy rates between 60 and 86%. In the Northeast, Pernambuco has the best conditions (adequacy of 43.20%).

The "dwellers per room" variable, although adequate in 71.17% of the country's households, reveals regional differences. Maps show higher household density in Amazon and the Center-North, data leading to the hypothesis of a regional cultural dimension of different ways of living. The absolute highest inadequacy rate appears in the Big Urban Poles (G1), with 30% inadequate households, which means 4.5 million inadequate households, probably due to the high prices of land in these municipalities forcing low-income families to live in high-density conditions.

In 2000, 81.43% of Brazilian households were adequate with regard to waste collection, and 93.02% of households were adequate with regard to electric lighting, which shows that these utilities are becoming universal. It is worth remembering that the variable "waste" only expresses the waste collection situation, but no information about the final destination of the waste is provided.

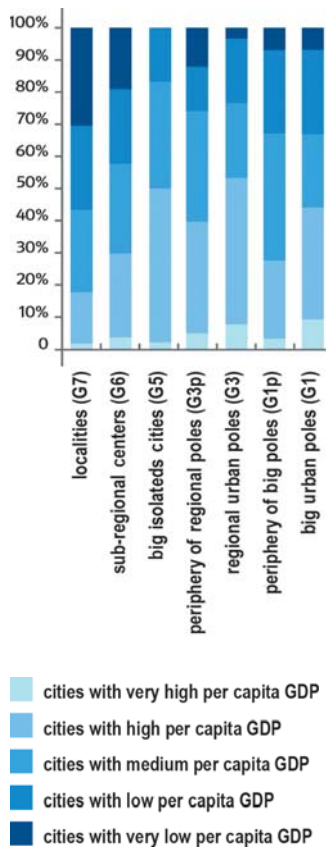
In summary, the map of the household conditions in Brazil's municipalities shows an improved situation during the 90's that is projected into the following decade – even though less than half the households presented adequate conditions in the year 2000. Regional inequalities remain, with the Southeast having better conditions than the rest of the country, and the region with better conditions expanding towards the Center-West. Urban households are in better conditions and advancing more strongly than rural ones. While some variables (electric lighting and waste collection) are getting universalized, others – especially access to sewer network – remain precarious.

## CHAPTER 3

### LOCAL ECONOMIC DYNAMICS

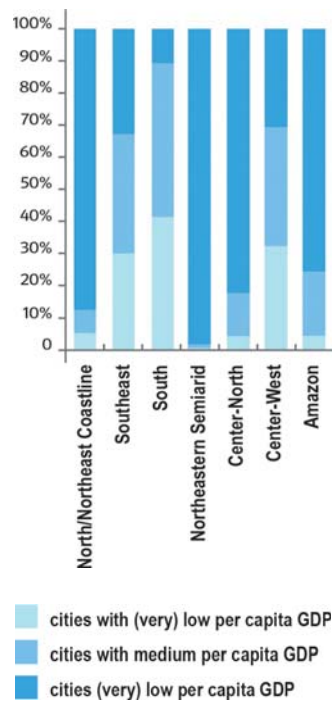
The potentials for locally promoting economic development are one of the main concerns of Brazilian cities. In this sense, the Report tried to answer, among other questions, whether cities with higher economic development and/or dynamism would also have better households, as well as to investigate the relationship between the type of development and the capacity to bring about better local conditions for funding urban development.

**CHART 1**  
Per capita GDP by city categories



Source: IBGE. 2002 Local GDP.  
Own preparation.

**CHART 2**  
Per capita GDP by Territories



Source: IBGE. 2002 Local GDP.  
Own preparation.

The municipal per capita GDP was adopted as a proxy indicator of the level of development. Even with a few imperfections, this indicator allows inserting the territorial-demographic dimension in the analysis and generates hypothesis regarding distribution aspects associated to the local economic development process.

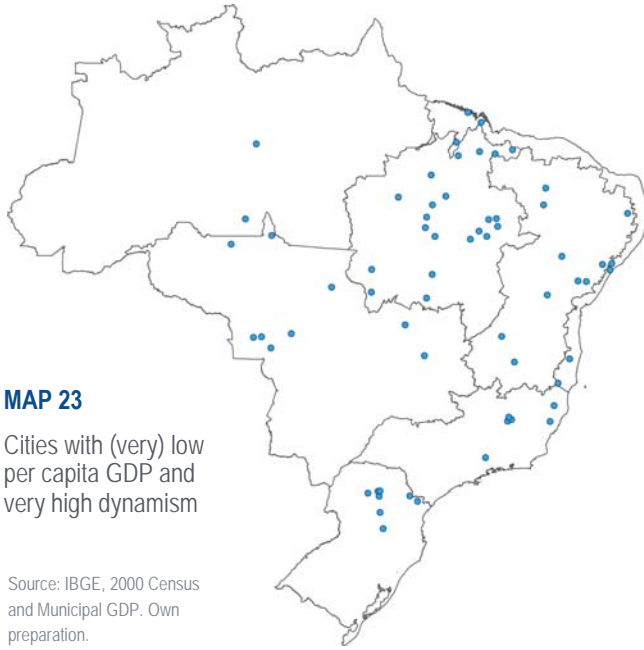
We classified Brazil's municipalities according to the per capita GDP and the dynamism of the per capita GDP. Five levels were defined for both variables: very low, low, medium, high and very high. Not all the municipalities were included, but we identified municipal behavioral patterns away from average situations in four categories of cities: municipalities with (very) high per capita GDP, and (very) high dynamism (map 23); municipalities with very high per capita GDP, and low or (very) low dynamism (map 24); municipalities with very low per capita GDP, and low or (very) low dynamism (map 25); municipalities with (very) low per capita GDP, and very high dynamism (map 26).<sup>6</sup> These groups enable us to relate economic dynamics with other variables and may serve as starting points for formulating urban development policies, the reason why they were privileged in the analyses in this section of the Report.

The per capita GDP is clearly related to the city's position in the urban hierarchy. The percentage of cities with high per capita GDP is higher in the Big Urban Poles (G1), Regional Urban Poles (G3), and Big Isolated Cities (G5). Periphery of Big Poles (G1p), Periphery of Regional Poles (G3p), and Localities (G7) have lower per capita GDP. As graphic 1 shows, all the groups are heterogeneous.

Analyzing the per capita GDP also reveals regional differences. The incidence of low per capita GDP municipalities is higher in territories such as Amazon, Center-North, Northeastern Semiarid, and North/Northeast Coastline, and significantly lower in territories such as Center-West, South, and Southeast; the opposite situation can be observed with high per capita GDP municipalities.

Both the group of cities with (very) high per capita GDP, and (very) high dynamism in terms of growth of the per capita GDP, and the cities with very high per capita GDP, and low or (very) low dynamism are mostly concentrated in the Southeast, Center-West, and South. On the other hand, the cities with very low per capita GDP, and low or (very) low dynamism in terms of growth of the per capita GDP, and the cities with (very) low per capita GDP, and very high dynamism are mostly concentrated in the Amazon and Northeastern Semiarid.

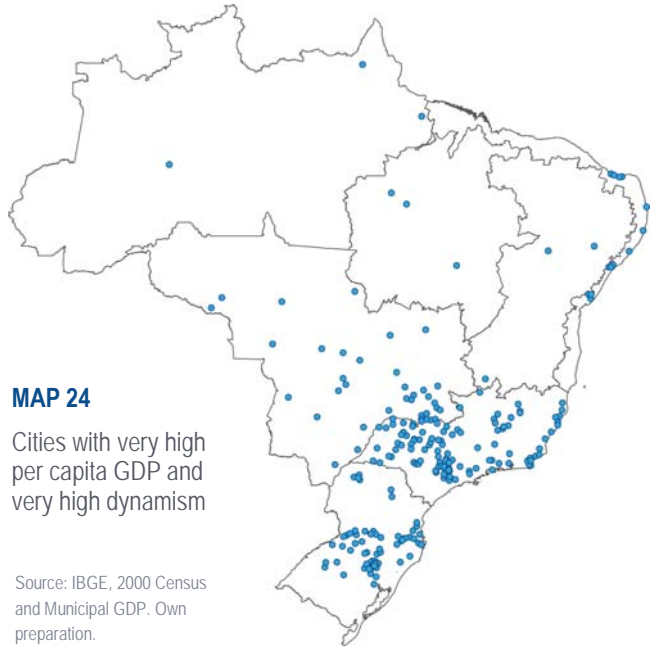
<sup>6</sup> When in this Report we mention municipalities with "(very) high" per capita GDP or economic dynamism we refer to the aggregation of municipalities in the "high" and "very high" levels. Accordingly, when we employ the term "(very) low" we refer to the aggregation of levels "low" and "very low".



**MAP 23**

Cities with (very) low per capita GDP and very high dynamism

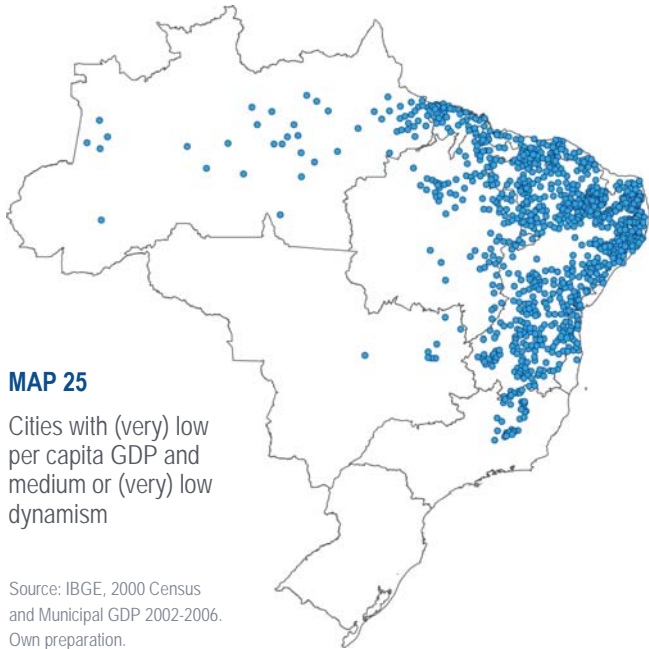
Source: IBGE, 2000 Census and Municipal GDP. Own preparation.



**MAP 24**

Cities with very high per capita GDP and very high dynamism

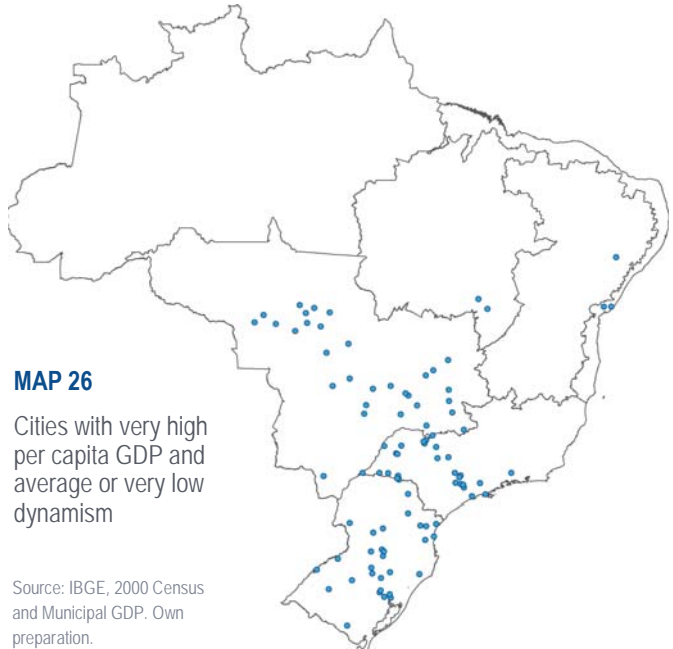
Source: IBGE, 2000 Census and Municipal GDP. Own preparation.



**MAP 25**

Cities with (very) low per capita GDP and medium or (very) low dynamism

Source: IBGE, 2000 Census and Municipal GDP 2002-2006. Own preparation.



**MAP 26**

Cities with very high per capita GDP and average or very low dynamism

Source: IBGE, 2000 Census and Municipal GDP. Own preparation.

7 Regarding the specialization pattern, we used indicators consecrated in the relevant literature, such as the location quotient. The location quotient of sector “x” in city “y” expresses the participation of sector “x” in the economy of city “y”, on one side, against the participation of the same sector “x” in an economy of reference, such as Brazil’s. According to this criterion, a location quotient above 1 means specialization, and a quotient below 1 indicates low representation in the local economy. As main source of data for this analysis we used the RAIS-CAGED survey.

8 Being an indicator that expresses the weight of a given sector with regard to a local economy, the location quotient has some fragility both in very small and very complex local economies, as it exaggerates the degree of specialization in smaller local economies and tends to underestimate the specialization local metropolitan economies. For this reason, we have supplemented the location quotient of specialization with an indicator measuring concentration against a given variable (i.e., number of enterprises), as the participation of sector “x” of city “y” in sector “x” totals in the bigger economy of reference (i.e., Brazil’s). This variable may also be considered as proxy for the bargaining power of a given supply chain in the local territory (that is, highly concentrated sectors in certain cities would tend to have stronger bargaining power over local stakeholders).

9 Clélio C. Diniz, “Polygonal development in Brazil: nor decentralization nor continuous polarization”. *Nova Economia* magazine, v. 3, n.1 (Sep. 1993), p. 35-64.

We chose to carry out a detailed reading of the territorial dynamics of some specific local supply chains with emphasis on the analysis of industrial sectors (ex.: durable goods, non-durable goods, intermediate goods) and the so-called product-service that in one way or another boost local economies. The so-called dynamic (or basic) sectors export their production (to other cities in the country or abroad). Typically, these are sectors such as the production support services (like financial, logistic, consultancy, etc.) or durable goods (machines and equipment, transportation material, etc.). The so-called non-dynamic (or non basic) industries, such as food, beverages, personal services do not export but only supply locally. The dynamics of agriculture production in the municipalities was also separately summarized.

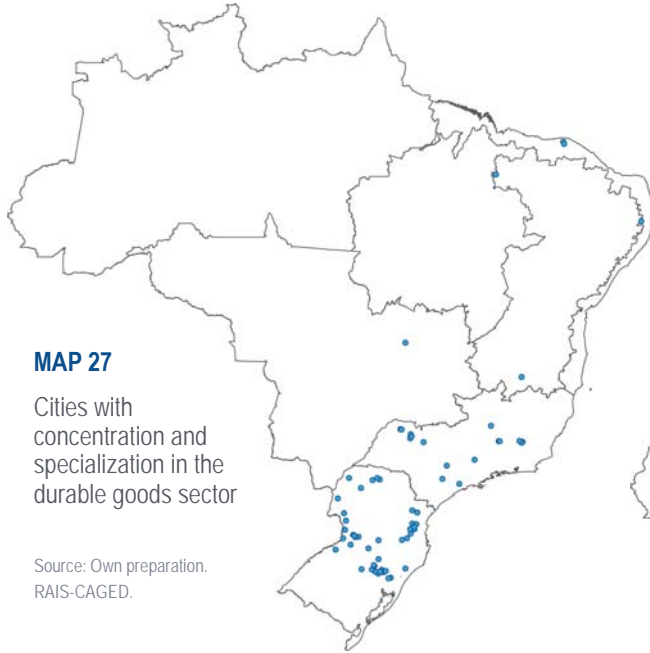
Two general indicators were adopted herein: (1) Specialization as per the number of enterprises<sup>7</sup>; (2) Concentration as per the number of enterprises.<sup>8</sup> These indicators were measured with the use of tertiles against the degree of specialization and concentration of enterprises and the characteristics of the city to define concentration levels as high, medium, or low.

Those industries associated with the “new cutting-edge urban economy” (durable goods, and services such as financial, logistic, consulting and other related to production) continue to be concentrated in a small number of cities in the South and Southeast (map 27), only to reinforce hypotheses referring to the limits of the territorial decentralization and the so-called “concentrated decentralization” of Brazil’s economic dynamism.<sup>9</sup>

Those cities specialized and concentrated in the intermediate goods industry are mainly located in the Amazon, Center-North, and Center-West (map 28). These are supplying raw materials or supplies to end-users (mining, chemicals, paper, pulp, oil, etc.). The cities specialized and concentrated in non-durable goods (food, beverages, personal services, etc., that is, non exportable services) follow the population dynamics: they settle in big cities and closer to the coastline (map 29).

By comparing cities with (very) low and high per capita GDP we identified a relationship between wealth and economic concentration in economically dynamic sectors (as measured against specialization and participation of enterprises in the durable goods industry in the total number of enterprises of this sector in Brazil’s economy). In cities with higher per capita GDP there is an increase in the percentage of urban centers showing a high participation rate and location quotient in the durable goods industry. So, there is a territorial relation among the so-called economies of agglomeration (presence of clusters, local productive arrangements, concentration of





**MAP 27**

Cities with concentration and specialization in the durable goods sector

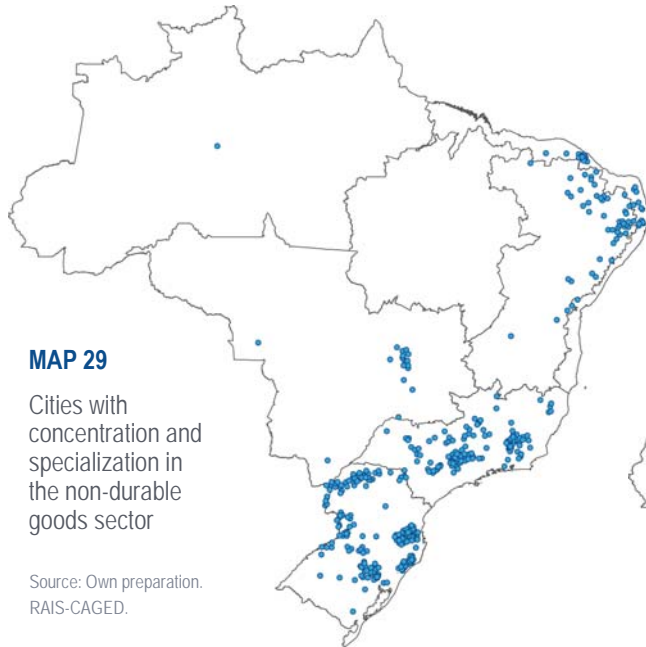
Source: Own preparation. RAIS-CAGED.



**MAP 28**

Cities with concentration and specialization in the intermediate goods sector

Source: Own preparation. RAIS-CAGED.



**MAP 29**

Cities with concentration and specialization in the non-durable goods sector

Source: Own preparation. RAIS-CAGED.



**MAP 30**

Cities with concentration and specialization in the productive service sector

Source: Own preparation. RAIS-CAGED.

enterprises in the same or related industries, presence of qualified labor, etc.) and the wealth produced in a given city. Cities with less dense supply chains tend to show a lower per capita GDP.

Generally speaking, the evolution of salaries per employee does not follow the growth of the per capita GDP in the 2002-2006 period. In cities with very high dynamism in terms of per capita GDP growth in the 2002-2006 period, the growth of salaries per employee does not follow the growth of the per capita GDP. This is valid for both cities with very low and very high per capita GDP. On the other hand, in medium or (very) low growth cities (that is, with dynamism equal or lower than Brazil's average in the same period), the salary growth is able to better follow the dynamism of per capita GDP as there is nothing to distribute, particularly in cities with very high per capita GDP, and to a lesser degree, in cities with very low per capita GDP.

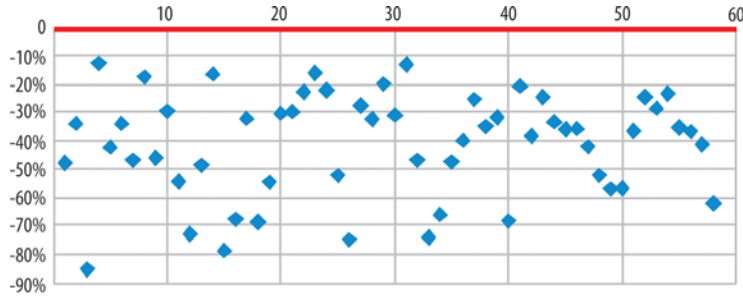
This hypothesis calls for more detailed research on the nature of the relations between the dynamics of local economies and the formal labor market. At first sight the results show a relative inertia of salary levels in formal labor markets against the variations in per capita GDP: in dynamic urban economies, the salaries per employee is left behind, while in local economies with stagnant or low per capita GDP growth, the salaries per employee are able to better keep up (particularly in richer cities).

This trend is only reversed in specialized and concentrated cities in more dynamic industries (particularly in the durable goods and production service sectors), where the labor factor is allowed to share in the benefits of the per capita GDP growth. Both in dynamic cities with (very) high per capita GDP and in those with low per capita GDP, the growth of the salaries per employee did not follow the dynamism of the per capita GDP, suggesting that relevant gains were transferred outside the city.

We analyzed the possible effects of a growing GDP on the capacity to promote better conditions for urbanization investments within the municipalities. Notwithstanding a growing GDP shows a positive trend in relation to the growth in revenue, there is also a great dispersion. Not all the municipalities with high GDP dynamism proved capable of using such dynamism to significantly increase their revenue in the same proportion. This refers to other two elements with a strong presence in this Report and that will be further approached in this summary: the imbalance between local needs and capacity for funding urban development and a persistent dependence of municipalities on discretionary transfers from the states and the Federal Government, which are highly affected by mediations of political

### CHART 3

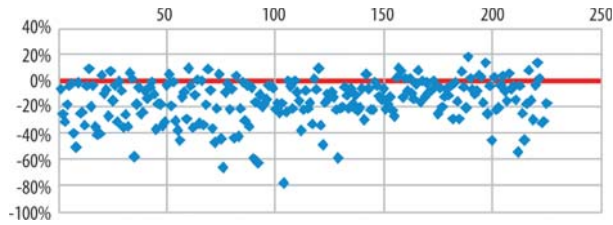
Variation of salaries per employee X Variation of per capita GDP in (very) low per capita GDP and much more dynamic cities (2002-2006)



Source: RAIS-CAGED (Salaries per employee) and IBGE (GDP).

### CHART 4

Variation of salaries per employee X Variation of per capita GDP in (very) high per capita GDP and very dynamic cities (2002-2006)

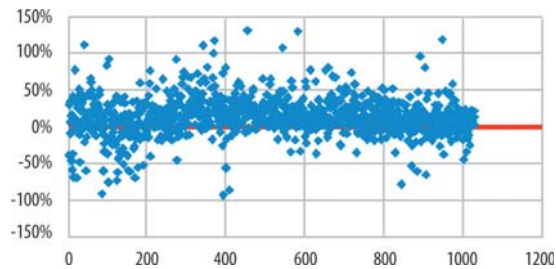


Source: RAIS-CAGED (Salaries per employee) and IBGE (GDP).

Own preparation.

### CHART 5

Variation of salaries per employee X Variation of Per capita GDP in very low per capita GDP and medium and (very) low dynamic cities (2002-2006)

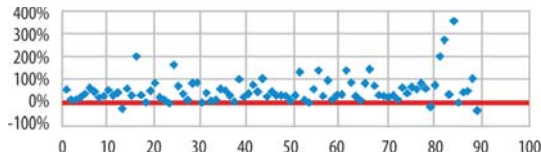


Source: RAIS-CAGED (Salaries per employee) and IBGE (GDP).

Own preparation.

**CHART 6**

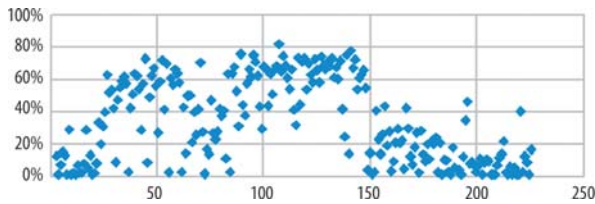
Variation of salaries per employee X Variation of per capita GDP in very high per capita GDP and medium and (very) low dynamism cities (2002-2006)



Source: RAIS-CAGED (Salaries per employee) and IBGE (GDP). Own preparation.

**CHART 8**

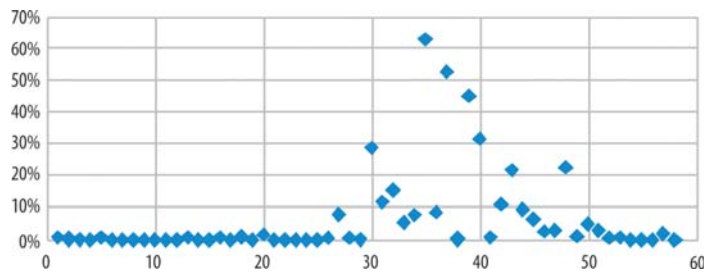
Percentage of household adequacy in (very) high per capita GDP and very dynamic cities



Source: IBGE 2000 Census. Own preparation.

**CHART 10**

Percentage of household adequacy in (very) low per capita GDP and very dynamic cities

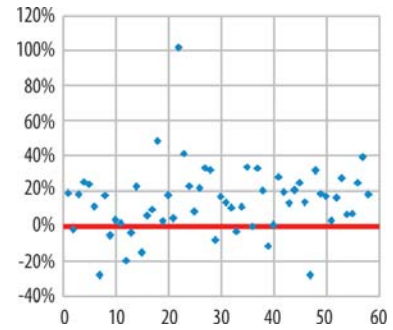


Source: IBGE 2000 Census. Own preparation.

**CHART 7**

Cities specialized and concentrated in the durable goods sector

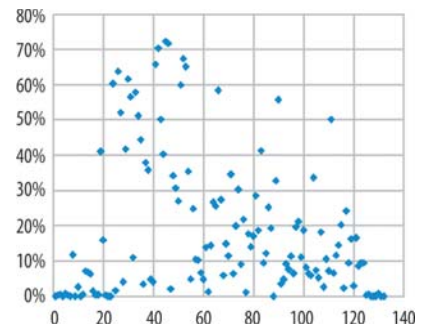
Variation (Sal./emp.)/(GDP/cap.) – 2002-2006



Source: RAIS-CAGED (Salaries per employee) and IBGE (GDP). Own preparation.

**CHART 9**

Cities specialized and concentrated in intermediate goods



Source: IBGE 2000 Census. Own preparation.

nature. On the other hand, even high revenue municipalities, such as the cities that collect oil royalties, do not always have better households.

Therefore, there is an “income effect” over household conditions, that is, as the per capita GDP grows, the number of totally adequate households also grows. This situation relates to the sector policy structured since the 60’s by the Brazilian Government. For housing, the model was based on funding private production and the offer of bank loans to state-owned companies, and for sanitation, the funding was transferred to state companies. In both policies, the system depended on the return over investment as paid by the end beneficiaries. This way, the system greatly expanded in higher income regions where the return over investment was sure. This model was not capable of propitiating adequate conditions for the majority of the population whose income was not able to position them as “consumers” of housing and infrastructure.

At the same time, the State regulated the expansion of cities by means of zoning laws and urban plans and delegating to private developers the mission to produce urban land, including infrastructure and public spaces, which was only achieved for the middle and high classes; for the rest of the population only a precarious way of inclusion in the territory was left.

In this Report, the analysis of the economic development dynamics shows a complex scenario. The resuming of Brazil’s economic growth in recent years triggered outbreaks of dynamism and showed cities with high per capita GDP growth rates. Notwithstanding, the reading of the data suggests that such dynamism has not reduced inequalities in Brazil, and that there are very few situations in which there are gains for workers, even in a favorable economic scenario.

## CHAPTER 4

### FINANCING THE URBAN DEVELOPMENT IN MUNICIPALITIES

The conditions for financing urban development existing in Brazilian municipalities are also approached in this Report. We used a municipal finances data base (Finbra) produced by the National Treasury for years 2002 through to 2008, with four variables that aim at comparing the municipal capacity of investing in urbanization: (1) municipal per capita revenues; (2) percentage of tax revenues over budgetary revenues; (3) percentage of investment over budgetary expenditures; and (4) percentage of urban expenditures over budgetary expenditures.<sup>10</sup> Data were grouped in two periods: 2002-2004 and 2005-2008, corresponding to two different Mayors' terms of office. The data of each period were added up, and the average figures of each period were used to determine the evolution of the variables.<sup>11</sup>

In Brazil, municipal budgetary revenues consist of tax revenues,<sup>12</sup> transfer revenues,<sup>13</sup> and other revenues.<sup>14</sup> In 2008 the budgetary revenues of Brazilian municipalities consisted of an average 16.34% tax revenues, 68.21% transfer revenues (including mandatory and discretionary transfers from both state and federal governments), and 15.45% other revenues.

In general, analyzing the distribution of the per capita budgetary revenues of Brazilian municipalities in the 2002-2004 and 2005-2008 periods we can see that, although a positive evolution between these two periods has occurred, in most municipalities the per capita budgetary revenues are very low (average of R\$ 946 in the first period and R\$ 1,530 in the second), not sufficient for facing the investment needs in municipal urbanization.

The most significant presence of higher per capita revenue municipalities occurs in groups with higher incidence of smaller population municipalities: Localities (G7), Periphery of Big Poles (G1p), and Periphery of Regional Centers (G3p). This is highly impacted by the so-called "denominator factor", that is, the fact that municipalities with small population and some factors for generating significant revenues (i.e., transfer of municipal participation funds, the presence of a big industry, such a steel mill, or a petrochemical complex) may show better results.

Municipal revenues are greatly impacted by the municipalities' regional integration. Territories such as South, Southeast and Center-West show a greater number of municipalities with high per capita budgetary revenue, though in general there are few Brazilian municipalities in such condition. The opposite situation occurs with Territories such as the Northeastern

**10** The population data used herein are the IBGE estimations for the relevant periods.

**11** Data referring to years 2002 through to 2008 were used taking into account the 4,298 municipalities that had submitted data in all the years of the period, a condition required for comparison.

**12** Tax revenues correspond to local governments' own revenues that are directly related to eminently urban economic dynamics, particularly to taxes such as IPTU and ITBI, which are taxes on the value of urban real estate, plus the ISS. These are the most significant tax sources for municipal governments.

**13** The transfer revenues – revenues transferred from other governmental spheres – consist of statutory transfers (revenues transferred by the Federal Government to states and municipalities in compliance with constitutional provisions), legal transfers (those included in specific laws), and discretionary transfers (non statutory ones).

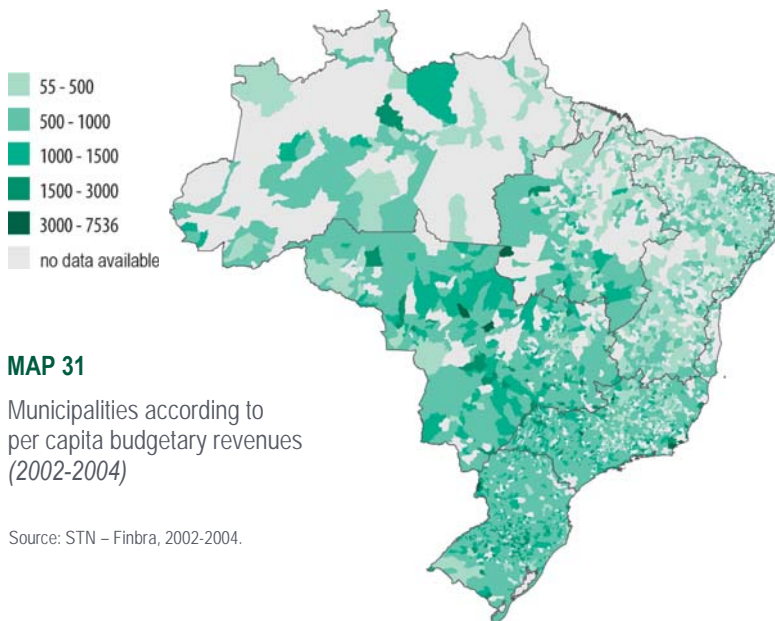
**14** Included in "other revenues" are contributions of equity, agricultural, industrial, and service nature; transfers from private institutions; active debt revenues, fines and delinquent interests; indemnifications and refunds, as well as current revenues and capital revenues (credit operations, alienation of property, amortization of loans, capital transfers from private institutions, and other capital revenues).

Semi-arid, North/Northeast Coastline, and Amazon, which show the highest percentage of municipalities with very low per capita revenue. There are no significant modifications in the two periods under analysis.

An analysis of the percentage of tax revenues over budgetary revenues may contribute to measure the municipality's degree of budgetary "independence" and the degree of dependence on discretionary transfers from other entities. In general, municipal own revenues are very low – in average 6.5% of total budgetary revenues.

Main municipal taxes are of urban nature: the Real Estate Tax (IPTU), and the Service Tax (ISS). In general, only bigger urban poles are really able to collect the IPTU, as it directly depends on the level of urbanization and it requires a more sophisticated institutional organization to make collection feasible. Some small tourism-oriented municipalities are the exception to the rule. Only the 128 municipalities with population above 200,000 inhabitants (2.3% of Brazil's municipalities) are able to surpass the national average in terms of tax revenues. In the aggregate, the tax collection of the country's most populated municipalities – São Paulo and Rio de Janeiro – reaches 40% of Brazil's total municipal tax revenues.

The higher percentages of tax revenues over budgetary revenues, in both periods, are concentrated in Big Urban Poles (G1), Regional Urban Poles (G3), and Big Isolated Cities (G5).



**MAP 31**

Municipalities according to per capita budgetary revenues (2002-2004)

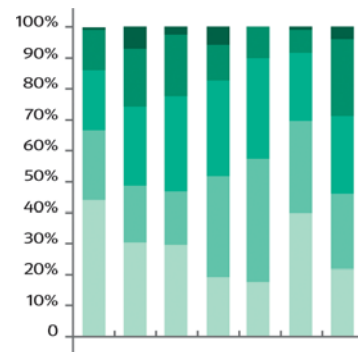
Source: STN – Finbra, 2002-2004.

**CHARTS 11 AND 12**

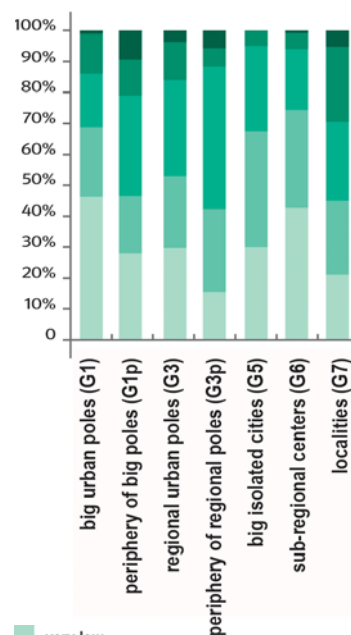
Distribution of municipalities according to per capita budgetary revenues by category, by groups

(2002-2004 and 2005-2008)

**2002-2004**



**2005-2008**



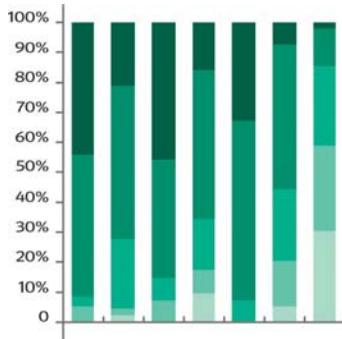
very low  
low  
medium  
high  
very high

Source: STN – Finbra, 2002-2008.

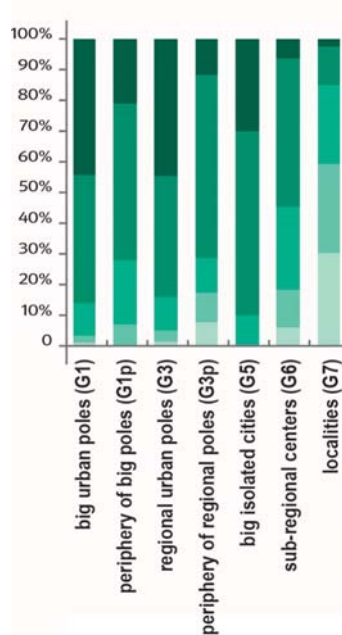
### CHARTS 13 AND 14

Distribution of municipalities according to percentage of tax revenues over budgetary revenues by categories, by groups (2002-2004 and 2005-2008)

#### 2002-2004



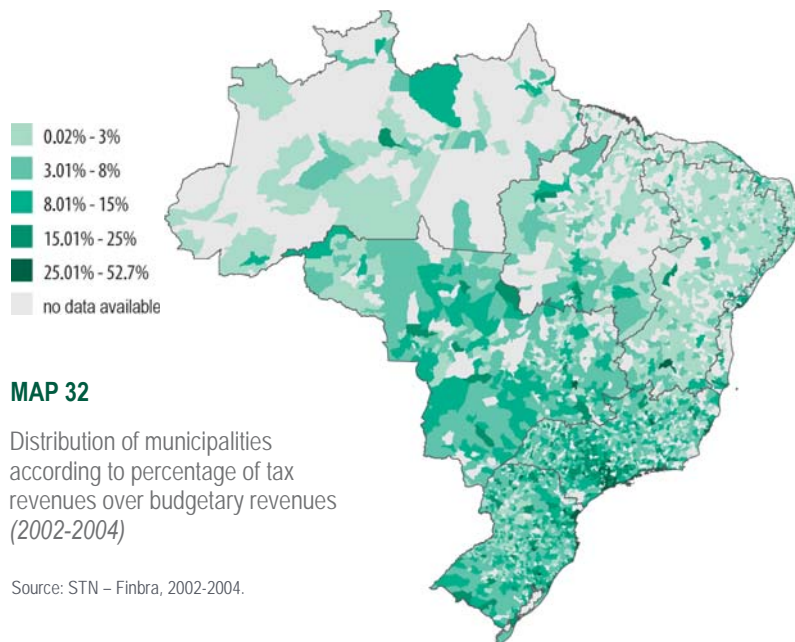
#### 2005-2008



Source: STN - Finbra, 2002-2008.

Municipalities in the Southeast and South show higher percentages of own revenues. The Center-West shows a small participation in the 2002-2004 period (1.73%) that slightly increases in the 2005-2008 period (1.94%). There are also exceptional situations, especially in tourism-oriented municipalities of the Southeast, which are able to reach very high percentages of tax revenues over budgetary revenues as they collect ISS and IPTU also from non-dwellers. The opposite is the Territories of the Northeastern Semiárid, North/Northeast Coastline, Center-North, and Amazon, which highly depend on transfers.

We also explored the relation between locally produced wealth (per capita GDP) and municipal budgetary revenues. A positive relation would indicate that the greater the local capacity to produce wealth, the greater the capacity to increase its budgetary revenues. In fact, the relation between these two indicators shows a positive association. Meanwhile, the relation also shows great dispersion and indicates the existence of other factors affecting such association. The three municipalities with the highest per capita GDP and per capita budgetary revenues are those municipalities collecting oil royalties. In these cases, the household adequacy conditions vary: of the three cases, one had 62% adequate households, and less than 10% for the other two.



MAP 32

Distribution of municipalities according to percentage of tax revenues over budgetary revenues (2002-2004)

Source: STN - Finbra, 2002-2004.



We associated the per capita GDP to the per capita tax revenues to verify to what extent an increase in locally produced wealth brings forth greater autonomy in obtaining funding and face the urbanization challenges. The cross-section of these two indicators did not show any relation. In this case, the points outside the curve are tourism-oriented municipalities, predominantly as a second home within the State of São Paulo. In spite of their higher autonomy and revenue generation capacity, these municipalities' urban conditions are in general low and disperse, with household adequacy varying between 8 and 39% in 2000.

As said, the vast majority of Brazil's municipalities have no inherent capacity to invest in urban development. So, a common characteristic of most municipalities is a high dependence on transfers of funds from other governmental spheres – transfers that need to be analyzed.

We focused our analysis on funds transferred by the federal government. The survey was conducted on a data base referring to a sample consisting of 745 municipalities<sup>15</sup> for which CAIXA provided data regarding transfers from the OGU (General Budget of the Union) and funding from the two periods analyzed in the report, which correspond to two different municipal administrations (2001-2004 and 2005-2008).

The data reveals a very significant increase in OGU funds transferred to municipalities for urban development: in 2001-2004 and 2005-2008 the increase in budgetary transfers from the federal government to the municipalities was 751%. There was a general increase in funding for all the areas of investment related to urban development. Indicators clearly show that areas such as housing and sanitation areas were prioritized, as these areas accounted for 65% of total transfers in the first period, and 91% in the second; transfers for sanitation were increased from 11% to 48%.

While in the first period the per capita amounts were very similar for all groups of cities, with a slightly higher amount for the Localities (G7), in the second period more funds are directed to Big Urban Poles (G1), Regional Urban Poles (G3), and Big Isolated Cities (G5), which reflects the political option to prioritize investments in bigger cities.

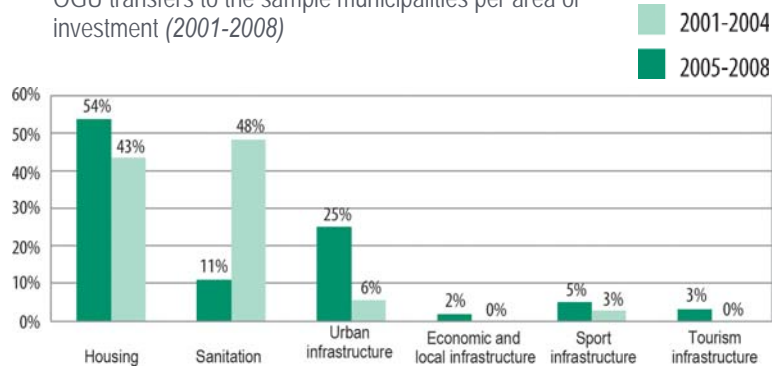
The regional distribution of funds did not change significantly between these two periods, with the biggest percentages going to the Southeast, followed by the North/Northeast Coastline, and the Center-West.

The cross-analysis of the transfers from the OGU and the percentages of adequate households in the municipalities did not reveal a clear pattern, which means that this was not decisive for defining the municipalities that receive funding.

<sup>15</sup> The preparation of the sample tried to ensure the representation of cities throughout Brazil's regions regardless of size and location. All the cities in the highest levels of Regic and with more than 50,000 inhabitants were included, as well as at least one city of each metropolitan region with less than 20,000 inhabitants. The cities in the second level of Regic followed the same selection logic. For the intermediate and lower levels of the network, we based our criteria on the numerical proportionality regarding the entirety of Brazil's municipalities. This way we determined that 10% of cities in the intermediate levels, and 5% of localities were selected for the sample to ensure a territorial representation proportional to the distribution of municipalities throughout the Territories. Initially, the report would base on this sample also taking into consideration the possibility of a survey. Later on, a decision to use permanent databases that are repeatable and universal was adopted.

### CHART 15

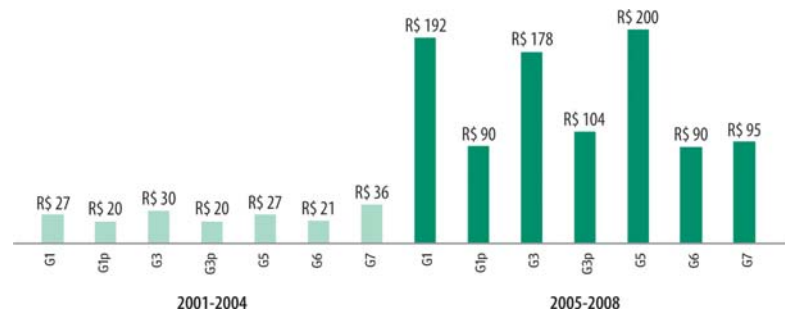
OGU transfers to the sample municipalities per area of investment (2001-2008)



Source: Caixa Econômica Federal – 2001 to 2008.

### CHART 16

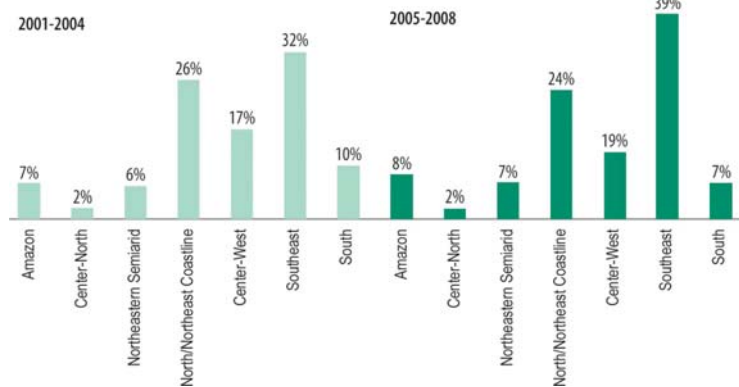
Average per capita OGU transfers per groups of cities for sample municipalities



Source: Caixa Econômica Federal – 2001 to 2008.

### CHART 17

Percent distribution of OGU per territories for sample municipalities



Source: Caixa Econômica Federal – 2001 to 2008.

The loans given by CAIXA that tap on the FGTS funds and feed the “Pró-moradia” and “Pré-saneamento” credit lines were also analyzed.

Between the 2001-2004 and 2005-2008 periods the increase in total funds made available through those two lines was 110.6%. Loans taken through the Pró-moradia increased by 417.1%, while the Pró-saneamento line only showed a 29.8% increase. In the first period the loans were basically for sanitation, while in the second the proportion between housing and sanitation was better balanced. In the 2001-2004 period budgetary transfers were a little above three times higher than the loans; for the second period the ratio is 12 times, a significant increase of non-repayable funds.

In the two periods under analysis, most of the loans were taken by state companies and governments, with a clear increase of 427.8% in loans to municipal borrowers. The lowest amount was loaned to private entities with an increase of 20.41% between the two periods.

In the same trend of OGU transfers from the federal government, state borrowers also directed most of the funds to Big Urban Poles (G1), with Regional Urban Poles (G3) a far second, and Big Isolated Cities (G5). The Big Urban Poles (G1) jumped from 42.7% of the expenditures in 2001-2004 to 60.9% in 2005-2008.

Even though such expenditures continue to be concentrated on groups with the biggest cities and great regional polarization capacity, the territorial distribution came out better balanced. In the first period 66% of funds went to the North/Northeast Coastline; in the second period that territory had 20%, with the rest distributed among Amazon, Center-West, and South.

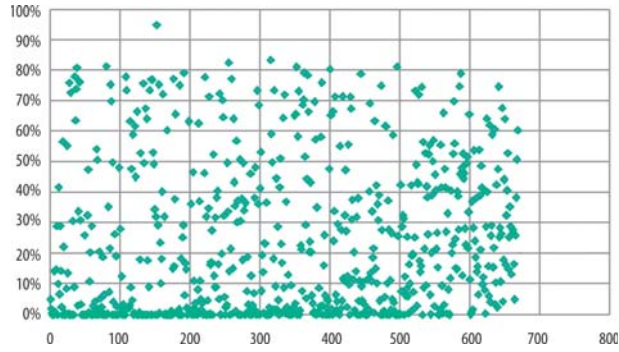
Between 2001 and 2004 expenditures to municipal borrowers were mainly in the Big Urban Poles (G1), Regional Urban Poles (G3), and Big Isolated Cities (G5).

Sub-regional Centers (G6) and Localities (G7), having low indebtedness capacity, did not receive any funds in the period. Between 2005 and 2008 with an increase of 2,000% in the total amount received, big cities continued to benefit, but the Periphery of Big Poles (G1p), Periphery of Regional Poles (G3p), and Sub-regional Centers (G6) started to get some funds. Localities (G7) were left without any funding.

The significant increase in loans was not accompanied by a better distribution of funds among the territories. Between 2001 and 2004 the disbursements were very concentrated on the Southeast, with a small participation of the Center-West. Between 2005 and 2008, the disbursements

### CHART 18

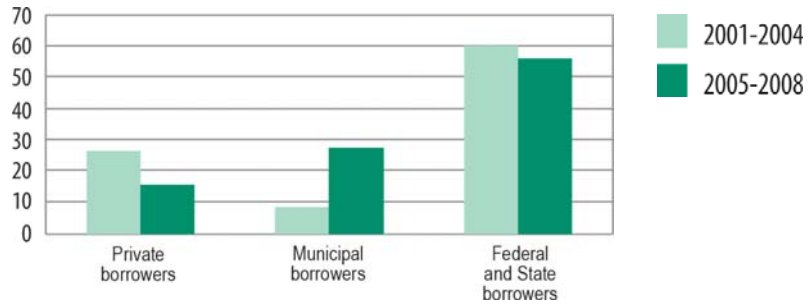
Dispersion between the total per capita transfers and household adequacy percentages for sample municipalities



Source: Caixa Econômica Federal – 2001 to 2008; IBGE 2000 Census.

### CHART 19

Participation of private, municipal, and state borrowers in total funding from Pró-moradia and Pró-saneamento (2001-2004 and 2005-2008)

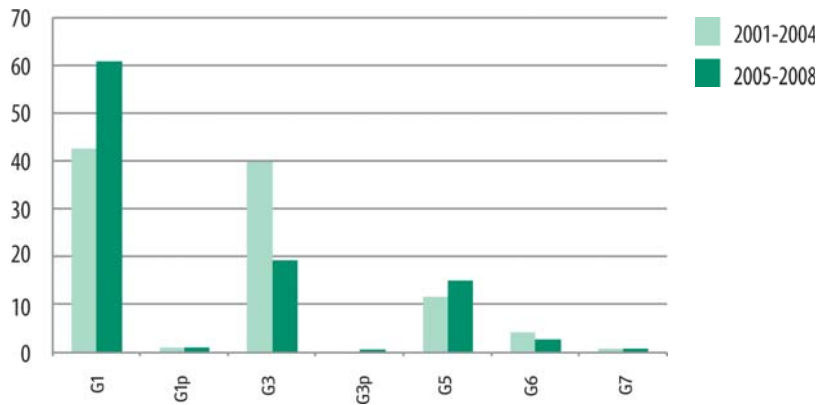


Source: Caixa Econômica Federal – 2001 to 2008.

continued to be concentrated in that Territory, but slightly diluted towards the other Territories that start to gain access to a small part of the total funding. After the Southeast, the most significant portion was directed to the North/Northeast Coastline.

### CHART 20

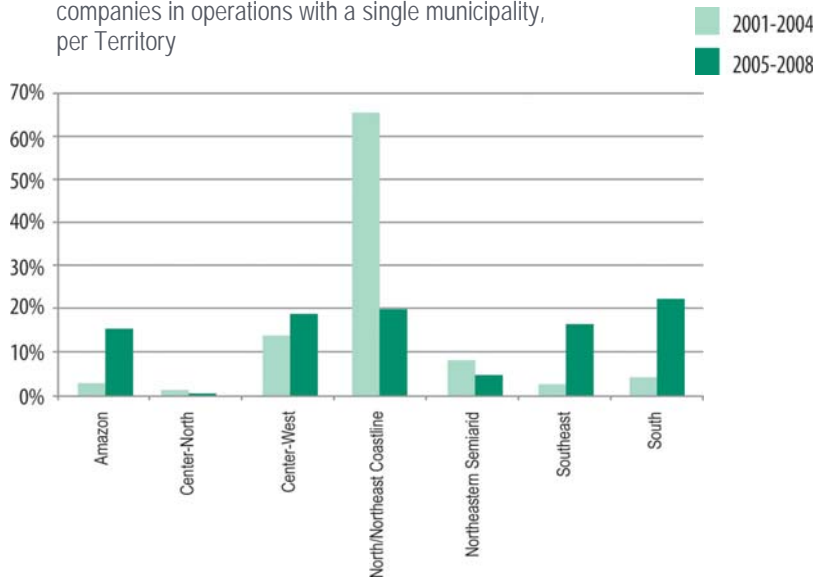
Loan amounts released from the Pró-moradia and Pró-saneamento as taken by BNDES, state sanitation companies and state governments in operations with a single municipality, per groups of cities



Source: Caixa Econômica Federal, 2001 to 2008.

### CHART 21

Loan amounts released from the Pró-moradia and Pró-saneamento as taken by state governments and companies in operations with a single municipality, per Territory



Source: Caixa Econômica Federal, 2001 to 2008.

## CHAPTER 5

### MUNICIPAL MANAGEMENT OF THE URBAN DEVELOPMENT

In this Report the urban management tried to respond to the following questions: a) What is the urban development management structure existing at local level?; b) Does the municipality carry out urbanization (especially water, sanitation, waste, public transportation) in an autonomous manner, or in partnership with neighboring municipalities?; c) What are the interchange channels between the local government and the citizens?

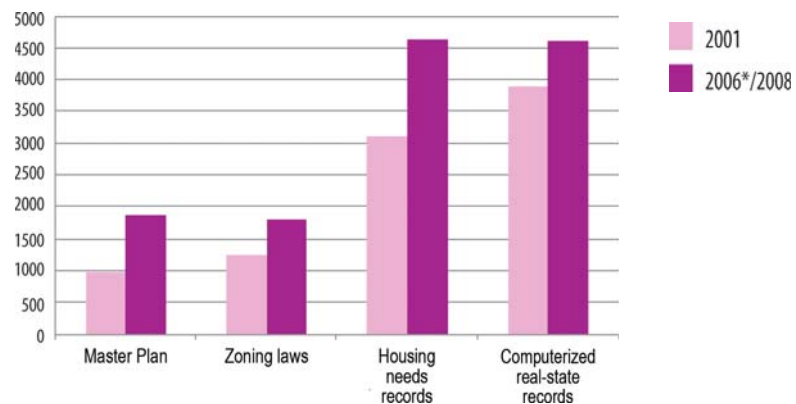
In a context of scarce nationwide data sources, we tap on IBGE's (Munic) Profile of Brazil's municipalities survey; the analysis was divided into four dimensions of the municipal urban development management: (1) instruments; (2) structure; (3) citizens' participation channels; and (4) federal arrangements.

Regarding the instruments, were chosen those Munic variables capable of measuring what instruments the municipalities adopt to plan and implement urban policies. For this purpose we analyzed the existence of a Master Plan, zoning laws, housing needs records, and the computerized real-estate records. Even though with different results, all these instruments have positively evolved in the 2001-2008 period.

The housing needs records and the computerized real-estate records were present in 2008 (or 2006) in more than 83% of the country's municipal-

#### CHART 22

Brazil's municipalities – presence of urban management instruments (2001, 2006\* and 2008)



Source: Munic IBGE 2001, 2006 and 2008.

\* Data from the computerized real-estate records refers to 2006.

**TABLE 9**

Presence of urban policy management instruments (2001, 2006 and 2008)

Instrument	Number of municipalities that answered having such instrument in 2001	Percentage (%) in 2001	Number of municipalities that answered having such instrument in 2006/2008	Percentage (%) in 2006/2008	Variation in percentage
Master Plan	980	17.63	1878	33.75	16.13
Zoning laws	1260	22.66	1810	32.53	9.87
Housing needs records	3124	56.19	4639	83.38	27.19
Computerized real-state records	3900	70.14	4618	83.00	12.85

Source: MUNIC-IBGE 2001, 2006 and 2008.

ities. The housing needs records was the variable which increased the most in the period: 27.19%. This increase may be pointing out to a greater availability of funds from the Federal Government for housing.

Master Plan was the least used instrument in 2001, when it was present in 980 municipalities only; this number almost doubled by 2008 (1,878 municipalities). Probably the increase was the result of an action by the Federal Government and the Cities National Council for the municipalities to prepare their Master Plans.<sup>16</sup> In a well-distributed manner throughout the country, of the municipalities forced to carry out their Master Plans only 19% (319 municipalities) had not done so up to 2008.<sup>17</sup>

Also the number of municipalities with zoning (or soil use and occupation) laws grew, though less than the growth in Master Plans. In 2001, 1,260 municipalities had the instrument, and the number jumped to 1,810 in 2008 (32.53% of municipalities), with lower incidence in the Northeastern Semi-arid, North/Northeast Coastline and Amazon, and higher concentration in the South and Southeast.

The groups with concentration of big cities – Big Urban Poles (G1), Regional Urban Poles (G3) and Big Isolated Cities (G5) – are the ones with more instruments; the Localities (G7) having less. Since the housing needs records and the computerized real-estate records are available in almost all municipalities, the most significant differences are with regard to the presence or not of a Master Plan and Zoning laws. Since 85% of the municipalities in the Localities (G7) group have less than 20,000 inhabitants, and they are not obligated to have a Master Plan, the percentage of municipalities having all the instruments naturally drops.

The South has the highest number of municipalities having all the instruments, and the Center-North, Amazon and Northeastern Semi-arid have the highest number of municipalities with only one instrument or none.

<sup>16</sup> The Statute of the Cities approved in 2001 provided that any municipalities with more than 20,000 inhabitants and located in metropolitan regions and urban agglomerates should have a Master Plan approved until October 2006. The Ministry of the Cities took the initiative so that municipalities could prepare their plans in partnership with the entities present at the Cities National Council.

<sup>17</sup> The majority of the municipalities mandated by law that did not prepare their Master Plans are located in the Amazon or Northeastern Semi-arid, and most of them are small municipalities.

The Report sought elements showing the existence of a stable structure in the municipalities suitable for urban development management based on four variables: percentage of statutory employees over the total number of employees; the level of training of the servants, including the percentage of employees with college degree; the existence of a housing department and of a local or regional sanitation services provider.

Following the new Federal Constitution of 1988 there was a higher decentralization of public utilities, which started to be rendered by municipalities, and a proportionally bigger increase of payrolls in municipalities than in the states and in the Federal government. Meanwhile, the number of statutory servants in proportion to the total municipal payroll has remained almost unchanged between 2001 and 2008, going from 62.82% to 63.17%.

In regional terms, there is an unequal number of statutory employees. In the Southeast, specifically in the States of São Paulo and Rio de Janeiro, numbers are lower than in the other states. This can be justified through demographics, tax situation (capacity to face expenses by expanding services, etc.), or by an outsourcing services policy in richer states.

There was a significant increase in the number of local employees with college degree, which jumped from 8.9% in 2001 to 24.08% in 2008. The percentage variation in local employees with college degree was greater than the country's. Brazilian population with college degree went from 21.68% in 2001 to 31.57% in 2008 according to the PNAD.

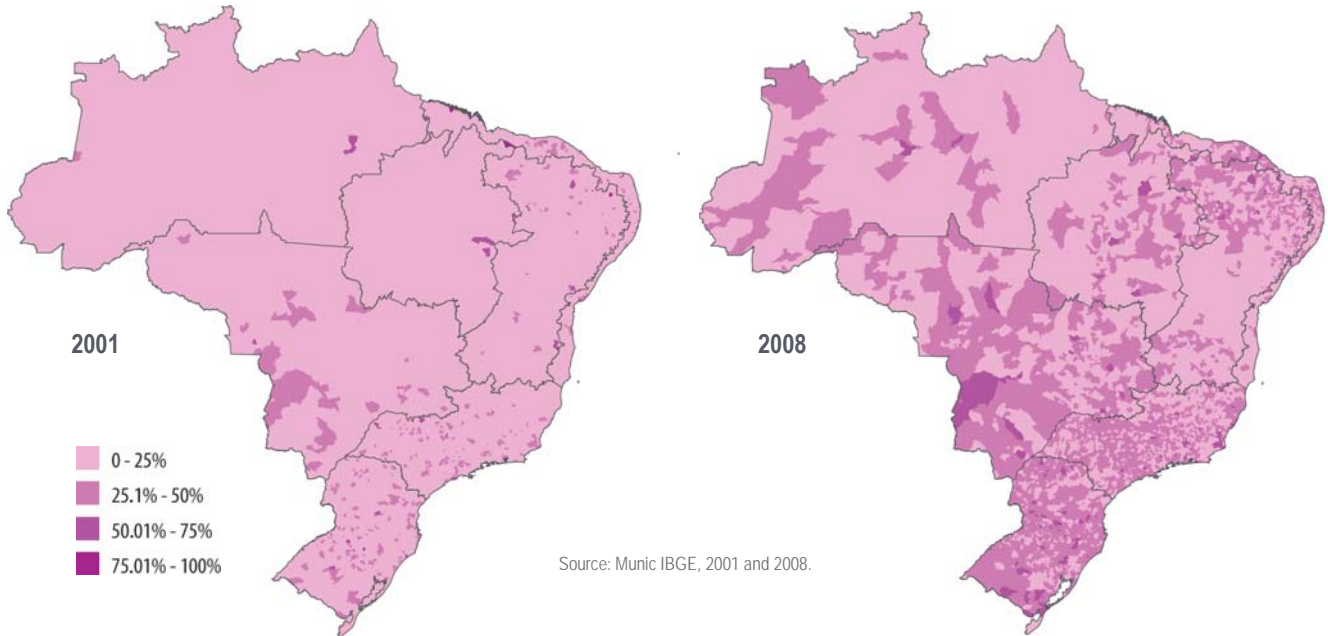
The Federal Government's priority and stimulus to housing policies in recent years – including the increase in funding and the implementation in 2005 of the National Housing System of Social Interest (SNHIS) that provides for the existence of an organ of the direct or indirect administration responsible for the policies, control and participation councils, and special funds for this purpose at all levels of the Federation – may explain the considerable increase in housing department in the Brazilian municipalities. In 2001, 1,749 (31.4%) of municipalities had a housing department; in 2008 the number jumped to 3,914 (70.3%). The increase was homogeneously widespread throughout the country.

The evolution was widespread in all the groups, with the most significant increases in the Periphery of Big Poles (G1p), and Regional Urban Poles (G3p) – which went from 43% (G1p) and 34% (G3p) of municipalities with housing departments in 2001 to 69% and 81%, respectively, in 2008 – and in the Localities (G7), which in 2001 had only 26.22% of municipalities with housing departments, and 67.43% in 2008.



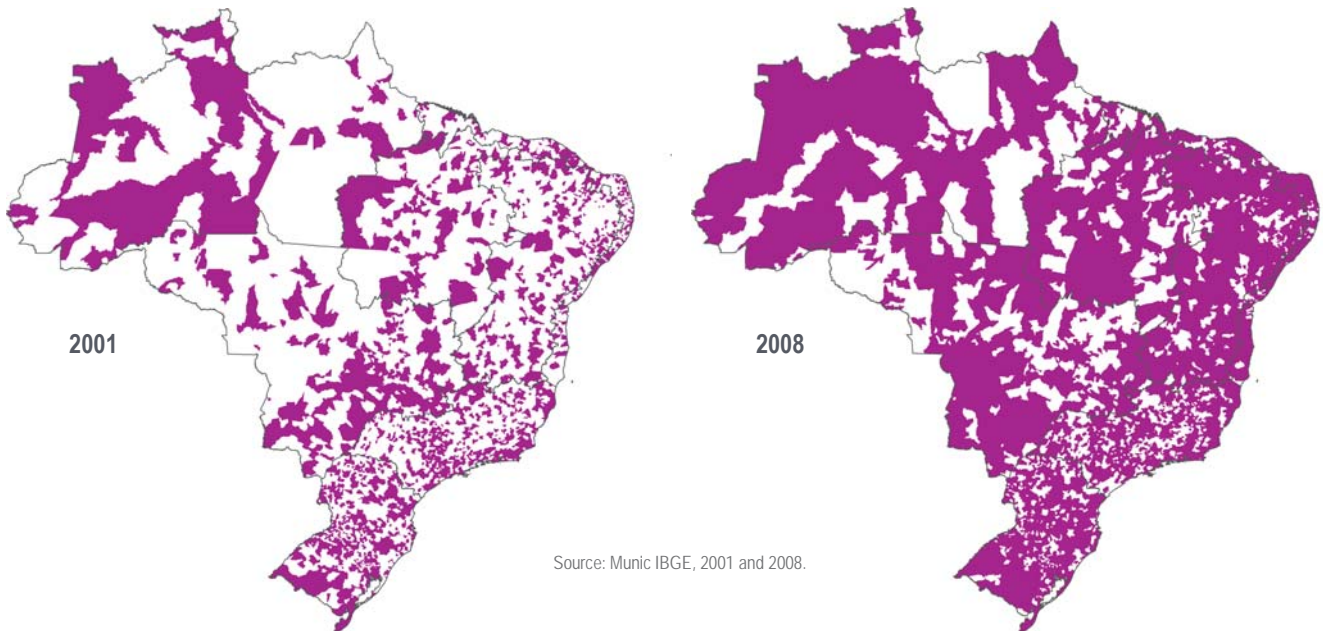
**MAPS 33 AND 34**

Percentage of municipal employees with a college degree (2001 and 2008)



**MAPS 35 AND 36**

Existence of housing department in the municipality (2001 and 2008)



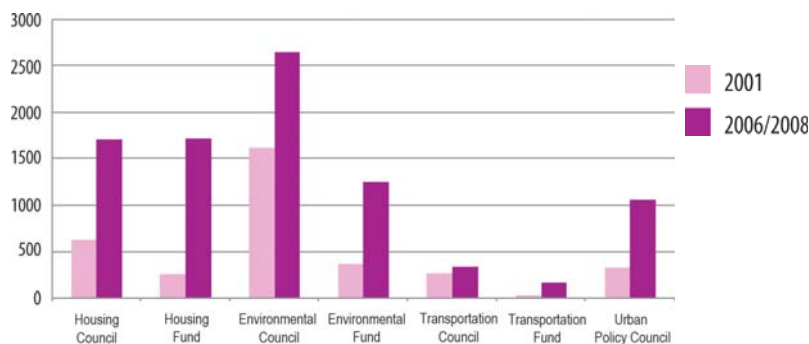
Many people's participation channels were created in the municipalities following the 1988 Constitution. The organized civil society has strived so that the new institutional framework implemented not only a formal democracy, with free elections, but also permanent channels for defining public policies and the society's control over the State. The Munic data shows a significant increase in participation in the municipalities.<sup>18</sup> They were very few in 2001 and widespread around the country, but not in an homogeneous manner. It is not possible to know whether such initiatives originated in the Government, the Legislature, the pressure of the society, or a combination of them. A good part of the channels created are not mandated by law, but instead local initiatives which do not respond to a top-down disposition.

The institutional participation channels with regard to urban policy were not very common in the early 2000s, except for the environmental councils that were already present in more than 1,600 municipalities. In 2008 the councils and funds were more widespread in the country, except for the transportation councils. Probably, this is so due to this sector specific factors, as the policies are frequently regionally and not municipally based, or due to the lack of public transportation service in many municipalities.

The greater evolution was observed in the Housing Fund (567%) – once again explained through the influence of the federal policy. Even though the institution of the housing funds was widespread, Big Urban Poles (G1), Regional Urban Poles (G3), and Big Isolated Cities (G5) showed the greatest evolution in the period.

### CHART 23

Variation of the participation channels, absolute number of municipalities (2001-2008)



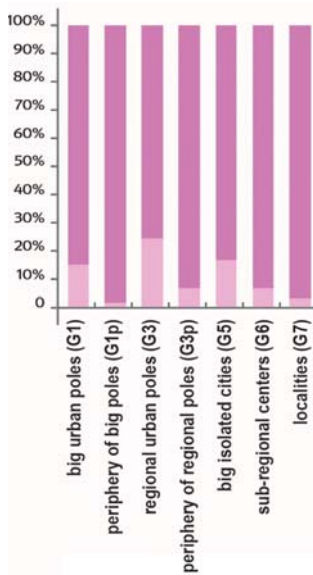
Source: Munic IBGE 2001, 2006 and 2008.

<sup>18</sup> The existence of participation channels does not determine the quality of participation within the municipalities. The Munic has specific questions able to qualify the participation, such as the nature of the councils (whether supervising, deliberative, regulatory), so we chose not to use this data as many municipalities did not answer to these questions.

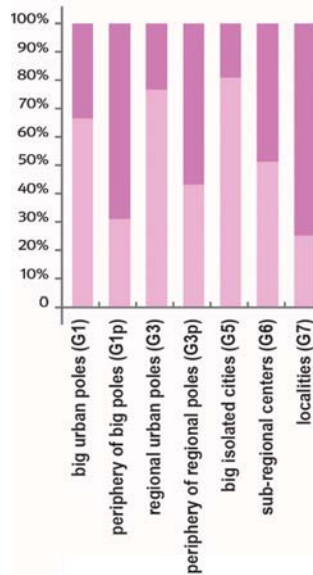
## CHARTS 24 AND 25

Presence of Housing Fund in the municipalities, per groups of cities (2001 and 2008)

2001



2008



2001

	G7	G6	G5	G3p	G3	G1p	G1
Yes	156	50	7	4	22	1	18
No	4309	675	35	54	68	57	101

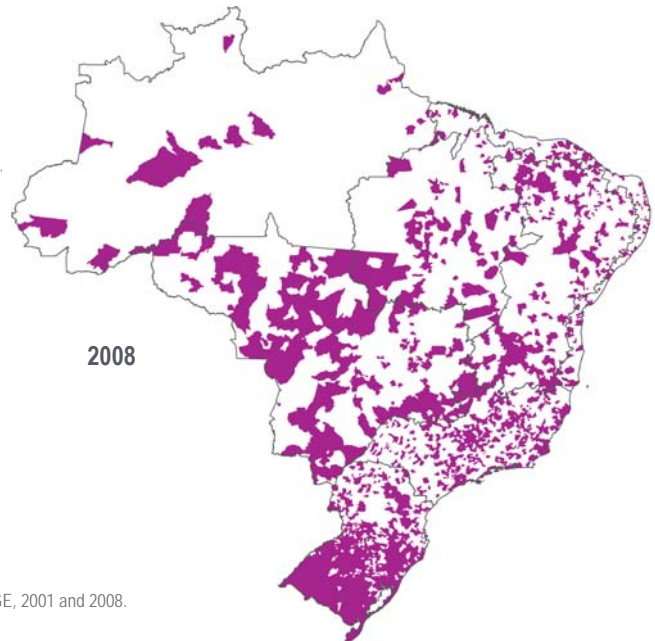
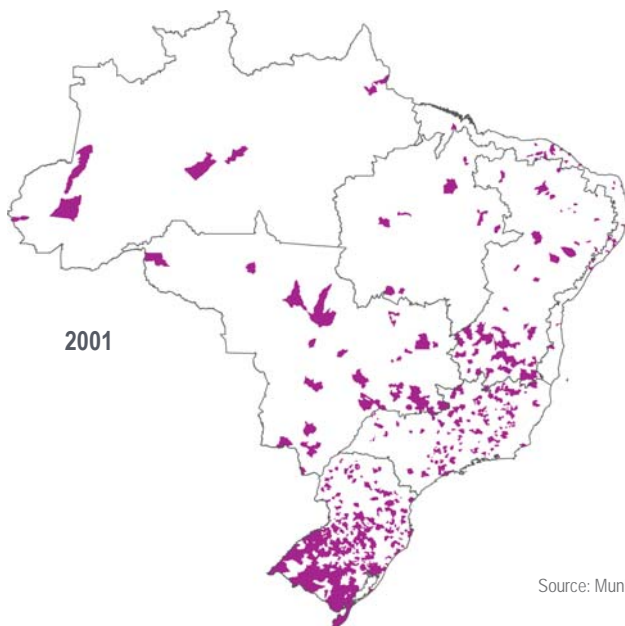
2008

	G7	G6	G5	G3p	G3	G1p	G1
Yes	1125	371	34	25	69	18	79
No	3340	354	8	33	21	40	40

Source: Munic IBGE, 2001 and 2008.

## MAPS 37 AND 38

Municipalities with housing councils (2001 and 2008)



Source: Munic IBGE, 2001 and 2008.

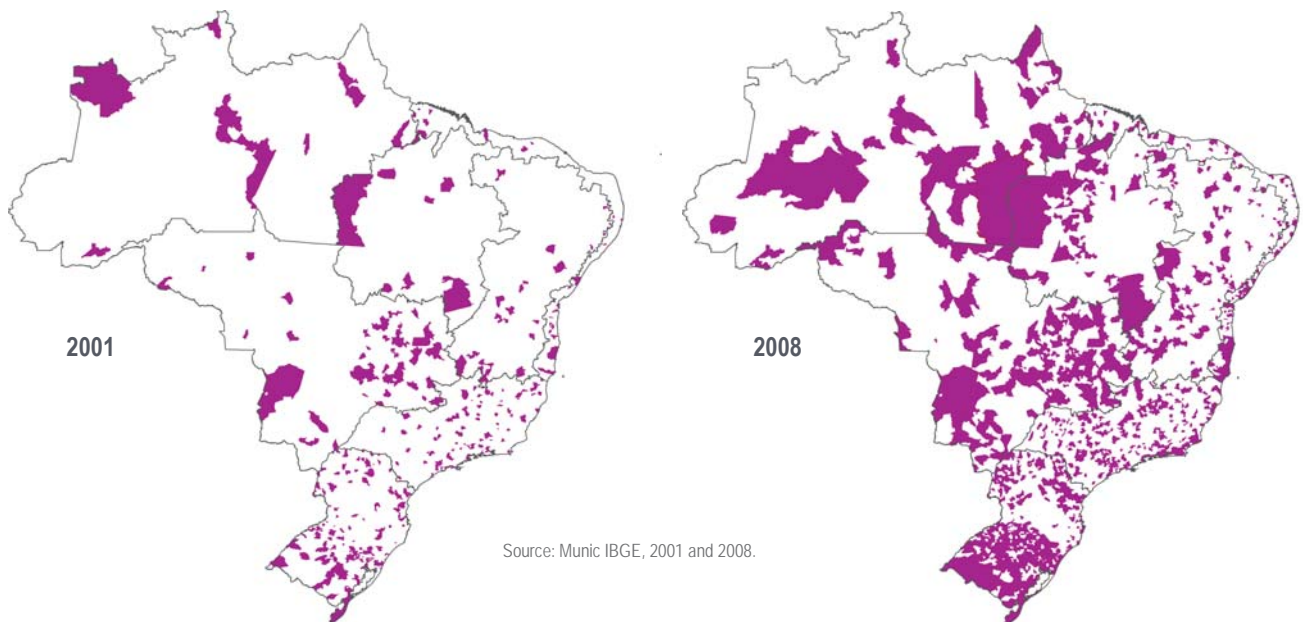
Additionally, there was a significant increase in the presence of Housing Councils (172%), with greater incidence in the South and Southeast, especially in the state of the Rio Grande do Sul, which since 2001 had the biggest number of municipalities with this and other councils. This can be explained by the state's strong associative traditions that made possible several participation channels.

It is also worth noting the important presence of environmental funds in the country. In 2001 they were already the most important ones, with a significant evolution (243%) in the period. Again, Rio Grande do Sul stands out, but the number of municipalities with such funds is also significantly growing in the Amazon and Center-North, regions with serious environmental conflicts.

Also the urban policy councils have experienced a significant growth (219%), probably associated with the processes of preparing and regulating Master Plans. From 2001 to 2004, those municipalities not having urban policy councils received bigger transfers, in average, than those already having such councils, but the municipality that received the most funds in the period did not have an urban policy council in place. Between 2005 and 2008, the situation changed a little: municipalities with councils received in average slightly bigger transfers than those that did not have them, but the municipality that received the most funds did not have an urban policy council in place.

#### MAPS 39 AND 40

Municipalities with environmental fund (2001 and 2008)



Source: Munic IBGE, 2001 and 2008.

The decoupling in the amount of funds can also be seen with regard to the presence of housing departments. Those municipalities receiving the biggest per capita transfers did not have housing departments both in 2001-2004 and in 2005-2008, after the SNHIS was implemented.

We can deduce that structuring the SNHIS does not necessarily mean that the municipalities that adhered to the system ended up obtaining more funds from the federal government, and that the structuring of territorial management does not mean obtaining more funds either.

The last element related to the municipal management refers to inter-municipal arrangements. The Report analyzed the presence of municipal consortiums in areas such as housing and environment. There are consortiums in Brazil since the 1960s, but it was only in 1980 (especially in healthcare), and in 1990 (in environment) that they become more important.

As of 2003 the Federal Government included in its federal agenda the management consortium, and in 2005 the Law no. 11.107, also called the Public Consortiums Act, was approved. This law provides on the general rules for contracting with public consortiums, a situation in which the entities work together towards a common objective. Public consortiums may have their own legal personality, regardless of the financial status of each one of the components.

**TABLE 10**

Federal Government investments and presence of urban policy councils (2001 and 2008)

Existence of Urban Policy Councils 2001		Minimum contracted amount	Maximum contracted amount	Average
No	Total per capita investment 2001-2004 (in BRL)	R\$ 0	R\$ 485	R\$34.49
Yes	Total per capita investment 2001-2004 (in BRL)	R\$ 0	R\$ 196	R\$19.82

Existence of Urban Policy Councils 2008		Minimum contracted amount	Maximum contracted amount	Average
No	Total per capita investment 2005-2008 (in BRL)	R\$ 0.74	R\$ 2022.95	R\$127.966
Yes	Total per capita investment 2005-2008 (in BRL)	R\$ 0.35	R\$ 1016.26	R\$137.86

Source: Munic IBGE 2001 and 2008.

**TABLE 11**

CAIXA transfers and presence of housing departments in sample municipalities that received housing transfers (2001 to 2004)

Existence of housing department in 2001	Number of municipalities	Per capita transferred amount in the 2001-2004 period (face value)		
		Minimum	Maximum	Average
No	97	R\$ 0.04	R\$ 258.21	R\$ 23.74
Yes	161	R\$ 0.12	R\$ 120.80	R\$ 10.35

Source: Munic IBGE 2001 and 2004, and Caixa Econômica Federal.

**TABLE 12**

CAIXA transfers and presence of housing departments in sample municipalities that received housing transfers (2005 to 2008)

Existence of housing department in 2008	Number of municipalities	Per capita transferred amount in the 2005-2008 period (face value)		
		Minimum	Maximum	Average
No	79	R\$ 0.35	R\$ 391.31	R\$ 62.85
Yes	386	R\$ 0.13	R\$ 2002.76	R\$ 59.71

Source: Munic IBGE 2005 and 2008, and Caixa Econômica Federal.

Federal arrangements in the urban development field are virtually inexistent. In 2008, in all the territories, less than 20% of municipalities were included in some kind of federal arrangement. In 2001, only 64 municipalities (1.15%) took part in housing consortiums, and this did not change significantly up to 2008, when the number of municipalities participating in such arrangement went up to 75, that is, 1.35% of all municipalities. Consortiums related to environmental matters, especially waste management, ecological preservation, and management of basins, showed a bigger growth in the period as the percentage of consortium municipalities went from 8.7% in 2001 up to 19.94%.

This Report's analysis of the municipal policy management points out in different directions. On one hand, municipalities have largely incorporated the instruments required for adhering to the SNHIS, organized their housing departments, and structured people's participation channels. They have also advanced with the structures and instruments of a territorial participation management. On the other hand, it is necessary to better understand the relations between an increase in the numbers of institutional participation channels in urban development and the financing policies.

## FINAL NOTES

The data analyzed in this Report points out to changes and continuities in Brazil's urban picture. In adverse economic conditions, the country's democratization, financial stabilization, and institutional reconstruction process implied an improvement in household conditions during the 1990s, a process that seems to have gained momentum in the 2000-2008 period. While some indicators point out to universalization, in sanitation the progress was not as significant.

The progress in household conditions did not reverse the big regional inequalities. The Southeast continues to stand out in comparison with the rest of the territories in almost all aspects of the study. Its cities network is more dense and articulated, the household adequacy conditions are much better than the rest of the country. Most of municipalities with the highest household improvements during the 1990s are in the Southeast. The analyses of the economic variables show that the cities with high dynamism, high per capita GDP growth and diversified economy are those in the Southeast, which is exactly the configuration that allows for improvements in the population's salaries. The municipalities of the Southeast show per capita budgetary revenues higher than the rest of the regions. They also show better conditions for getting financing for housing and sanitation, as they have better revenue generation conditions as a result of such services. States and municipalities with better infrastructure, better project management capabilities, and more high-income households tend to receive more funding, which results in improvements where better urban conditions already exist. This continuity of the better urban conditions and concentration of means relates to a historic specialization and concentration in the so-called dynamic industries of the local economy (durable goods, production services, etc.), and also to a model of urban development policy very dependent on the existence of a private production and supply chain of the "adequate household" product.

However, the Report shows that the Southeast is not a static region in Brazil's map. The analyses have confirmed that the states' administrative division does not always reflect the logics of the household conditions: Northern Minas Gerais remains as a very precarious region in terms of households. On the other hand, good household conditions are progressively spreading about from a core of good conditions, that in the early 90's was restricted to the Southeast, towards Mid and Western Minas Gerais, Southern Goiás, and the Federal District. More than stable

boundaries we seem to be witnessing the expansion of a continuous region with better conditions. Those territories initially approached as keys of the analysis did not show fully adherence to the results found. Especially the Territory Center-West needs to be reconsidered: on the one hand, Southern Goiás has a concentration of households in good conditions, similar to those in the Southeast; on the other hand, it has very precarious household conditions, similar to those in the Territory of the Amazon.

The analysis of the percentage of households with one and three inadequacies, as well as the existence of toilet and water supply in the house has revealed that Brazil is divided in two portions, but not exactly along the diagonal line proposed in the initial studies that were the basis of the territories defined in this Report. From this Report's maps a divided country emerges: more precarious to the North, better structured to the South, and going with large steps towards better urban conditions.

Besides the continuity of better indicators in the Southeast/South and the good conditions spreading towards the Center-West, this Report's analyses point out to another variable that deserves observation. Starting by an extremely precarious situation, the rest of the country's regions show significant improvement. If we analyze the household adequacy conditions in the early 90's – generally very low – all of the regions have had expressive improvement. From 1991 to 2000, the percentage of adequate households has increased almost six times in the Amazon, the Northeastern Semiarid almost four times, with the rest of the regions also showing significant progress, at least doubling the percentage of adequacy, except for the Center-West where the increase was almost 50%. From 2000 to 2008, the PNAD also points out to significant leaps, and new conclusions can be drawn after analyzing the results of the 2010 Census.

Perspectives of good conditions arise from Brazil's map, distributed throughout the territories of the South, Northeastern Semiarid, Center-West (even outside the area of expansion of the Southeast), and North/Northeast Coastline. Even in the Amazon there are signs of better conditions. In all regions, municipal tax revenue is increasing, even if on very low basis and without changing the dependence on discretionary transfers from other governmental instances, especially the Federal Government. Management indicators show that the Brazilian municipalities are little by little improving and qualifying their technical staff.

In the 1990s we could observe improvements in household adequacy conditions, but at the same time a growing deficit in absolute terms. While reaching 7 million adequate households, in the same period 10 million new



households were erected in the country. There are visible changes between 2000 and 2008. Studies of the João Pinheiro Foundation in 2007 reveal, for the first time, an absolute reduction in the country's housing deficit.<sup>19</sup> During this period, besides a stronger state intervention on the subject – for example, programs specific for precarious settlements – by means of heavy subsidies the number of beneficiaries accessing the private housing market was widened both in the total number and in different income ranges. However, the housing policy model based only on the financing of new units existing since the BNH years was not modified.

Besides the concentration of precarious conditions in certain territories and the disparities revealed by some specific indicators such as the lack of toilet and water supply in the house, this Report's analysis expose the need for territory-specific policies. However, Brazil's urban policies show a uniform intervention pattern and are incapable of understanding, for example, the Amazon, its low demographic density and peculiar environment. Since the times of the BNH we are witnessing the making of a single-mold policy, a reality that has not changed much in spite of the introduction of new housing programs.

The analysis of the economic data shows a complex scenario. The resuming of Brazil's economic growth in recent years triggered outbreaks of dynamism and showed cities with high per capita GDP growth rates. Notwithstanding, the reading of the data suggests that such dynamism has not reduced inequalities in Brazil. Both in dynamic cities with (very) high per capita GDP and in those with low per capita GDP, the growth of the salaries per employee did not follow the dynamism of the per capita GDP, suggesting that relevant gains were transferred outside the city and reflecting the challenges of the current phase of the capitalism in Brazil. Additionally, and besides of the fact of an undeniable "income effect" on household conditions (that is, as the per capita GDP grows, the number of totally adequate households also grows), at the same time we observe a structural dispersion related to this dimension. In other words, while the curve of the supply of adequate housing – in the broader sense – positively shifts upward together with the increase in the per capita income, we also observe the proliferation of points "outside the curve". On the other hand, if in general the salaries per employee do not follow the dynamism of the per capita GDP, this trend is being reversed in the cities specialized and concentrated in the most dynamic industries (particularly in durable good and production services sectors), thus showing that the labor factor is able to share in the benefits of the growing per capita GDP. And with a higher absorption of wealth by

<sup>19</sup> Ministry of the Cities, National Housing Department. Brazil Housing Deficit 2007. Brasília, 2009.

the salaries per employee, the capacity to acquire adequate households in the market increases among the benefited groups.

We can also analyze the possible effects of the growing GDP on the capacity for bringing forth better investment conditions in the municipalities. Notwithstanding a growing GDP shows a positive trend in relation to the growth in revenue, there is also a great dispersion. Not all the municipalities with high GDP dynamism proved capable of using such dynamism to significantly increase their revenue in the same proportion. This refers to other two elements with a strong presence in this Report: the imbalance between local needs and the capacity for funding urban development and a persistent dependence of municipalities on discretionary transfers from the states and the Federal Government, which are highly affected by mediations of political nature. On the other hand, even high revenue municipalities, such as the cities that collect oil royalties, do not always have better households.

The present tax model does not ensure that the municipalities will develop their own investment capacity. The Constitution has increased the participation of municipalities in the mandatory transfers, which made municipalities financially stronger in an aim to reduce the gaps between big municipalities (with higher capacity to generate revenues) and the small ones (more dependent on transfers). Nevertheless, even with this increase in mandatory transfers, revenues are not sufficient to produce adequate households within the territory. On the other hand, in the last decade there was a significant improvement in Federal Government's funds for urban development. The data on transfers from the General Budget of the Union reveals a leap of almost eight times between 2001-2004 and 2005-2008. These funds, however, are transferred according to federal-level political priorities not very much related to specific local needs, and above all not aiming at reducing the municipal dependence on federal and state transfers. The most part of the funds goes directly to the end beneficiaries and not to the local government. This is a growing trend with important urban consequences – such as increasing land prices and the sprawling of cities in private allotments – which, though they are not the direct object of this Report, cannot be left unaccounted for. This way of producing cities does not enable the municipalities to produce ex-ante urbanization capable of absorbing the growing demand for new urban areas, especially for low-income classes.

As of 2003 a new instance was enacted with the institution of the Ministry of the Cities, an institutional achievement in search of the integration of urban development policies that, although having brought about

improvements in terms of managing, regulating and structuring an urban development system, today still struggles against the inertia of formulating policies in a segmented manner as in the times of the BNH.

For structuring the housing and urban development, and encouraged by the Ministry of the Cities, planning and management instruments spread about the country – such as housing needs records, housing councils and departments, Master Plans, urban policy councils. In the housing area the National Housing System (SHNIS) and the National Fund for Housing of Social Interest (FNHIS) were implemented. Cooperatives and associations were recognized as housing promotion agents, and the participation of the civil society and social movements in the definition of policies was guaranteed through the Council of the FNHIS and in the planning of projects. This new institutional framework intended to design a federal housing system and ensure the transfer of funds, which would give municipalities greater autonomy to implement their own local plans and policies. The re-democratization and decentralization process also bet on the civil society and social movement's participation and involvement in urban development management. There were achievements and innovations towards structuring and implementing a more democratic management of cities.

In the 2000s Conferences of the Cities were held and concluded with the creation of Councils of the Cities at municipal and federal levels, always trying to break the centralized decision-making model. Notwithstanding, the significant increase in funds has not exchanged with the new system: the Report's analysis do not show any direct relation between such local processes and the definitions regarding the transfers of funds from the Federal Government.

Additionally, there was a bet on municipal policies mimicking the vertical relation between the Union and municipalities, without clearly defining the role of the states in the structure. It is very difficult to find systematic data on the state-level urban development financing policies, although there is evidence that some states are well organized and strongly investing in urban development policies, often with their own funds. The results in this Report raise the hypothesis of a well-structured state-level management makes a positive difference in the indicators.

The role of the states is also related to the issue of federative arrangements, very incipient in Brazil, which could be stimulated by pan-municipal instances if they existed. In the predominant management model, the municipalities operate in an isolated fashion. While the vertical relations between the Union, states and municipalities were structured for developing

urban policies, the horizontal relations – between municipalities – have not consolidated. Inter-municipal ways of cooperation are few, and they are often fragile. Nevertheless, the fact that we are in a network with other municipalities seems to help improve the municipalities' household conditions and economic development.

Another big challenge of the urban policies as pointed out by the Report is to make the fruits of development take roots in the city. This requires fully performing the city's social function, under penalty of generating social and environmental costs relevant to the production and reproduction of urban and regional spaces suppressed or expelled from the very productive process and transferred to the rest of the society through the so-called externalities, such as the cost of traffic jams, etc.

The imbalance between the salaries per employee and the dynamism of the per capita GDP, and the imbalances between the improvement in urban conditions and the dynamism of the per capita GDP reveal some aspects of this process of benefit “spreading” and externalization/socialization of the costs associated with the economic development process.

The cities willing to make great efforts so as to generate the infrastructure adequate for implementing activities bringing forth the economic development not necessarily make the same efforts to achieve adequate housing conditions for their populations. But the price they pay for it is today explicit in the immense socio-environmental deficit and the infrastructure bottlenecks that affect our cities and make our development more difficult.

## **THE STATE OF THE CITIES IN BRAZIL**

THE 2000-2009 REPORT

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