

# Porto Alegre

– Revitalizing the City's Fourth District



**Region:** Latin America & The Caribbean **Country:** Brazil **Focus Area:** Flood Protection

## CITY BACKGROUND

Porto Alegre's booming industrial sector first emerged in the 19th century, with new migrants flocking to the harborside zone of the city's 640-hectare, centrally-located 4th District. But by the middle of the 20th century economic activity had shifted to new locations, and today the historic buildings and warehouses constructed during the district's prime have fallen largely into disrepair. The 4<sup>th</sup> district now contains numerous abandoned buildings and warehouses on extended plots of land, some of which are prevented for reuse due to stringent historical significance regulations. Residents of the 4<sup>th</sup> district suffer from urban blight, recurring flash floods due to a deficient drainage network, pockets of crime-ridden areas, accumulated garbage, poverty, and limited economic opportunities in the formal economy. After decades of debates, an architectural Master Plan of the 4<sup>th</sup> District was set up as an effort to reach an agreement between the stakeholders involved, on a vision of a new land use for fostering the development of the neighborhood.

## WORLD BANK ENGAGEMENT

Public investment in drainage upgrades, coupled with the relocation project of part of the municipal government to the 4th District, would send a very strong signal about the engagement of the municipality in redeveloping this area. The World Bank plugs into the efforts led to the Municipality to secure necessary financing to carry out much needed drainage investments (US\$ 80 million per city's estimates) to radically improve the quality of life of current and future residents, while ensuring that the overall urban regeneration program meets social and environmental safeguards. Given the declared interest of private developers, the project is expected to catalyze larger urban regeneration already foreseen in the architectural Master Plan of the 4<sup>th</sup> District.



## CRP APPROACH

In addition to structuring the World Bank financing, the LAC DRM team, together with CRP and financial advisors are assisting the Municipality of Porto Alegre to analyze options for private capital mobilization, paired with and catalyzed by drainage upgrades. Further, World Bank teams will also support the Municipality in ensuring the redevelopment program meets social and environmental safeguards. Flood mitigation in the 4th district can allay the assessment of investment risk by the private sector and may serve as a catalytic factor for mobilizing private capital in the district's comprehensive regeneration. Once momentum is established for private sector investment, corresponding increases in land and property values, as well as social and economic benefits created by those unlocked investments, may far exceed the total cost of investment.

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## PROPOSED IMPLEMENTATION STRUCTURE

The proposed financing structure for infrastructure and drainage upgrades in the 4th District consists of a combination of:

- Public investments backed by the World Bank, National Banks and Regional Banks lending
- Publicly-funded strategic land assembly to facilitate mobilization of capital through re-capturing value arising from activation of commercial development in the 4th District, and to guarantee that urban regeneration project meets the city's social objectives. Based on the international practices in urban revitalization and following preliminary discussion with the Porto Alegre's mayor such strategic land consolidation in the 4th District should cover at least 20 hectares.
- Direct participation of the private sector in financing public good items such as streetscaping, beautification and off-site public infrastructure items

## LESSONS LEARNED

Brazil's National Treasury currently rates the Porto Alegre municipality as ineligible for concessional financing with sovereign guarantees, meaning that Porto Alegre would not be able to receive IBRD's financing directly in the next 2-3 years. To resolve this, the World Bank is aiming to partner with the Banco Regional de Desenvolvimento do Extremo Sul (BRDE), which would act as a financing vehicle for the first tranches of World Bank-supported drainage investments.

Through partnership with BRDE, The World Bank would provide \$30 million to finance the first-phase of drainage investments, with the idea that remaining \$50 million would be a second phase of drainage financing coming in 3 years.

## FUTURE VISION

The revitalization of the Fourth District would entail a remarkable transformation of a key area for Porto Alegre's competitiveness and sustainable urban development. Residents would enjoy a prime area with improved access to infrastructure and services and the municipality would certainly benefit from a reduced public burden on infrastructure spending against the current urban expansion agenda and increased local tax revenues as property values appreciate accordingly.

