

Document of
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$350 MILLION

TO THE

STATE OF CEARÁ, BRAZIL

WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL

TO

STRENGTHEN SERVICE DELIVERY FOR GROWTH, POVERTY REDUCTION AND
ENVIRONMENTAL SUSTAINABILITY IN THE STATE OF CEARÁ

PROGRAM FOR RESULTS

October 28, 2013

Finance and Private Sector Department
Brazil Country Management Unit
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective September 26, 2013)

Currency Unit = Brazilian Real

1 BRL = US\$0.44

1 USD = BRL 2.24

BRAZIL-GOVERNMENT FISCAL YEAR

January - December

ABBREVIATIONS AND ACRONYMS

ADECE	Ceará State Development Agency	<i>Agência de Desenvolvimento do Estado do Ceará</i>
ANA	National Water Agency	<i>Agência Nacional de Águas</i>
ARCE	Ceará Multisector Regulatory Agency	<i>Agência Reguladora de Serviços Públicos Delegados do Estado do Ceará</i>
BNDES	National Bank for Economic and Social Development	<i>Banco Nacional de Desenvolvimento Econômico e Social</i>
CAGECE	Ceará Water and Sewage Company	<i>Companhia de Água e Esgoto do Ceará</i>
CEDE	State Economic Development Council	<i>Conselho Estadual de Desenvolvimento Econômico</i>
CEFET	Federal Center for Technological Education	<i>Centro Federal de Educação Tecnológica</i>
CEI	Early Child Education Center	<i>Centro de Educação Infantil</i>
CEIS	Cadaster of Debarred and Sanctioned Firms	<i>Cadastro Nacional de Empresas Inidôneas e Suspensas</i>
CGE	Office of the Comptroller General	<i>Controladoria e Ouvidoria Geral do Estado</i>
CNPJ	Corporate Taxpayer's Registry	<i>Cadastro Nacional de Pessoas Jurídicas</i>
COGERF	Committee for Fiscal and Results-Based Management	
COGERH	Ceará State Water Resources Company	<i>Companhia de Gestão dos Recursos Hídricos</i>
CONPAM	State Council for Environmental Policy	<i>Conselho de Políticas e Gestão do Meio Ambiente</i>
COPEM	Municipal Coordination Body	<i>Coordenadoria de Cooperação com os Municípios</i>
COTES	Treasury Coordinator	<i>Coordenação do Tesouro</i>
CPS	Country Partnership Strategy	<i>Estratégia de Parceria com o País</i>
CRAS	Social Assistance Reference Center	<i>Centro de Referência de Assistência Social</i>
CREDE	Regional Education Development Center	<i>Coordenadoria Regional de Desenvolvimento da Educação</i>
CTTC	Technical Training Center of Ceará	<i>Centro de Treinamento Técnico do Ceará</i>
DLI	Disbursement Linked Indicator	
DPL	Development Policy Loan	<i>Empréstimo para Políticas de Desenvolvimento</i>
ECD	Early Childhood Development	<i>Desenvolvimento Infantil</i>

ESSA	Environmental and Social Systems Assessment	<i>Sistemas de Avaliação Ambiental e Social</i>
FECOP	State Anti-Poverty Fund	<i>Fundo Estatal de Combate à Pobreza</i>
FPE	State Participation Fund	<i>Fundo de Participação dos Estados</i>
FUNAI	National Indigenous Peoples' Fund	<i>Fundação Nacional do Índio</i>
FUNCEME		<i>Fundação Cearense de Meteorologia e Recursos Hídricos</i>
FM	Financial Management	<i>Gestão Financeira</i>
GabGov	Governor's Cabinet	<i>Gabinete do Governador</i>
GDP	Gross Domestic Product	<i>Produto Interno Bruto</i>
GOC	Government of Ceará	<i>Governo do Ceará</i>
IBRD	International Bank for Reconstruction and Development	<i>Banco Internacional para Reconstrução e Desenvolvimento</i>
ICMS	State Value Added Tax	<i>Imposto sobre Circulação de Mercadorias e Serviços</i>
ICR	Implementation Completion Report	
IDB	Inter-American Development Bank	<i>Banco Interamericano de Desenvolvimento</i>
IDEB	Basic Education Indicator	<i>Índice de Desenvolvimento da Educação Básica</i>
IEG	Independent Evaluation Group	<i>Grupo Independente de Avaliação</i>
IFR	Interim Financial Reports	<i>Relatórios Financeiros Preliminares</i>
INDI	Ceará Industrial Development Institute	<i>Instituto de Desenvolvimento Industrial do Ceará</i>
IPEA	Institute of Applied Economic Research	<i>Instituto de Pesquisa Econômica Aplicada</i>
IPECE	Ceará Economic Research Institute	<i>Instituto de Pesquisa e Estratégia Econômica do Ceará</i>
IPF	Investment Project Financing	
IPSAS	International Public Sector Accounting Standards	
LAC	Latin America and the Caribbean	<i>América Latina e Caribe</i>
LDO	Budget Guidelines Law	<i>Lei de Diretrizes Orçamentárias</i>
LIA	Law on Administrative Improbability	<i>Lei de Improbidade Administrativa</i>
LOA	Annual Budget Law	<i>Lei Orçamentária Anual</i>
LRF	Fiscal Responsibility Law	<i>Lei de Responsabilidade Fiscal</i>
MAPP	Priority Programs and Actions Monitoring	<i>Monitoramento de Ações e Programas Prioritários</i>
MDS	Ministry of Social Development	<i>Ministério do Desenvolvimento Social</i>
MEC	Ministry of Education	<i>Ministério da Educação</i>
MP	Public Ministry	<i>Ministério Público</i>
NRR	Net Real Rate	
OECD	Organization for Economic Co-operation and Development	<i>Organização para Cooperação Econômica e Desenvolvimento</i>
OPRC	Operational Procurement Review Committee	<i>Comitê de Revisão</i>
ORAF	Overall Risk Assessment Framework	<i>Arcabouço de Avaliação do Risco Geral</i>
PAD	Program Appraisal Document	<i>Documento de Avaliação do Projeto</i>
PADIN	Early Child Development Support Program	<i>Programa de Acompanhamento do Desenvolvimento Infantil</i>
PAIC	Literacy at the Right Age Program	<i>Programa Alfabetização na Idade Certa</i>
PAIF	Integrated Family Assistance Program	<i>Programa de Atendimento Integral às Famílias</i>
PDO	Project Development Objective	<i>Objetivo de Desenvolvimento do Projeto</i>
PforR	Program-For-Results	<i>Programa para Resultados</i>
PGE	State Attorney-General Office	<i>Procuradoria Geral do Estado</i>
PPA	Multi-Year Plan	<i>Plano Plurianual</i>
PROARES	Program to Support Social Reforms in Ceará	<i>Programa de Apoio às Reformas Sociais do</i>

PROFISCO	State Fiscal Modernization Program	<i>Ceará Programa de Modernização Fiscal do Estado</i>
PROGERIRH	Ceará Integrated Water Resource Management Project	<i>Projeto de Gerenciamento Integrado de Recursos Hídricos do Estado do Ceará</i>
PRONATEC	National Program for Access to Technical Education and Employment	<i>Programa Nacional de Acesso ao Ensino Técnico e Emprego</i>
RBM	Results Based Management	<i>Gestão Baseada em Resultados</i>
SECITECE	Secretariat of Science and Technology	<i>Secretaria da Ciência, Tecnologia e Educação Superior</i>
SEDUC	Secretariat of Education	<i>Secretaria de Estado da Educação</i>
SEFAZ	Secretariat of Finance	<i>Secretaria da Fazenda</i>
SEMACE	State Environment Superintendence	<i>Superintendência Estadual do Meio Ambiente</i>
SENAC	National Commercial Vocational Training Service	<i>Serviço Nacional de Aprendizagem Comercial</i>
SENAI	National Industrial Vocational Training Service	<i>Serviço Nacional de Aprendizagem Industrial</i>
SENAT	National Transport Vocational Training Service	<i>Serviço Nacional de Aprendizagem do Transporte</i>
SEPLAG	Secretariat of Planning and Management	<i>Secretaria de Planejamento e Gestão do Estado do Ceará</i>
SESA	Secretariat of Health	<i>Secretaria de Saúde do Estado do Ceará</i>
SIC	Integrated Accounting System	<i>Sistema Integrado de Contabilidade</i>
SIG	Management Information System	<i>Sistema de Informações Gerenciais</i>
SIMEC	State Association of Mechanical, Electrical Components and Metallurgical Industries	<i>Sindicato das Indústrias Metalúrgicas Mecânicas e de Material Elétrico no Estado do Ceará</i>
SINDIQUIMICA	State Association of Chemical, Pharmaceutical and Refining Industries	<i>Sindicato dos Trabalhadores nas Indústrias Químicas, Farmacêuticas, Colchões e de Material Plástico e Produtos Isolantes no Estado do Ceará</i>
SRH	Secretariat of Water Resources	<i>Secretaria de Recursos Hídricos</i>
STDS	Secretariat of Work and Social Assistance	<i>Secretaria de Estado do Trabalho e Assistência Social</i>
STN	National Treasury Secretariat	<i>Secretaria do Tesouro Nacional</i>
SWAP	Sector-Wide Approach	
SWM	Strengthening Solid Waste Management	<i>Fortalecimento da Gestão de Resíduos Sólidos</i>
TA	Technical Assistance	<i>Assistência Técnica</i>
TCE	State Court of Accounts	<i>Tribunal de Contas do Estado</i>
TCM	Municipal Court of Accounts	<i>Tribunal de Contas dos Municípios</i>
TVET	Technical and Vocational Education Training	<i>Educação e Formação Técnico-profissional</i>

Vice President:	Hasan A. Tuluy
Country Director:	Deborah Wetzel
Sector Director:	Marialisa Motta
Sector Manager:	P.S. Srinivas
Task Team Leader:	Thomas Kenyon

BRAZIL

Strengthen Service Delivery for Growth, Poverty Reduction and Environmental Sustainability in the State of Ceará

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Brazil

Strengthen Service Delivery For Growth, Poverty Reduction and Environmental Sustainability in the State of Ceará

PROGRAM APPRAISAL DOCUMENT

*Latin America and the Caribbean
LCSPF*

Basic Information		
Date: Oct 28, 2013	Sectors: Pre-primary Education (12.5%); Other Social Services (12.5%); Vocational Training (12.5%); General Industry & Trade (12.5%); Public Administration, Water, Sanitation (12.5%); General Water (12.5%); Sub-national Government Administration (25%) Themes: Water Resource Management (25%); Managing for Development Results (25%); Education for All (12.5%); Social Inclusion (12.5%); Export Development and Competitiveness (12.5%); Education for Knowledge Economy (12.5%)	
Country Director: Deborah Wetzel		
Sector Manager/Director: Marialisa Motta		
Program ID: P127463		
Lending Instruments: PforR		
Environmental Category B (IPF Component)		
Team Leader(s): Thomas Kenyon		
Program Implementation Period: Start Date: January 1, 2014 End Date: January 1, 2018		
Expected Financing Effectiveness Date (s): December 5 th 2013		
Expected Financing Closing Date (s): January 31 st 2018		
Program Financing Data		
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other
<input type="checkbox"/> Credit		
For Loans/Credits/Others (US\$M):		
Total Bank Financing : US\$ 350 million (including US\$ 35 million TA component)		

Financing Gap:		0							
Financing Source					Amount				
IBRD					US\$ 350 million				
PforR PROGRAM (Program Loan)					US\$ 315 million				
Technical Assistance (Project Loan)					US\$ 35 million				
Total					US\$ 350 million				
Borrower: State of Ceará, Brazil									
Responsible Agency: Instituto de Pesquisa e Estratégia Econômica do Ceará (IPECE)									
Contact: Cristina Medeiros			Title: Program Coordinator						
Telephone No.: 55 85 3101 3502			Email: cristina.medeiros@ipece.ce.gov.br						
Expected Disbursements (in USD Million) – PforR Program									
Calendar year	2013	2014	2015	2016	2017				
Annual	94.5 (including 78.8 prior results financing – 25 percent of total)	55.7	61.7	68.8	34.3				
Cumulative	94.5	150.2	211.9	280.7	315				
Expected Disbursements (in USD Million) - Technical Assistance Component									
Calendar year	2014	2015	2016	2017					
Annual	5.47	8.39	10.57	10.57					
Cumulative	5.47	13.86	24.43	35.00					
Program Development Objective									
The Program Development Objective (PDO) is to support the Government to improve public service delivery									

particularly in the areas of skills development, family assistance and water quality.

Components

PforR Component	Cost (US\$ 315 million)
Technical Assistance Component	Cost (US\$ 35 million)

Compliance

Policy

Does the program depart from the CAS in content or in other significant respects?	Yes []	No [X]
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Does the program operation require any waivers of Bank policies applicable to the Program-for-Results and Investment Project Financing instruments?	Yes []	No [X]
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Have these been approved by Bank management?	Yes []	No []
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Is approval for any policy waiver sought from the Board?	Yes []	No [X]
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Does the program operation meet the Regional criteria for readiness for implementation?	Yes [X]	No []
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Does the IPF component trigger any Safeguard Policies?	Yes [X]	No []
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If so, which one (s)? Environmental Assessment OP/BP 4.01; Indigenous Peoples OP/BP 4.10.

Overall Risk Rating: Moderate

Legal Covenants

Name	Recurrent	Due Date	Frequency
Management meetings	Yes	N/A	Every semester

Description of Covenant

The Borrower shall carry out, until the completion of the Program, Management Meetings to be convened at least once every semester, to discuss progress under the Operation and provide guidance concerning the overall supervision of the Operation, and shall submit, promptly thereafter, the minutes of said meetings to the Bank.

Name	Recurrent	Due Date	Frequency
Participating agency agreements	No	By effectiveness	NA

Description of Covenant

The Borrower shall enter into a Participating Agency Agreement with each of the Participating Agencies, under terms and conditions approved by the Bank, including, *inter alia*, the obligation to: (A) carry out the activities which fall within its administrative jurisdiction under the Program; and (B) comply with the pertinent provisions of Schedule 2 to the Loan Agreement as applicable to said Participating Agency, including compliance with the provisions of the Anti-Corruption Guidelines for the Program.

Name	Recurrent	Due Date	Frequency	
Safeguards	NA	NA	NA	
Description of Covenant				
The Borrower shall adopt terms of reference for non-consulting services and for consultants' services under such activities of the Project in accordance with the requirements of the Bank Safeguards Policies then in force and as applicable, all in a manner satisfactory to the Bank.				
Conditions				
Name: Participating agency agreements		Type: Effectiveness		
The ADECE, CAGECE and COGERH Participating Agency Agreements have been entered into between the Borrower and the respective Participating Agency.				
Team Composition				
Bank Staff				
Name	Title	Specialization	Unit	UPI
Thomas Kenyon	Sen. Private Sector Devt. Spec.	Private sector Devt./TTL	LCSPF	
Rita Almeida	Senior Economist	Education	HDNHE	
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Laura Zoratto	Public Sector Mgt. Spec.	Public sector management	LCSPS	
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Tania Dmytraczenko	Senior Economist	Health	LCSHH	
Cristian Quijada	Private Sector Devt. Specialist	Private sector devt.	LCSPF	
Anna Fruttero	Economist	Social protection	LCSHS	
Leandro Costa	Economist	Education	LCSHE	
Alexandre Oliveira	Senior Procurement Spec.	Procurement	LCSPT	
Etel Bereslawski	Senior Procurement Spec.	Procurement	LCSPT	
Lisa Bhansali	Advisor	Gov. and anti-corruption	LCSOS	
Beth Hoffman	Operations Analyst	Gov. and anti-corruption	LEGEN	
Joseph Kizito	Senior Fin. Mgmt Spec.	Financial management	LCSFM	
Susana Amaral	Fin. Mgmt Spec.	Financial management	LCSFM	
Cary Anne Cadman	Senior Forestry Specialist	Environmental systems	AFTSG	
Patricia Fernandes	Social Development Specialist	Social systems	EASER	
Alberto Costa	Senior Social Development Specialist	Social systems	LCSSO	
Miguel-Santiago Oliveira	Senior Finance Officer	Disbursements	CTRLN	

Victor Ordonez	Senior Finance Officer	Disbursements	CTRLN	
Patricia Miranda	Senior Counsel	Legal	LEGLE	
Gabriela Grinsteins	Legal Associate	Legal	LEGLE	
Micky Ananth	Program Assistant		LCSPF	
Angela Porto	Program Assistant		LCSPR	
Monica Porcidonio	Program Assistant		LCSPR	

Non-Bank Staff			
Name	Title	Office Phone	City
Armando Castelar	Anti-poverty policy analysis		
Madalena dos Santos	Skills development		

I. STRATEGIC CONTEXT

A. Country and State Context

- 1. Over the last two decades, Brazil has made significant advances in economic and public sector management, poverty reduction and other social outcomes.** Consecutive governments have maintained sound macroeconomic policies, achieving low inflation, robust economic growth and significant job creation. Growth in employment and labor incomes, complemented by targeted social assistance programs such as *Bolsa Família*, has contributed to a reduction in the share of Brazilians living below the extreme poverty line from 10.5 percent at the start of the 2000s to 4.7 percent in 2011. Inequality has also fallen, as reflected in a decline in the Gini coefficient from 0.59 to 0.53 over the same period.¹
- 2. Brazil's development is at a crossroads.** The country is gradually recovering from a slowdown that started in mid-2011. Growth fell from 7.5 percent in 2010 to 2.7 percent in 2011 and only 0.9 percent in 2012. It is not expected to exceed 2.5 percent in 2013. The slowdown was very much associated with external events and was mitigated by fiscal and monetary policy responses, as well as a sound banking system, large reserves and moderate debt levels. But future growth is constrained by structural bottlenecks in infrastructure, human capital and poor financial intermediation – all of which undermine the prospects for consolidating the last decade's gains in living standards.
- 3. At the same time, a growing middle class has drawn attention to the failings of the political system** and its inability to deliver public services efficiently and cost-effectively. Mass demonstrations in most large cities during June 2013 over corruption and the availability and quality of education, health, transport and other public services sent a strong message to all levels of Government. Responding to these demands without destabilizing the macroeconomic framework poses a severe challenge. So does the persistence of stark disparities between Brazil's regions. The historically disadvantaged North East, in particular, remains a peripheral part of the national economy with high levels of social exclusion.
- 4. Ceará is one of the poorest states in the country with a per capita income of US\$ 5,236 in 2010**, less than half the Brazilian average. Three fifths of its inhabitants are among the poorest two fifths of the Brazilian population by household income. Since the early 1990s, successive Ceará state governments have reformed the system of public administration and invested heavily in social programs, particularly health and education. The current Governor was elected to a second four-year term of office in October 2010 and adopted a similar program to that of his first term, with a strong focus on public investment in social programs, infrastructure and economic development.
- 5. These efforts have been reflected in Ceará's rate of economic growth and in the strength of its public finances.** Output grew at 4.4 percent annually between 2002 and 2010 compared to 3.8 percent nationally over the same period. Debt levels meanwhile declined from 60.4 percent of revenues in 2006 to 27.7 percent in 2012 and are well within the 200 percent limit of the fiscal responsibility law. Access to education and health services has also improved

¹ See annex 11 for a detailed analysis of recent economic developments in Brazil.

markedly in recent years. Infant mortality fell from 32 per thousand to 17 between 2002 and 2010, while literacy rates increased from 66 percent to 78 percent of the adult population and the average number of years of schooling rose from 3.8 to 5.5. Notwithstanding these achievements, Ceará faces serious challenges:

- *Poverty:* Poverty levels are still very high: in 2011 13 percent of the population lived below the regional extreme poverty line and 36.9 percent below the regional poverty line.² Infant mortality and adult illiteracy are still well above the Brazilian average. As elsewhere in Brazil, poverty is concentrated among families with young children and among adolescents and young people, many of whom lack the education and skills to participate in the labor market.
- *Growth:* Ceará's recent growth has been driven by public investment in infrastructure. Production and exports are concentrated in slow-growing traditional sectors (tourism, leather and agricultural goods) with low levels of innovation and technological content.³ In common with other peripheral regions, Ceará has an acute shortage of human capital which makes it difficult to attract and capitalize on large private sector investments. There is a pressing need to develop an environment favorable to private sector development and to align public support for training with private sector needs.
- *Environment:* Ceará is one of Brazil's driest states and in common with much of the Brazilian North East, experiences chronic water scarcity, with long and severe droughts that hamper agricultural development and reduce social welfare. Much of the state still lacks access to basic water and sanitation services.⁴ The problem is worsened by inadequate land use and solid waste management practices that impair water quality and impose additional economic and welfare costs.
- *Public sector management:* The efficiency and quality of service delivery in all these areas depend ultimately on stronger public sector management. The state's adoption of a results-based management model, which began in 2004, relies on a core of key individuals and, unless institutionalized, may prove unsustainable. The situation is complicated by the departure of the current Governor from office within the lifetime of the operation.

B. Multi-Sectoral and Institutional Context

6. The Government of Ceará has requested the Bank's support in implementing its Multi-Year Plan (*Plano Plurianual* or *PPA*) for 2012-15.⁵ The objectives of the Plan are to promote equitable social development, sustainable economic development and to contribute to the emergence of a more efficient and participatory public sector. The three pillars of the PPA are:

² The comparable figure for Brazil is 21.2 percent. The 'Extreme Poverty Line' is defined as the income required for a minimum intake of 2,000 calories per day according to the World Health Organization. The 'Regional Poverty Line,' as defined by IPEA, is double the income level of the Extreme Poverty Line.

³ Agricultural output was lower in 2010 than in 2000.

⁴ In 2011 75 percent of the population in Ceará was connected to the public water system and 35 percent to the sewerage system, compared to national averages of 82 and 61 percent.

⁵ The PPA is available at http://www.seplag.ce.gov.br/images/stories/Planejamento/Plano-Plurianual/PPA-2012-2015/Livro%20I_Mensagem_Governo.pdf

7. ***‘Just and Equitable Society’***: The Government’s social development program emphasizes the expansion and improvement in the quality of service provision in education, health and public safety with particular attention to the needs of young people and women. Health provision focuses on family and maternal/neonatal health and communicable diseases. Other programs include social transfers – with a particular emphasis on poor families with young children, youth and other marginalized groups – and support for sport and culture.

8. ***‘Economy for a Better Life’***: The Government’s economic development program emphasizes public investment in physical infrastructure and innovation to support commerce, agriculture, industry and mining – with particular attention to rural development and tourism. The expansion of physical infrastructure is concentrated around investment to secure access to water (*‘Eixão das Águas’* and *‘Cinturão das Águas’*) and transport infrastructure, in particular the port facilities at Pecém.

9. ***‘Participatory, Ethical and Competent Government’***: The Government’s Public Sector Management Program focuses on four areas: citizen participation in planning, budgeting and monitoring; improving the articulation among different branches of and between different levels of government; results-based management; and improving human resources and financial management. It continues a program of reform since 2004 that has, among other things, integrated the state’s financial management system, increased the transparency of revenue collection, centralized its procurement function and developed a system for the close monitoring of investment projects.

10. **The operation will support a subset of the PPA and concentrate on three core challenges** that are developmentally important in their implications for growth, poverty reduction and environmental sustainability and complex in that they require interaction across different government agencies and with the private sector. They are also among those to which the Bank can reasonably be expected to contribute. These challenges, each of which corresponds to a single guideline or *‘diretriz’* in the PPA, are in skills development, family assistance, and water quality:

- ***Skills development***: The expansion of the port facilities at Pecém and the attraction of private investments in petroleum refining and steel production has worsened Ceará’s skills deficit. More firms complain about skills shortages in Ceará than in almost any other Brazilian state but fewer provide any form of training themselves. The Government has expanded the supply of vocational training since 2008 but there are concerns over the effectiveness of the mechanisms for ensuring its alignment with demand.
- ***Family assistance***: Poverty in Ceará is concentrated among families with children under the age of six. Investments in early child development, provided they are of high quality, produce very large returns and can contribute to breaking inter-generational cycles of poverty. However, the poorest segments of the population are typically less likely to enroll in early childhood development and other family-related anti-poverty programs. Improving their access to these services through more effective communication and outreach is a priority.
- ***Water quality***: The quality of untreated water has deteriorated in recent years despite large investments in physical infrastructure. Poor water quality imposes a large economic cost and has negative implications for health and well-being. Ceará has concentrated heavily on

ensuring reliable access to water supply in recent years but drought, poor environment and land use management practices and a lack of access to basic sanitation have pushed up the cost of treatment and threaten to undermine the benefits of this investment. Remedying the situation will involve a new regulatory approach and more effective coordination among Government agencies whose actions affect water quality, including agriculture and fisheries.

11. These interventions are likely to have a strong impact on poverty reduction and equitable social development. Each particularly affects the 61 percent of Ceará's population who are below the 40th income percentile in Brazil. Skills development will generate sustainable quality employment for the poor, only 2 percent of whom currently work in technical occupations. It will also benefit women disproportionately, whose enrolment in Ceará's skills development program has exceeded men's since 2008. Improving access to social programs for the poorest families will contribute directly to poverty reduction by enabling their take-up of income transfer and productive inclusion programs and indirectly, among other things, by enabling women to participate in the labor force. The availability of free day care facilities has been shown to have a significant impact on employment and household income in Brazil.⁶

12. They are also mutually reinforcing. Improving the quality of untreated water will reduce the incidence of water borne diseases such as diarrhea and help remove an important impediment to early childhood development.⁷ Enabling women's participation in the labor force will both improve access to basic sanitation and extend the coverage of childcare facilitating their take up of skills in development programs. More fundamentally, underlying progress in all three areas is the gradual adoption of an approach to public sector management that is more responsive to demand, more concerned with efficiency in service delivery and more capable of learning and adaptation.

13. The Government's current management model is not fully equipped to address these less tractable development problems. Merely increasing the supply of public outputs through top-down expansion of expenditure programs is insufficient. What is required is a system that communicates strategic objectives, establishes incentives for secretaries and teams to meet them and allows for periodic evaluation and self-correction. A central element of such an approach is ensuring a process of continual feedback between progress reviews and implementation, comprising three stages linked in an iterative cycle: the setting of broad framework goals; the pursuit of these goals in a decentralized manner by line secretariats; and regular reviews of progress to assess performance, adapt policies where necessary and diffuse lessons learned – in short a system of experimental governance or 'diagnostic monitoring.'

14. Ceará already has some of the formal elements in place for such an approach to work. It has, in some policy areas, been converging towards it in practice. The Government has an effective system for setting framework goals and for transmitting these goals to the heads of sector agencies. It is also very effective at monitoring outputs, reviewing performance and at

⁶ Barros, Ricardo Paes de, Pedro Olinto, Trine Lunde and Mirela Carvalho, 2011. The Impact of Access to Free Childcare on Women's Labor Market Outcomes: Evidence from a Randomized Trial in Low-Income Neighborhoods of Rio de Janeiro. Policy Research Working Paper. World Bank.

⁷ Negative rainfall shocks in the Brazilian North East are robustly correlated with higher infant mortality, lower birth weight, and shorter gestation periods (Rocha and Soares, Water Scarcity and Birth Outcomes in the Brazilian Semiarid, IZA discussion paper, 2012). The mortality effects are concentrated on intestinal infections and malnutrition, and are greatly minimized when the local public health infrastructure is sufficiently developed.

transmitting this information from sector agencies to the Governor's office, a process that was strongly reinforced through the two SWAps. Where it could be strengthened further is in measuring the relationship between outputs and impact variables, aligning their supply with the needs of citizens and private sector enterprises and ensuring that there are cross-cutting mechanisms in place to require agencies to work together.

15. The operation will reinforce the process of policy learning and contribute to changing the operating culture in participating secretariats by encouraging them to: (i) concentrate on intermediate outcomes (as opposed to budget execution); (ii) assess the impact of these outcomes on their social objectives (which will be tracked as program indicators); and (iii) adjust the content of policies where appropriate (to reflect the results of impact evaluations). It will also provide incentives for public agencies to cooperate more fully with each other and strengthen the link between strategic priorities and program execution through technical assistance. It is expected that this capacity will then be leveraged to tackle other complex problems.⁸

C. Relationship to the CPS

16. The World Bank's lending in Brazil is increasingly concentrated in multi-sector operations with state and municipal governments, with a focus on policy design and implementation. The World Bank Group's Brazil Country Partnership Strategy (2012-2015) report# 63731-BR, discussed by the Executive Directors on November 1st 2011 emphasizes four strategic objectives: (i) to increase the volume and productivity of public and private investments; (ii) to improve the quality and expand the provision of public services for low income households; (iii) to promote regional economic development; and (iv) to improve natural resource management and climate resilience. The objectives of this operation are closely aligned with all four elements of this strategy.

D. Rationale for PforR instrument

17. The Bank has a long history of engagement at the sub-national level in Brazil, providing cross-cutting support for public sector management functions to strengthen sector programs. The PforR instrument evolved in large part from the Bank's experience in Ceará, Minas Gerais, Pernambuco and other Brazilian states and its design represents the culmination of almost a decade of accumulated experience. It retains the same orientation towards results and incremental improvements in public sector management bolstered by close implementation support. This record of long-term engagement and continuous improvement, coupled with: (i) the initial results of the Bank's fiduciary system and environmental and social system assessments; (ii) the client's commitment to technical and institutional capacity building; and (iii) the client's familiarity with the use of disbursement against results-based indicators, justifies the use of the PforR instrument.⁹

18. The operation represents an evolution of the Bank's support for service delivery in Ceará. Previous SWAp operations (P082142 & P106765) supported the state's fiscal

⁸ As one former Ceará state secretary put it, 'the most valuable part of engaging with the World Bank is not the financing but the method of working.'

⁹ The overall outcome of the SWAp I was rated 'satisfactory'. The SWAp II closed in June 2012 and has therefore not yet been rated, but met 13.5 of its 14 primary indicator targets and 12 of its 14 secondary indicator targets. The IEG evaluation of subnational lending in Brazil cited the Ceará operation as an example of an innovative and successful operation.

consolidation and the introduction of results-based management and expanded the coverage and quality of programs in health, education, water, sanitation and private sector development. These helped improve the capacity of individual secretariats to deliver outputs and in ensuring the implementation of high priority investments. But they also uncovered more complex challenges, for example in water quality and family assistance, whose solutions were not immediately obvious and depended on simultaneous inputs from multiple secretariats.¹⁰ The Bank also continues to support rural development and regional and urban integration in Ceará through the Rural Sustainable Development and Competitiveness and Ceará Regional Economic Development: *Cidades do Ceará* Projects (P121167 & P099369).

Table 1: Comparison between the PforR and previous operations

<i>Loan characteristic</i>	<i>SWAp I (2004)</i>	<i>SWAp II (2008)</i>	<i>PforR (2013)</i>
<i>Size</i>	\$150 million	\$240 million	\$350 million
<i>Project development objective</i>	‘Help the GoC achieve fiscal sustainability and address key fiscal and social inclusion issues across six critical sectors.’	‘Help expand and consolidate the social advances and institutional modernization of the state of Ceará.’	‘Support the Government to improve public service delivery particularly in the areas of skills development, family assistance development and water quality.’
<i>Principal results achieved (or expected)</i>	<p>Increased primary surplus, stronger budget execution, support introduction of RBM</p> <p>Increase in access to family health services</p> <p>Improved quality of primary and secondary education</p> <p>Increased access to water and sewage services</p>	<p>Consolidated fiscal situation and strengthened RBM</p> <p>Improved service quality in health and education</p> <p>Increased access to water and sewage services</p> <p>Reduced barriers to business investment</p>	<p>Institutionalize RBM in participating secretariats</p> <p>Improve coverage and quality of family assistance programs</p> <p>Improve water quality through better watershed, sewage and solid waste management</p> <p>Improve fit of skills provision with private sector demand</p>
<i>Disbursement-linked indicators</i>	13 DLIs	14 DLIs	12 DLIs
<i>Other requirements for disbursement</i>	70 percent rule for EEPs	70 percent rule for EEPs	None
<i>Fiduciary & environmental and social systems</i>	Bank systems	Bank systems	National (federal and state) systems

¹⁰ It was the underperformance of the secondary water quality indicator during the second SWAp, for example, that alerted the Government to the presence of pollution in the watersheds that feed urban water supplies.

19. The water quality program in particular depends on more effective policy integration. The Bank's support for water management in Ceará originated in the 1990s with the Ceará Urban Development and Water Resource Management – PROURB Project (P006436), which extended household connections to the water supply network. In the 2000s the Ceará Integrated Water Resources Management Project - PROGERIRH (P006449) then supported the expansion of water storage infrastructure and improvements in management and user participation. Both projects emphasized access to water and reliability of supply. In as much as they improved policy coordination, it was among those agencies directly responsible for water and sanitation, particularly SRH and COGERH. The current operation expands the scope of integration to include land-use and environmental management policy and implementation. This is consistent with the Bank's support at the federal level for water use management, particularly via the Federal Integrated Water - Interáguas Project (P112073), which involves the federal ministries of planning, water, environment and cities and has a similar focus on water security.

II. PROGRAM DESCRIPTION AND RESULTS FRAMEWORK

A. Structure of Operation

20. The proposed operation has two complementary components – a US\$ 315 million Program using the PforR instrument (Program), and a US\$ 35 million technical assistance component using the Investment Project Financing (IPF) instrument. The Program consists of government expenditure programs in vocational training, family assistance and water quality amounting to US\$ 381 million. The technical assistance component consists exclusively of high-quality firm and individual consulting services and non-consulting services and comprises support for: i) cross-cutting public sector management functions; ii) sector-specific public sector management functions; and iii) strengthening fiduciary systems. Its purpose is capacity building (see Section II B). In several cases, technical assistance inputs will be required to meet DLIs. The Government's record in executing technical assistance is sound and it will prioritize the processing of those activities necessary for DLI compliance.¹¹

21. Expenditure under the technical assistance component will be managed in accordance with OP/BP10.00 (see Annex 9). The reason for using Bank Procurement Guidelines is that local rules do not permit sufficient attention to be paid to quality in evaluating proposals. This is a characteristic of Brazilian federal legislation (Lei 8666), is outside the control of the state and consequently beyond remedy through capacity building activities of the sort associated with this operation. It does not apply to other types of contracts (e.g. for goods, non-consulting services and works), for which local rules are adequate. In view of this, the Government itself has expressed a strong preference for adhering to Bank Procurement Guidelines in procuring high quality technical assistance.

¹¹ The SWAp II disbursed 92 percent of the planned technical assistance.

Table 2: Structure of Operation

	<i>Skills development</i>	<i>Family Assistance</i>	<i>Water quality</i>	<i>Total</i>
Government Programs supported	‘Secondary school professional education’	‘Social assistance’	‘Environmental protection’, ‘water management,’ ‘natural resources and environmental management’	
Program expenditures USD millions (2014-2017)	272.6	12.9	95.3	381
Sector-specific technical assistance USD millions (2014-17)	3.2	6.1	9.0	18.3
Cross-cutting and fiduciary technical assistance USD millions (2014-17)	5.6	5.6	5.6	16.7
<i>Total operation resources</i>	281.3	24.7	109.8	416

B. Scope of PforR Program

22. **The PforR Program expenditure framework is based on the PPA.** There is no ambiguity over its boundaries: the activities to be supported correspond to specific entire line items or ‘initiatives.’ The Program’s total cost is estimated at BRL 853 million (approx. US\$ 381 million) over the period of the loan. As the current PPA runs through 2015, estimated expenditures for the final years of the Program have been linearly extrapolated from the first two years. The Program will support Government programs in vocational training, family assistance and water quality. The Program consists of the following selected subprograms and activities set forth in the PPA:

1. **Skills Development:** Carrying out of the Borrower’s subprogram on secondary professional education, through:
 - (a) the maintenance and operation of the Borrower’s professional training schools;
 - (b) the construction, expansion and refurbishing of the Borrower’s professional training schools, including the acquisition of equipment, vehicles, and/or the adaptation of technology laboratories in selected schools; and
 - (c) the acquisition and printing of teaching materials, support for research and the provision of scholarships to selected students.

2. **Family Assistance:** Carrying out of the Borrower’s subprograms on family assistance, by expanding the Family Assistance Program (*Programa de Atendimento Integral às Famílias - PAIF*) through Social Assistance Reference Centers (CRAS).

3. **Water Quality:** Carrying out of the Borrower's subprogram on water quality, through:
- (a) the development and implementation of a water security plan for the Watersheds;
 - (b) the expansion of household connections to existing sewerage networks in the metropolitan region of *Fortaleza* and in the *Acaraú* and *Salgado* basins;
 - (c) the preparation and implementation of solid waste management plans in the Borrower's territory; and
 - (d) the strengthening of hydro-environmental prediction and monitoring systems.

23. Several other objectives of the Government Program were considered for inclusion but excluded, either on the grounds that they were unlikely to generate similar economic and social returns, that the Government was capable of pursuing them without Bank assistance or that they are ineligible for support under the PforR instrument. These include several themes supported under the two SWApS: health, which the Government chose to exclude from the current operation; basic education, in which the state no longer requires assistance; and business environment reform and private sector innovation, which the Bank considers less of a priority in Ceará than skills development.

24. The Program will not support expenditure programs or initiatives that are the target of other Bank-financed operations.¹² Nor will it support any activities considered likely to have a significant adverse impact on the environment or affected people, as defined in OP 9.0, or that may require the procurement of goods, works or consultancy contracts above OPRC thresholds.¹³ The Bank will screen program execution during implementation to ensure that this continues to be the case. Also, the Government planning information system will automatically flag any contract financed under the Program that is at or above OPRC thresholds.

25. The intended beneficiaries of the Program are: recipients of vocational training and their employers (skills development); families in extreme poverty, including those from marginalized groups, with children under seven years of age and all the beneficiaries of the anti-poverty fund (family assistance and poverty reduction); citizens resident in metropolitan centers within the selected strategic watersheds (water quality). Other beneficiaries are those participating state institutions that will improve the quality of public services. The IDB also finances projects in Ceará, though it is not a partner in financing this operation.¹⁴ There are no other development partners.

C. Content of Technical Assistance Component

26. US\$ 35 million of Bank financing under the operation will be dedicated to financing a specific set of technical assistance activities. This component will consist of consulting services (both individual and firm) and will comprise support for: i) cross-cutting public sector

¹² It will not, for example, support the rural productive inclusion programs that are benefiting from the *Ceará Rural Sustainable Development and Competitiveness* (BR81240) project.

¹³ The thresholds are: US\$ 50mln (works); US\$ 30mln (goods); US\$ 20mln (IT systems); US\$ 15mln (consulting contracts).

¹⁴ The IDB's activities in Ceará include the Road Program for Logistics and Integration, Support for Social Reforms (PROARES), Expansion and Strengthening of Specialized Health Services and Fiscal Management Modernization Program (PROFISCO).

management functions; ii) sector-specific public sector management functions; and iii) for strengthening fiduciary systems.

1. Cross-cutting Public Sector Management, by, *inter alia*:

- (a) Strengthening results based management by designing incentives and mechanisms for coordinating the Borrower's secretariats' role in carrying out the Operation.
- (b) Designing and implementing investment planning and costing methodologies.
- (c) Carrying out of a payroll audit, providing recommendations to strengthen payroll processes and controls, assessing and redesigning human resource management; reforming budget preparation and execution procedures, including the design of an internal coordination and validation mechanisms for revenue forecasts.
- (d) Strengthening citizen participation and monitoring to leverage the Borrower's capacity to better identify citizen's demands for policies and services, including evaluating the current participatory practices under the PPA, including the design of methodologies to optimize the participatory process, and of strategies and technological solutions to enable third party monitoring of the Borrower's subprograms on skills development and family assistance.
- (e) Strengthening the Borrower's capacity for coordinating the Operation through IPECE, including building IPECE's capacity on managing procurement and carrying out financial management under the Operation, as the case may be, including the development of a monitoring system and, to CGE, the provision of support for the carrying out of technical audits of DLI compliance under the Program.

2. Sector Specific Public Sector Management, on:

(a) Skills development, by, *inter alia*:

- (i) improving the design, monitoring and evaluation of the Borrower's programs related to vocational education and innovation including:
 - i. the collection of data on program processes, outputs and outcomes;
 - ii. the carrying out of an assessment of the institutional framework and management practices within the secondary vocational training system and the design of a training program for instructors, teachers and directors, and the provision of entrepreneurship training, student support services and student testing; and
 - iii. the design and implementation of a private sector development strategy to support the growth of the Borrower's productive sector.

(b) Family assistance and poverty reduction, by, *inter alia*:

- (i) Designing and implementing a training program for municipal ECD coordinators in techniques for coaching *crèche* and pre-school instructors, and for school principals in management, all with emphasis on results based management and pedagogy.
- (ii) Developing, implementing, monitoring and evaluating a pilot home-based parenting program (*Programa de Acompanhamento do Desenvolvimento Infantil – PADIN*) aimed at training parents and caregivers in providing better cognitive and language stimulation to children under five years old, including the provision of training required therefor.

- (iii) Monitoring and building capacity for the CRAS by strengthening their ability to target families in need and oversee program implementation, including the provision of training required therefor.
- (iv) Strengthening the monitoring and result-based management of program financed by the State anti-poverty fund (FECOP), with emphasis on activities related to family assistance.
- (v) Analyzing the impact of health policies on social inequality.
- (c) **Water quality**, by, *inter alia*:
 - (i) (A) Evaluating and providing recommendations for improving the legal and institutional framework for water management in the Borrower's territory, including the development of mechanisms for participatory watershed management; (B) carrying out of an environmental assessment of the Borrower's policies and programs for water security plans; (C) classifying the Borrower's reservoirs by use and water quality objective; (D) designing a methodology for modeling water quality in the Borrower's territory; and (E) strengthening the Borrower's capacity to monitor water quality, including the carrying out of an assessment of water quality laboratories and equipment and of participatory water management.
 - (ii) (A) Strengthening municipal environmental agencies in the Watersheds by providing training to municipal technical staff and identifying necessary regulatory instruments; (B) assessing the economic impact of environmental degradation and climate change; (C) providing advice on draft legislation to support the emergence of a market for environmental services in the Borrower's territory; and (D) strengthening capacity to monitor compliance with environmental legislation and apply infractions.
 - (iii) (A) Preparing recovery plans to mitigate the environmental liabilities associated with degraded open air dumps; (B) designing and implementing a recycling program in the Watersheds; and (C) assessing and advising on improvements in the structure of solid waste management regulations in the Borrower's territory.

3. Strengthening Fiduciary Systems

- (a) Supporting the Borrower's adoption of international public sector accounting standards through: (i) the provision of training for selected Borrower's staff; (ii) the distribution of an accounting manual to selected Borrower's staff; (iii) the carrying out of a staffing needs assessment to determine the appropriate organizational structure; and (iv) improving information systems to support for the implementation of a Chart of Accounts.
- (b) Strengthening the TCE's capacity in (i) implementing international accounting and auditing standards; (ii) preparing guidance materials and providing training to selected TCE's staff; and (iii) coordinating input from and with legislatures and citizens.
- (c) (i) Designing and implementing management information systems to support execution of bidding processes; (ii) preparing a proposal for improving the Borrower's standard bidding documents; (iii) adopting a system of preventive internal

controls, management information and social outreach; and (iv) modernizing the Borrower's 'licitar' information system.

D. Program Development Objective

27. The Program Development Objective (PDO) is to support the Government to improve public service delivery particularly in the areas of skills development, family assistance and water quality. The operation will continue the broad approach pioneered under the SWAps, combining support for select sector interventions with capacity building to strengthen the efficiency and quality of public service delivery. The thrust of Bank support in each area will be to align the incentives of sector secretariats with the Government's strategic objectives, to reinforce collaboration among public agencies and with the private sector and to strengthen evaluation and feedback loops, including through citizen participation and impact evaluation.

E. Program Key Results and Disbursement Linked Indicators

28. The PDO-level indicators are: i) the number of technicians with completed secondary education absorbed by the productive sector (public and private) (adjusted for the economic cycle); ii) percentage of families in Cadastro Único in targeted municipalities receiving support from CRAS with trained staff; iii) raw water quality in the metropolitan region of Fortaleza. There is no public sector management PDO-level indicator. This is because improved public sector management is not a goal in itself but a contributing factor to the achievement of the PDO.

29. *Results Area 1: Skills Development:* The results framework reflects the established finding that regular institutionalized communication between public providers and the productive sector will help align the supply of skills with demand.¹⁵ There are two output DLIs: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan and the establishment of a monitoring system for TVET programs. These will strengthen public-private coordination and consultation mechanisms and assist in making information about the effectiveness and impact of programs more reliable and widely available. The intermediate DLI is the number of agreements in effect with private companies to contribute equipment, *in situ* training, and provide input to curriculum design or course instructors. This is a direct measure of private sector involvement and is expected to contribute to an improvement in the quality of matching and the number of graduates absorbed by the labor market.¹⁶ As the program is implemented at secondary level, enrolment is compulsory and student retention and graduation rates have been high.¹⁷ There is however a risk that, notwithstanding the improvements supported by the operation, graduates may still not find employment in the fields for which they have been trained. When evaluating the performance of the PDO-level indicator, it is important to recognize the influence of the broader economic context and the potential growth of private training programs. The target values have been adjusted for the economic cycle and are based on an extrapolation of the mean growth rate between 2003 and 2011.

¹⁵ Almeida, R., & World Bank. (2012). *The right skills for the job? Rethinking training policies for workers*. Washington, D.C: World Bank.

¹⁶ More than 17 such agreements have already been established, with companies such as PETROBRAS, *Companhia Docas do Ceará*, and with the state chemical and mechanical industry organizations.

¹⁷ For the cohort that started in 2009, the provisional drop-out rate in March 2011 (i.e. in mid-program) was 12.2 percent across all schools and career tracks. This compares with a final drop-out rate of 27.4 percent for similar programs in Minas Gerais in 2008. Dore, Rosemary and Ana Zuleima Luscher 2011. *Permanência e evasão na educação técnica de nível médio em Minas Gerais. Cadernos de Pesquisa, 41(144), 770-789.*

30. *Results Area 2: Family Assistance:* The results framework reflects the Bank’s analysis that a key challenge for poverty reduction in Ceará is to improve the targeting and outreach of existing programs, particularly those intended to benefit poor families with children aged 0-5. There is one DLI output indicator: the percentage of FECOP-financed family-targeted projects with log frames. This will ensure that agencies consider the relationship between available resources, planned activities, and desired changes or results. This in turn, should support the identification of synergies between programs and improve collaboration among those agencies whose activities contribute to family assistance. There are also two intermediate or outcome DLIs: the percentage of families in the Cadastro Unico in targeted municipalities receiving support through the CRAS and the percentage of technical teams in CRAS trained in family support.

31. *Results Area 3: Water Quality:* The results framework is based on the fact that untreated sewage and the use of riparian zones for agriculture, animal husbandry and waste disposal are the most important causes of the decline in raw water quality. The output DLI is the establishment of an inter-agency water security committee.¹⁸ The intermediate DLIs are an index of environmental enforcement quality (percentage of environmental infractions corrected, fraction of total reservoir area monitored through telemetry, percentage of population participating in municipal environmental education programs), an indicator measuring the implementation of participatory water quality monitoring and the percentage of households with adequate connection to the sewage system, as measured by the sewage optimization index. The exclusion of activities considered likely to have a significant adverse impact on the environment or affected people, means that the operation cannot support actions related to the implementation of the watershed protection laws or solid waste management. The main risk to achieving the PDO objective is drought. Under normal climactic and hydrological conditions and assuming no other changes in relevant policies, better sewage and watershed management will lead to an improvement in water quality. However, Ceará is now experiencing the worst drought in 60 years, which has affected both water quantity and quality. The Government is acutely aware of the problem and of the need for better coordination among sector agencies and participatory water management to address it.

32. *Results Area 4: Results-based Management:* The results framework follows the evolving RBM model applied in other Brazilian states, particularly Minas Gerais.¹⁹ It applies specifically to those activities within the scope of the Program. There are two DLIs: the number of the Borrower’s secretariats under the Program using the model for aligning incentives with its respective strategic objectives; and the total percentage of public investments under the Program prepared using approved methodology.²⁰ Together and in combination with pre-existing results monitoring, these are expected to contribute to (i) embedding the culture of RBM within participating secretariats and (ii) aligning the content of investment projects with the government’s strategic priorities. The principal risk to the results chain is that the change of government in 2014 will soften the state’s commitment towards RBM. However, the record of

¹⁸ ‘Water security’ implies guaranteeing a reliable supply of water of adequate quality for human consumption, productive use and ecosystem maintenance. It is also intended to assist in reducing the risks associated with critical events such as droughts and floods. A National Water Security Plan is expected to be elaborated by 2015.

¹⁹ The introduction of elements of results-based management, including results agreements and performance-related pay, has been associated with significant positive changes in education and security outcomes in Minas Gerais and Pernambuco.

²⁰ The IEG evaluation of the Brazil Country Program Evaluation to be published in 2013 noted the importance of finding “new avenues through which the Bank could work with the federal and subnational governments to strengthen their capacity for public investment planning and project selection”

continued support for the reforms through two previous Government transitions provides assurance that it will continue.

Table 3: Disbursement Linked and PDO-Level Indicators; * = Prior results financing disbursement condition

Government Program	Output-level indicators	Intermediate outcome-level indicators	PDO-level or impact-level indicator
<i>Skills development</i>	DLI 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan* DLI 2: Establishment of monitoring system for TVET programs	DLI 3: Total number of agreements in effect with private companies to contribute equipment, <i>in situ</i> training, and provide input to curriculum design or course instructors	PDO Indicator 1: Number of technicians with completed secondary education absorbed by productive sector (public and private) (adjusted for the economic cycle)
<i>Family assistance</i>	DLI 6: Percentage of FECOP-financed family assistance projects with log frames	DLI 4: Percentage of families with children 0-5 in Cadastro Unico in targeted municipalities receiving family support through CRAS DLI 5: Percentage of technical teams in CRAS trained in family support	PDO Indicator 2: Percentage of families in Cadastro Unico in targeted municipalities receiving support from CRAS with trained staff
<i>Water quality</i>	DLI 7: Establishment of inter-agency water security committee*	DLI 8: Percentage of households with adequate connection to sewage system DLI 9: Index of Environmental Enforcement Quality DLI 10: Implementation of participatory water quality monitoring	PDO Indicator 3: Raw water quality in the Metropolitan Region of Fortaleza
<i>Public sector management for PforR Program</i>		DLI 11: Number of the Borrower's secretariats using the model for aligning incentives with its respective strategic objectives DLI 12: Total percentage of public investments under the Program prepared using approved methodology	All three PDO-level indicators

33. The DLIs are mainly outcome-based. In so far as disbursements are linked to process or outputs indicators these are necessary for the achievement of intermediate outcomes. The DLIs are also designed to incentivize collaboration across public agencies – for example through the establishment of the inter-agency water security committee which will be responsible for improving water quality – and between public agencies and the private sector. Inter-sector cooperation was encouraged by the joint biweekly monitoring and reporting arrangements required under the SWAp II and these will continue under the Program. The operation will also encourage executing agencies to reflect on the relationship between Program activities, as measured through DLIs, and final impacts, as measured through PDO-level indicators. Where external factors prevent an improvement in the PDO level indicators, what matters is that the agency concerned should review the reasons why and, where necessary, adjust the content of its program.

34. The operation will also track secondary indicators whose attainment is not required for disbursement but which are associated with actions that contribute towards its overall objectives (see Annex 2 and the Technical Assessment). The experience of the SWAp II indicates that monitoring secondary indicators can draw attention to potentially significant phenomena that would otherwise go unnoticed.²¹

35. The bulk of the disbursements will be tied to the intermediate indicators to avoid any disruption due to factors beyond the borrower's immediate control. Given the client's request for prior results financing of up to 25 percent of the PforR component, two of the three thematic areas have defined prior results conditions.

36. The indicative annual disbursement totals detailed in Annex 3 reflect the Government's anticipated financing requirements. Disbursement amounts have then been distributed evenly across DLI targets within each year. This means that in some cases the volume of funds associated with a set of indicators exceeds the size of the sub-Program to which those indicators refer.

F. Lessons Learned

37. The experience of previous multi-sector operations in Ceará, synthesized in the SWAp II ICR and in the Government's own assessment, has led to a number of lessons which have been reflected in the preparation and design of the current operation:²²

- Multi-sector projects impose a large burden of coordination: The SWAp II involved 15 government agencies including the Instituto de Pesquisa e Estratégia Econômica do Ceará (IPECE)²³. Its success depended on IPECE's role in conducting monthly progress meetings and following up as problems arose. The operation will involve a similar number of agencies

²¹For example, rigorous tracking of infant weight/height ratios as a secondary indicator led to the discovery that obesity is an emerging problem among Ceará's poor.

²² The Government's Assessment (*Projeto SWAp II: Impacto, Lições Aprendidas e Melhores Práticas*) is available at http://www.ipece.ce.gov.br/publicacoes/ipece-informe/Ipece_Informe_55_05_marco_2013.pdf.

²³ IPECE is an autonomous agency under the Secretariat of Planning and Management of the State of Ceará. It is responsible for the generation of studies, surveys and geographic and socioeconomic information to evaluate programs and the development of strategies and policies. It is also responsible for the coordination of major government projects.

but just seven will execute the Program and it will concentrate on achieving results in just three key areas.

- Indicators beyond Government control should be used sparingly: There is an unavoidable tension between the need for attribution and the desire to motivate a focus on impact. The operation minimizes the use of disbursement-linked indicators that are beyond the Government's influence (including those under the control of municipal governments). But it does include PDO-level impact indicators that are heavily dependent on outside factors. It is important, and the Bank will emphasize during implementation, that agencies should not feel discouraged if these indicators deteriorate through no fault of their own.
- It is important to establish a balance between flexibility and discipline in assessing DLI compliance: Some allowance has to be made for contingency and the possible misspecification of indicators and/or targets. Previous operations granted waivers in the case of non-compliance due to unforeseen circumstances. Over time, however, there arose an expectation that these would be granted as a matter of course or in recognition of effort alone. The current operation will permit DLIs to be renegotiated only at mid-term review. However, it does allow for scalability and flexibility in the timing of disbursements.
- Bank fiduciary and reporting requirements can impose a cumbersome administrative burden: The current operation differs from the SWAp in that, with the exception of the procurement of high quality consultancy services, it will rely on local systems for procurement. Also the Bank will require that the Government present an audit only of those expenditures associated with the Operation.

G. Key Capacity Building and Systems Strengthening Activities

38. In keeping with the spirit of the PforR instrument, the operation will contribute to improving the capacity of participating sector agencies to plan, execute, evaluate and adjust the content of their programs. This will occur in part through learning by doing, as under the SWAps, where the experience of repeated interaction with each other and with IPECE, the program coordinator, encouraged a greater focus on results, an awareness of the potential for collaboration across sectors and a more flexible approach to solving difficulties in implementation. Over time, it is expected that this will lead a change in operating culture and to the institutionalization of a more results-based approach to public sector management and the delivery of public services.

39. The operation will also support capacity building activities to strengthen both the technical capacity of participating government secretariats and agencies and their capacity to manage the technical, fiduciary and environmental and social risks associated with Program activities. Where possible, these will be included within the programs themselves and executed by the relevant secretariats. However, given the particular constraints imposed by the Brazilian procurement system and the overriding need for high quality inputs, some of these activities will be financed under the technical assistance component.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

40. Responsibility for coordinating, monitoring and reporting on operation activities will rest with SEPLAG through IPECE. The Bank will rely on the State's systems for monitoring and evaluation while contributing to their strengthening through technical assistance. This will place

a large burden of coordination on IPECE but experience indicates that the State's project monitoring capacity is strong.

41. The Government is responsible for: (i) ensuring general coordination with the Bank, the various secretariats and government stakeholders and timely implementation of all activities; (ii) holding monthly meetings of the Program Committee to monitor results, diagnose problems in implementation and develop, propose and carry out any necessary corrective measures;²⁴ (iii) reporting on loan activities in a timely manner, including the presentation of financial and performance reports as needed for disbursement and oversight; (iv) implementing the Program Action Plan; and (v) hosting, facilitating and participating in Bank implementation support.

42. *Program implementing secretariats and agencies:* The State Secretariat of Education (*Secretaria de Estado da Educação – SEDUC*) is responsible for implementing the Skills Development sub-Program. It received a 'high' rating for all its target indicators according to the assessment undertaken for the SWAp II ICR. The Government's commitment to professional education is attested to by its inclusion in the PPA under three different sections: science and technology, basic education and economic development. ADECE will participate in this portion of the program on secondary education by providing data, through CEDE. The Family Assistance program will be implemented by the State Secretariat of Work and Social Assistance (*Secretaria de Estado do Trabalho e Assistência Social – STDS*). STDS has not participated in previous Bank-financed operations but the Bank has assessed its implementation capacity as adequate. The activities are grounded in the social development axis of the PPA (basic education with equity, consolidation of the social security system and broadening of the social protection network). The water quality program will be implemented by the following secretariat and agencies: SRH (water security plans for the strategic watersheds); CAGECE (sewage connections); CONPAM (solid waste management plans and Water Security Committee); FUNCEME (design of the water quality monitoring protocol) and COGERH (implementation of the water quality monitoring program). All five are well established but SRH's implementation of the PROGERIRH project was rated unsatisfactory and this agency will require particularly close implementation support and capacity building. Out of all these implementing agencies, only ADECE, CAGECE and COGERH have a separate and autonomous legal personality; to ensure that all three agencies can carry out their respective portions under the program, the Government will enter into separate participatory agency agreements with each of these agencies. The PPA includes several guidelines to improve water management: urban development and regional integration, environment and water resources.

43. *Role of Municipal Government:* The family assistance and water quality programs depend on close cooperation between the State and municipal governments. Municipalities are responsible for operating the CRAS. They are also responsible for developing the solid waste management plans, establishing the consortia to implement them and monitoring water quality. STDS has worked effectively with municipal governments before through voluntary but legally binding *convênios*. In addition STDS and CAGECE have ongoing programs to strengthen municipal capacity and the operation will reinforce them through technical assistance.

²⁴ For each DLI the Government will be required to produce action plans twice a year to inform Bank supervision of the operation, explaining the steps already taken and those planned to ensure that targets are met. The Bank will review these plans and suggest adjustments as necessary.

44. *Technical assistance component*: The implementation arrangements for the technical assistance component will be the same as for the SWApS. SEPLAG through IPECE will be responsible for executing it. IPECE has several years' familiarity with Bank procedures and, subject to its recruiting additional staff and carrying out the steps outlined in Annex 8, adequate capacity to exercise its functions effectively.

B. Results Monitoring and Evaluation

45. IPECE will be responsible for coordinating, monitoring and reporting on the execution of the Program and particularly its elements requiring inter-secretarial collaboration. SEFAZ will be responsible for maintaining the accounting records for the Program. The State's financial accounting system (SIC/S2GPR), enables the preparation of the State's financial reports. SEFAZ periodically prepares and publishes the government's financial reports. Budget execution reports are prepared on bi-monthly and quarterly bases. Interim Financial Reports specific to the Program will be prepared on a semi-annual basis by SEPLAG/IPECE, showing Program expenditures by sub-Program, budget line and activity. SEPLAG/IPECE will also prepare Annual Program Financial Statements for the program and will show the total revenues and expenditures related to the sub-programs it supports.

C. Disbursement Arrangements and Verification Protocols

46. Disbursements under the Program will be made on the basis of verified results, as measured by Disbursement Linked Indicators. Verification of compliance with DLIs (with the exception of the three conditions for prior results financing) will be made by an independent technical agency, to be contracted by the Government through CGE with the agreement of the Bank. Restructuring of DLI targets may be allowed during a mid-term review but not otherwise. There will be no waivers in case of non-compliance. The Government will have to demonstrate through its regularly prepared financial statements that Program expenditures were equal to or in excess of the volume of Bank financing by the end of the operation.²⁵ The Program Financial Statements will be audited annually by the TCE.²⁶ Up to 25 percent of the total loan value (excluding the technical assistance component) will be disbursed on effectiveness and in respect of DLIs achieved between the dates of review of the Concept Note (December 2012) and the date of signing (Prior Results Financing). Up to 5 percent of the total loan value (excluding the technical assistance component) can be requested as an advance(s) against amounts allocated to certain DLRs, that have not yet been achieved. The amount of the advance(s) and the specific DLR(s) to which the advance relates, must be clearly indicated in each Application for withdrawal. The Bank records an amount of the advance as "disbursed for an achieved DLR" ("recovered") after it has notified the Borrower of its acceptance of the evidence of achievement of the DLR for which the advance was provided. The amount so reclassified becomes available for further advances. The Disbursement Deadline Date for the Program will be six months after the closing date of the operation, with respect to DLIs achieved prior to the closing date.

47. Disbursements under the technical assistance component will be made either as Advances or as Reimbursements. Applications for withdrawal, except in the case of the initial Advance, must

²⁵ Given that in this case planned Program expenditures (US\$ 458 million) exceed Bank financing (US\$ 315 million, excluding the IPF component) by US\$ 143 million this constraint is not expected to be binding.

²⁶ Under previous operations the State prepared Interim Financial Reports for SWAp eligible expenditure programs. The Government will follow this principle by presenting interim financial statements for the PforR program.

be accompanied by Statements of Expenditure and Summary Sheets with Records. Advances will be made to a segregated US dollar-denominated designated account at a commercial bank acceptable to the Bank with a fixed ceiling of US\$ 7 million. The frequency for reporting eligible expenditures paid from the DA is quarterly. The Minimum Application Size for Reimbursements will be US\$ 500,000 equivalent. The Disbursement Deadline Date for the technical assistance component will be four months after the closing date of the operation. Expenditures incurred during this ‘grace period’ between the closing date and Disbursement Deadline Date will not be eligible, except as otherwise agreed with the Bank.

IV. ASSESSMENT SUMMARY

A. Technical

48. *Strategic relevance and technical soundness:* The activities to be supported have been chosen on the basis of their importance to the state’s goals (as reflected in the PPA) and the Bank’s capacity, in view of its experience in other Brazilian states and elsewhere, to contribute to improving their design and execution. In addition to responding to the priorities of the State the three areas of service delivery to be supported under this Program will directly improve the welfare of the poorest segment of the population, particularly the 61 percent whose incomes are below the 40th percentile of national income, and at the same time contribute to future growth and the promotion of shared prosperity.

49. *Expenditure framework:* Ceará’s fiscal position is sound. Revenues have grown steadily since 2007, reflecting strong economic activity and improvements in the efficiency of tax collection. The effects are evident in the State’s operating and primary balances and debt profile (net consolidated debt was at only 27.4 percent of current revenues in 2012, compared with the LRF limit of 200 percent – see Annex 4 for a detailed analysis of Ceará’s fiscal position), all of which are well within the limits established by the Fiscal Responsibility Law. Budget discipline is generally strong. There are concerns, however, over the execution capacity of the three agencies associated with the water quality programs. Also, the connection between sector priorities and the selection of investment projects is weak and there is a tendency for project budgets to fail to account properly for recurrent or maintenance expenditures. The Technical Assistance component will help remedy these weaknesses.

50. *Economic rationale:* There is a strong case for public provision and evidence of high returns for all three components. Public investment in transferable skills is justified by the inability of private enterprises to appropriate returns and, particularly in Brazil, by high rates of labor turnover. Evidence from Brazilian labor force surveys show that participation in vocational training is associated with higher earnings and a greater likelihood of employment.²⁷ The family assistance interventions are also expected to generate significant returns. Similar efforts to target and coordinate interventions to assist indigent families, such as Chile’s *Chile Solidario* program, have been shown to be effective. Finally, the health benefits associated with better sanitation, land-use and environmental management far exceed the cost of implementing and maintaining water treatment systems.

²⁷ Mauricio Reis. 2012. *Vocational Training and Labor Market Outcomes in Brazil*. IPEA, Working Paper 045.

B. Fiduciary

51. *Procurement:* The procurement system provides reasonable assurance that the fiduciary principles of transparency, economy, efficiency and accountability will be met under the Program. It also provides an adequate mechanism to ensure fairness and guarantees the right to appeal decisions on individual bidding processes. In Ceará, procurement practices are largely based on a solid and transparent federal framework. The competitive method is enshrined in the Constitution as the default procurement method while public access to information is guaranteed through the federal Access to Information Act. Bidding through competitive methods, which accounts for 85 percent of procurement, is centralized in one agency PGE (*Procuradoria Geral do Estado*) which has strong capacity and is well resourced. There are no high value contracts in this program that exceed the OPRC threshold. Some weaknesses have been identified in managing works contracts, estimating goods' prices, monitoring performance and selecting high quality consultants based on the national rules. The Government is committed to strengthen under this project the information systems that will allow for more effective monitoring of the procurement process and contract management, will provide a platform for increased use of framework agreements and will strengthen internal controls. Key consulting contracts will be financed under the TA component while the Bank will continue the dialogue with the Government on improving the selection procedures for consultants.

52. *Financial management:* The financial management arrangements for the Program will be implemented within the national and state framework for the management of public finances. Ceará's public financial management system is characterized by strong internal rules and controls with a clear definition of responsibilities and institutional arrangements. The *Controladoria Geral do Estado* (CGE) carries out internal audits and the *Tribunal de Contas do Estado* (TCE) has the mandate to audit all public expenditure.²⁸ The TCE enjoys sufficient autonomy and its recommendations are generally implemented. The Government is upgrading its accounting and internal audit functions. The CGE has the ability to detect malfeasance by identifying accumulated positions and change orders to contracts, two of the most typical forms of fraud and corruption in Brazil. However, it has no systemic ability to detect overcharging on contracts and limited ability to cross-reference contract information. A new system capable of detecting these issues became active in October 2013. The conclusion of the assessment is that the financial management arrangements are in line with OP 9.00 and that the capacity and performance of the implementing agencies are adequate for the purposes of the Program.

C. Environmental and Social Effects

53. The Bank's overall assessment is that the proposed Program is suitable for the PforR instrument and the risk profile Moderate (see Annex 6). Civil works envisaged under the skills development will generate only minor disturbances within lands that do not require the involuntary taking of land. The Action Plan includes an early screening of the proposed footprint of the civil works support to ensure the exclusion of any sites where resettlement (or relocation of households with no legal titles to land) including of indigenous peoples would be required.

54. A primary risk relates to the potential exclusion of indigenous peoples, Quilombolas and people in more remote areas from the skills development and family assistance programs. These

²⁸ Under previous operations the State prepared Interim Financial Reports for SWAp eligible expenditure programs. The Government will follow this principle by presenting interim financial statements for the PforR Program.

populations, and especially the women that live within them, are over-represented among the extreme poor.²⁹ The Program Action Plan includes a targeted communication and outreach strategy³⁰ to ensure that these marginalized groups have adequate access to the benefits of these programs. The development of the outreach strategy will be undertaken in consultation with indigenous peoples and Quilombola groups and based on a thorough assessment of barriers to access. The ESSA analysis and consultations also highlighted the need to improve the cultural sensitivity of the trainers and modules currently used for the skills development program. The Program Action Plan therefore includes support for the preparation of a specific module on culturally appropriate methodologies. The development of the module will be conducted in consultation with Indigenous Groups and Quilombolas, the Coordenadoria for Racial Equality and Human Rights and FUNAI. It will include a detailed assessment of teacher behavior in the class-room.

55. The second set of environmental and social risks related to this Program lie in the development of Water Security Plans. These risks are two-fold. First, the improved enforcement of protected areas that will be supported both by the Program and the Technical Assistance may result in additional restrictions of natural resources that could adversely affect people that depend on these resources for their subsistence or livelihood activities. The Program Action Plan includes measures to work in a collaborative manner with community-based watershed committees to screen, assess, and compensate households affected by these restrictions in the three strategic watersheds. This will be carried out in line with the existing Federal Forest Code, which affords adequate legal protection to households without legal titles and guarantees their right to access and use water resources in Protected Areas. Second, downstream impacts from changes in current waste management (construction of new sanitary landfills or closure of existing open dumps) require adequate environmental and social assessment and management. In particular, waste pickers that currently are organized and depend on existing open dumps for the livelihoods could be adversely affected if alternative livelihood programs are not implemented. These impacts are beyond the scope of the Program but any advice provided through technical assistance will reflect the Bank's Environmental and Social Safeguards policies.

56. The Bank also assessed the social management systems currently in place at State level confirmed the existence of an effective mechanism to ensure that gender considerations are mainstreamed in the program areas supported under the operation. The *Coordenadoria de Políticas Públicas para as Mulheres* (Office for Public Policy on Women's Issues, in the Governor's office) has as its mandate a focus on working with State level institutions to ensure adequate attention to gender issues across all newly developed programs and policies. While the Coordenadoria does not have a specific budget for program implementation, consultations carried out with key agencies (SEDUC, STDS and CAGECE) confirmed a strong emphasis on gender mainstreaming in the program areas supported.

²⁹ Ethnicity and gender are important in understanding poverty and vulnerability in Ceará. Afro-descendants (19%) and Indigenous Peoples (25%) are over-represented among the extreme poor (13% state average). The percentage of people with a declared income below a fourth of the national minimum wage is higher among afro-descendants (8%) and Indigenous Peoples (9.5%). Women in general, but particularly indigenous and afro-descendant women, are also more likely to be among the extreme poor.

³⁰ Outreach strategies include "active search" of potential program beneficiaries among vulnerable and marginalized groups.

- SEDUC has taken steps to ensure the enrolment of women trainees in skills development programs. Women have consistently outnumbered men in these programs and gender disaggregated data on enrolment and completion is systematically/consistently collected;
- STDS' focus on developing an outreach strategy for vulnerable and marginalized groups through CRAS acknowledges the need to develop a stronger focus on ensuring that female headed households, women at risk (particularly women victims of violence) are able to effectively access services. This is a core element of STDS overall approach;
- CAGECE's sanitation program includes specific activities to address the needs of vulnerable groups and households. As further described below, this approach provides access to sewage systems at highly subsidized rates for poor and marginalized households. Female headed households are specifically targeted under this program to ensure they are covered by CAGECE services in spite of potentially lower incomes.

57. The ESSA indicated that Program benefits will be shared equitably by men and women beneficiaries. Data collection systems would ensure the ongoing monitoring of attendance in family assistance programs by gender. No specific barriers were noted in terms of access by male/female children. In addition, the roll-out of the program to highly vulnerable families is expected to generate disproportionately positive impacts for female beneficiaries who bear great care responsibilities for children within households. In terms of vocational education, the available data indicates that women outnumber men number in skills development programs since 2008. Gender disaggregated data will continue to be collected/monitored during implementation. As noted above, the household level interventions in terms of Water Quality include measures to specifically target vulnerable women (particularly female-headed households).

58. Targeted consultations with relevant agencies were carried out in preparation of the draft ESSA. The primary issues raised during ESSA preparation were those highlighted in paragraphs 53 and 54 regarding the extension of program benefits to vulnerable groups. The draft Action Plan was subsequently shared at a series of consultative meetings held between the 27th and 30th of August 2013 and the ESSA was disclosed in country on September 19th 2013³¹ and on the Bank's website on October 28th 2013.

D. Integrated Risk Summary and Explanation

59. The overall risk rating is Moderate. However, the technical risk rating is Substantial. Successful execution of all three sub-programs depends on a high degree of coordination across sector agencies and, in the case of the water quality sub-program, with municipalities. This will require continuing political commitment from the Governor and from mayors in the three strategic watersheds. Most secretariats have participated in previous Bank-financed projects, but there are concerns over the capacity of the executing agencies in the water sector. The fiduciary risk rating is Moderate, reflecting the solidity of the Brazilian legal framework and Ceará's long-standing record of capacity building. Environmental and social risks are Moderate.

³¹ <http://www2.ipece.ce.gov.br/SWAP/p4r/ambiental/index.htm>

Table 4: Risk Ratings

Risk	Rating
Technical	Substantial
Fiduciary	Moderate
Environmental and Social	Moderate
Disbursement Linked Indicator	Moderate
Other	-
Overall Risk	Moderate

E. Program Action Plan

60. The most critical steps required for the Program to achieve its objectives, and which in the Bank's assessment require specific external reinforcement, have been made the subject of an Action Plan (see Annex 8) to be complemented by the technical assistance component.

Annex 1: Detailed Program Description

1. The Program Development Objective (PDO) is to support the Government to improve public service delivery particularly in the areas of skills development, family assistance and water quality.
2. The proposed operation has two complementary components – a US\$ 315 million Program under the PforR instrument and a US\$ 35 million technical assistance component under the IPF instrument. The Program consists of government expenditure programs in vocational training, family assistance and water quality amounting to US\$ 381 million of which the Bank will indirectly finance US\$ 315 million. The technical assistance component consists of high-quality firm and individual consulting services and comprises support for: i) cross-cutting public sector management functions; ii) sector-specific public sector management functions; and iii) strengthening fiduciary systems. Its content is described in more detail below.
3. Expenditure under the technical assistance component will be managed in accordance with OP/BP10.00 (see Annex 9). The reason for using Bank procurement Guidelines and Procedures is procedural not substantive. Local rules do not permit sufficient attention to be paid to quality in evaluating proposals. This is a characteristic of Brazilian federal legislation (Lei 8666), is outside the control of the state and consequently beyond remedy through capacity building activities of the sort associated with this operation. It does not apply to other types of contract (e.g. for goods, non-consulting services and works), for which local rules are adequate. In view of this, the Government itself has expressed a strong preference for adhering to Bank Guidelines in procuring key technical assistance.
4. The operation will provide incentives, through Disbursement-Linked Indicators, and technical assistance to support the adoption of results-based management techniques in selected sector agencies. It will also support expenditure programs executed by those agencies, while encouraging inter-sector cooperation through the inclusion of disbursement-linked indicators whose achievement requires it. The program activities to be supported are as follows:

Skills Development:

5. The operation will support the Government's programs in secondary professional education. Since 2008 Ceará has spent BRL 611 million establishing a network of technical and vocational training facilities targeted towards students of high school age and covering 74 of its 184 municipalities. More than 38 thousand students have enrolled in these schools since the program's inception. The goal is to increase the number of schools in operation to 140 in 128 municipalities by 2015, with some schools serving more than one municipality. The consolidation and expansion of this network to the rest of the state requires investments in the maintenance and refurbishment of facilities already in operation, the construction of new schools and the purchase of training materials, development of curricula and the training of instructors and teachers. The Government program sub-components are:
6. *Maintenance and operation of professional training schools (BRL 327.5 mln/US\$ 146.2 mln):* The Program will support the maintenance of the 97 professional education schools already

in operation and the additional 35 schools under construction or bidding. Maintenance costs include electricity, water, cleaning and office supplies, maintenance of laboratories, uniforms, food, and logistics costs associated with field trips and technical visits.

7. *Construction, expansion and refurbishment of professional training schools (BRL 156.9 mln/US\$ 70.0 mln):* The Program will also support the construction of 8 new schools between 2013 and 2015, excluding those currently under construction or for which bids have been submitted. It will also finance refurbishment of the existing infrastructure and the building or adaptation of new technology laboratories in established schools.

8. *Acquisition and printing of teaching materials, support for research and provision of scholarships (BRL 126.3 mln/US\$ 56.4 mln):* This comprises the purchase of books and the development and printing of course materials. It also includes the provision of scholarships for students undertaking internships in productive sector companies in the last year of their studies.

Family assistance:

9. The Program will support the expansion of social protection policies in poor municipalities. It will also provide technical assistance to improve the targeting, monitoring and impact evaluation of programs funded by the state anti-poverty fund. The Program sub-component is:

10. *Expansion of family support program (PAIF) through social assistance centers (CRAS): (BRL 29.0 mln/US\$ 12.9 mln):* This activity will support the implementation of social protection programs at the municipal level for the extreme poor with children aged 0 to 6 years by expanding the co-financing of the *Programa de Atendimento Integral às Famílias* (PAIF). The PAIF improves life quality by establishing links between families and community and promoting access to social assistance programs and benefits. Priority is given to those families with children between 0 and 6 years old receiving social assistance, the disabled and the elderly. The program is implemented through the network of 369 Social Assistance Reference Centers (CRAS). Currently, the state co-finances 170 CRAS in 148 municipalities. The operation will support the extension of the co-financing mechanism to the remaining CRAS, expanding the range of services offered.

Water quality:

11. The operation will support initiatives to improve raw water quality in the Metropolitan, Acaraú and Salgado strategic watersheds. This will be done through a combination of measures to strengthen watershed management including the design and implementation of a water quality monitoring protocol, extension of the network of household sewage connections, preparation and partial implementation of a water security plan at the watershed level, preparation of solid waste management plans and improved monitoring and enforcement capacity. It is expected that the pilot approach employed in these three watersheds will then be scaled up to the rest of the state, though this is beyond the scope of the operation.

12. The Program will support expenditure programs in the following four areas:

Development and implementation of water security plan for strategic watersheds (BRL 33.6 mln/US\$ 15.0 mln): The Program will support research, analytical work, environmental testing

and monitoring to identify: (i) the main causes of the degradation of water quality in the three strategic watersheds; and (ii) structural and non-structural interventions needed to improve water quality in these watersheds. This will lead to the development of a water security plan, the initial implementation of which the Program will support through (i) the setting up of an executive group within the water security committee and (ii) state-wide public consultations.

Expansion of household connections to existing sewerage networks (BRL 53.7 mln/US\$ 24.0 mln): The Program will support the connection of an additional 14,628 households to the existing sewage network in the target area (metropolitan region of Fortaleza and the Acaraú and Salgado basins), of which 10,588 will be in Fortaleza and 1,656 in other municipalities of the Metropolitan basin, 1,044 in the Acaraú basin and 1,340 in the Salgado basin. This corresponds to an overall increase in usage of existing connections in the target area from 83 to 86 percent, which will benefit an estimated 52,600 individuals.

Preparation and implementation of solid waste management plans (SWM) (BRL 15.1 mln/US\$ 6.7 mln): Strengthening solid waste management by preparing state-level, regional and watershed-level solid waste management plans and by implementing measures (excluding the construction of disposal facilities) to improve the coverage and effectiveness of the solid waste management services provided in the watersheds, including reviewing the legislative framework for solid waste management, and evaluating the efficiency of public sanitation services and the application of tariffs in regulated sectors.

Strengthening hydro-environmental prediction and monitoring (BRL 110.9 mln/US\$ 49.5 mln): The Program will support: i) the integration of weather and climate forecasting into water resources management; ii) the expansion, modernization and maintenance of the state's hydro-meteorological monitoring network (including via upgrading of meteorological radar and data collection and transmission network); iii) hydro-environmental mapping of the three strategic watersheds; (iv) monitoring of pollution, conservation units and protected areas and (v) a review of water resource management monitoring and supervision.

Implementation arrangements

13. The operation involves 11 secretariats and seven other entities. As in the previous SWAs, responsibility for coordinating, monitoring and reporting on operation activities will rest with the Secretariat of Planning and Management (SEPLAG) through IPECE.³² There will be no separate project implementation unit. The Bank will rely on the State's systems for monitoring and evaluation, as well as procurement and financial management for the implementation of the PforR Program.

14. The Government, represented by SEPLAG through IPECE, is responsible for: (i) ensuring general coordination with the Bank, the various secretariats and government stakeholders and timely implementation of all activities; (ii) holding monthly meetings of the Program Committee to monitor results, diagnose problems in implementation and develop, propose and carry out any necessary corrective measures;³³ (iii) reporting on loan activities in a timely manner, including

³² IPECE has a separate legal personality but is linked to and in practice subordinate to SEPLAG.

³³ For each DLI the Government will be required to produce action plans twice a year to inform Bank supervision of the operation, explaining the steps already taken and those planned to ensure that targets are met. The Bank will review these plans and suggest adjustments as necessary.

the presentation of financial and performance reports as needed for disbursement and oversight; and (iv) hosting and facilitating Bank implementation support.

15. *Program implementing secretariats and agencies:* The State Secretariat of Education (*Secretaria de Estado da Educação – SEDUC*) is responsible for implementing the skills development program in Ceará. The family assistance program will be implemented by the State Secretariat of Work and Social Assistance (*Secretaria de Estado do Trabalho e Assistência Social – STDS*) (social inclusion centers and family protection). ADECE will participate by providing data, through CEDE. The water quality program will be implemented by the following secretariats and agencies: SRH (water security plans for the strategic watersheds); CAGECE (sewage connections); CONPAM (solid waste management plans and Water Security Committee); FUNCEME (design of the water quality monitoring protocol) and COGERH (implementation of the water quality monitoring program). Of these implementing agencies, only ADECE, CAGECE and COGERH have a separate and autonomous legal personality; to ensure that all three agencies can carry out their respective portions under the program, the Government will enter into a separate agreement with each of them.

16. The institutional framework for the management of expenditure in Ceará features a clear definition of responsibilities. This framework will be adopted for the Program, for which the key agencies responsible for the fiduciary arrangements (and the main responsibilities) will be as follows:

- Secretariat of Planning and Management SEPLAG - Coordination of the budget preparation process; procurement policies and regulations, manages IT systems supporting procurement, ensures procurement compliance and financial reporting (for the program);
- Attorney General’s Office (PGE) – Competitive procurement;
- Sector agencies – Non-competitive procurement, preparation of technical specifications, terms of reference, bid evaluation, contract signature and contract management;
- Secretariat of Finance SEFAZ – Financial planning, treasury operations, accounting;;
- *Ministerio Público* (MP): fighting corruption, criminal and civil investigations;
- Office of the Controller General CGE – Internal audit and ensuring compliance with internal controls; and
- State Court of Accounts (TCE) – Undertaking the external audit.

17. Competitive procurement is the responsibility of a central team (*‘Central de Licitações’*) housed at the PGE which implements all competitive bidding processes for the entire government. Its activities include preparing and issuing bidding documents and request for proposals, responding to bidders’ questions and reviewing the bid/proposal evaluation reports. The central procurement team also has an internal audit team from PGE that is assigned to review procurement processes.

18. Non-competitive procurement is implemented by sector agencies. Thus the amount of procurement carried out by the sectors is relatively small and largely for simple items. The sectors are responsible for all steps in the process including securing budget allocation, preparing terms of reference or technical specifications and cost estimates, providing technical opinions during bid evaluations, managing contracts, receiving goods, works and services, and paying

suppliers, contractors and consultants. SEPLAG provides regular training on low-value procurement. Sector agencies also rely on advice from legal advisors assigned by the PGE.

19. Of the seven secretariats and agencies involved in the Program, five, namely SRH, COGERH, CAGECE, FUNCEME (through SECITECE on which it is dependent) and SEDUC, will be handling procurement activities. These will include the acquisition of environmental and rainfall stations, water testing and monitoring equipment, pipes, teaching materials and construction of new schools and child education centers. The other two, STDS and CONPAM, will not be in charge of any procurement.

20. Procurement has to be undertaken using the state's IT systems, which thus provide the state with a strong control on the processes. These processes are embedded in the IT systems and are automatic. Low-value and high volume items are typically purchased through framework agreements that aggregate demand from sector agencies to achieve economies of scale. All government agencies are required to buy from framework agreements if one is available. Also notable are the agreements governing vehicle maintenance and fuel purchases, which must be made by special credit card that monitors usage and flags any unusual consumption patterns.

21. *Role of Municipal Government:* The family assistance and water quality programs depend on close cooperation between the State and municipal governments. Municipalities are responsible for operating the CRAS. They are also responsible for developing the solid waste management plans, establishing the consortia to implement them and monitoring water quality. STDS has worked effectively with municipal governments before through voluntary but legally binding *convênios*. In addition STDS and CAGECE have ongoing programs to strengthen municipal capacity and the operation will reinforce them through technical assistance.

22. *Technical assistance component:* The implementation arrangements for the TA component will be the same as for the technical assistance component of the Ceará SWAp II. SEPLAG will execute it through IPECE. Funds will be disbursed and spent using Bank disbursement and procurement Guidelines and Procedures. The executing agency, IPECE, has several years' familiarity with Bank fiduciary requirements and implementation of technical assistance improved substantially during the course of the SWAp II, due in part to the hiring of additional procurement staff and specialized training.

23. *Flow of funds:* Under the IPF/TA component all payments will be made by SEFAZ upon instructions from IPECE and beneficiary secretariats, once payment obligations have been incurred and properly documented. Payments will be made directly from the designated account, through the issuance of an *ordem bancária*, to the service providers and contractors. All payments will be made through electronic deposits to each beneficiary/consultant bank account.

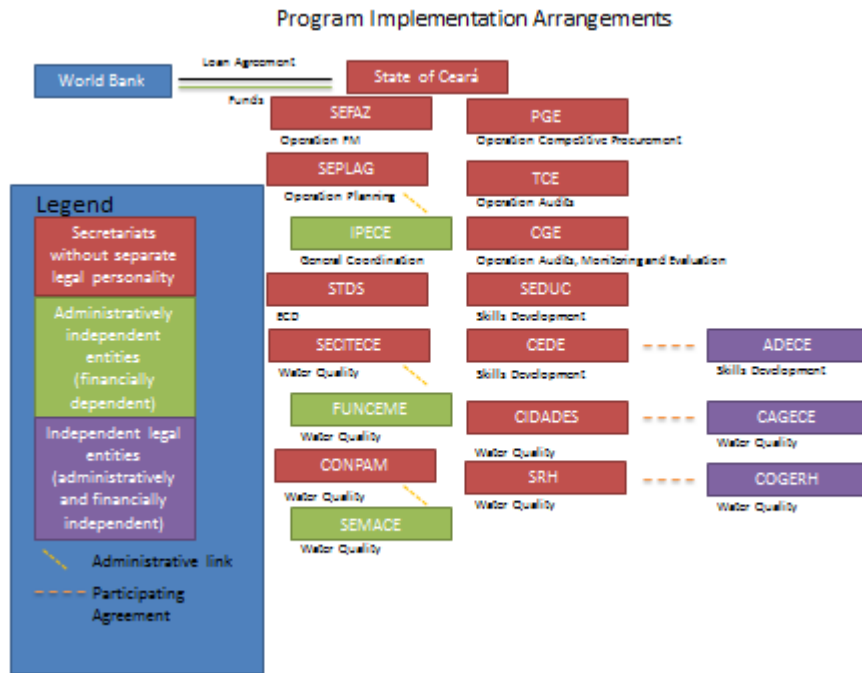
24. *External audit:* The state's audit agency, the TCE, is mandated to conduct audits of all uses of public funds in Ceará. In general, the TCE conducts financial and procurement audits, and evaluation of internal controls and compliance with laws, rules and regulations. In the context of this operation, the TCE will conduct a financial audit of both the Program and TA components. The scope of the audit will be defined in the audit terms of reference to be agreed between the Government and the Bank. The Bank and TCE have agreed that this annual audit report should

be made available to the Bank no later than 12 months after the end of the financial year to which the financial statements relate.

25. Procurement for the technical assistance component of the proposed operation will be carried out in accordance with the World Bank's Guidelines and the provisions stipulated in the Legal Agreement. All procurement processes will be handled by IPECE which will assist secretariats and agencies in preparing bidding documents, requests for proposals and for expressions of interest, and evaluation reports. It will also monitor and update the procurement plan and serve as the point of liaison with the Secretariats and the PGE. The Unit will be led by the project coordinator from the SWAp II, assisted by three IPECE staff with training and experience in project management, financial management and monitoring and consultants in procurement.

26. IPECE will be responsible for coordinating monitoring and evaluation of the execution of the Program and particularly its elements requiring intersecretarial coordination. SEFAZ will be responsible for maintaining the accounting records for the Program. Interim Financial Reports specific to the Program will be prepared in a semi-annual basis by SEPLAG and IPECE, showing Program expenditures by sub-Program, budget line and activity. SEPLAG and IPECE will also prepare Annual Program Financial Statements for the program and will show the total revenues and expenditures related to the sub-programs supported by the Program.

27. The relationship among the various implementing agencies is as follows:



Responsibilities of Agencies for implementation:

	Technic al	Procureme nt	Contract managem ent & execution	Financial Managem ent	Disburseme nts	Environme nt and Social	Fraud and Corrupti on	Monitori ng and Evaluatio n	Audi t	Coordinati on
Overall implementation										
SEPLAG through IPECE	Y	N	N	N	Y	N	N	Y	N	Y
SEPLAG	Y	N	N	Y	N	N	N	Y	N	Y
TCE	N	N	N	N	N	N	Y	N	Y	N
SEFAZ	N	N	N	Y	Y	N	N	N	N	N
CGE	N	N	N	N	N	N	Y	N	Y	N
PGE	N	Y	N	N	N	N	Y	N	N	N
MP	N	N	N	N	N	N	Y	N	N	N
PforR Program component										
<i>1-Skills Development</i>										
SEDUC	Y	Y	Y	N	N	Y	N	Y	N	N
<i>2-Family assistance</i>										
STDS	Y	Y	Y	N	N	Y	N	Y	N	N
<i>3-Water Quality</i>										
SRH	Y	Y	Y	N	N	Y	N	Y	N	N
COGERH	Y	Y	Y	N	N	Y	N	Y	N	N
CAGECE	Y	Y	Y	N	N	Y	N	Y	N	N
FUNCEME	Y	Y	Y	N	N	Y	N	Y	N	N
CONPAM	Y	Y	Y	N	N	Y	N	Y	N	N
TA Component										
SEPLAG through IPECE	Y	Y	Y	Y	Y	N	N	Y	N	Y

SEPLAG	Y	Y	Y	N	N	N	N	N	N	N
IPECE	Y	Y	Y	N	N	N	N	N	N	N
SEDUC	Y	Y	Y	N	N	N	N	N	N	N
STDS	Y	Y	Y	N	N	N	N	N	N	N
SRH	Y	Y	Y	N	N	N	N	N	N	N
CONPAM	Y	Y	Y	N	N	N	N	N	N	N
FUNCEME	Y	Y	Y	N	N	N	N	N	N	N
TCE	Y	Y	Y	N	N	N	N	N	N	N
PGE	Y	Y	Y	N	N	N	Y	N	N	N
ARCE	Y	Y	Y	N	N	N	N	N	N	N
SECITECE	Y	Y	Y	N	N	N	N	N	N	N
SEMACE	Y	Y	Y	N	N	N	N	N	N	N
SESA	Y	Y	Y	N	N	N	N	N	N	N
CGE	Y	Y	Y	N	N	N	N	N	N	N
CEDE	Y	Y	Y	N	N	N	N	N	N	N

Annex 2: Results Framework Matrix

Program Development Objective: The Program Development Objective (PDO) is to support the Government to improve public service delivery particularly in the areas of skills development, family assistance and water quality.

Results Indicators	Core	DLI	Unit of Measure	Baseline	Prior results financing	Target Values									Frequency	Data Source/Methodology	Responsibility for Data Collection
						Yr 0	Yr 0.5	Yr 1	Yr 1.5	Yr 2	Yr 2.5	Yr 3	Yr 3.5	Yr 4			
PDO Indicator 1: Number of technicians with completed secondary education absorbed by productive sector (public and private)(adjusted for the economic cycle)			Number (cumulative)	24,543	No	-	-	27,800	-	29,000	-	30,300	-	31,600	Annual	Data from RAIS. Comprises technicians with secondary education completed, formally employed in the productive sector. Targets calculated from average growth rate of this cohort between 2003 and 2011.	IPECE
PDO Indicator 2: Percentage of families in Cadastro Unico in targeted municipalities receiving support from CRAS with trained staff			Percentage	0	No	-	-	-	-	10%	-	15%	-	25%	Annual	Data from STDS (Coordenaria de Protecao Social Basica)	STDS
PDO Indicator 3: Raw water quality in metropolitan region of Fortaleza			Index	61.2	No	-	-	62.7	-	64.3	-	65.9	-	67.5	Annual	Data from COGERH. Standardized National Sanitation Foundation Water Quality Index comprising nine parameters (see Technical Assessment).	CAGECE/SRH/FUNCEME

Results Indicators	Core	DLI	Unit of Measure	Baseline	Prior results financing	Target Values								Frequency	Data Source/Methodology	Responsibility for Data Collection	
						Yr 0	Yr 0.5	Yr 1	Yr 1.5	Yr 2	Yr 2.5	Yr 3	Yr 3.5				Yr 4
Results Area 1: Skills development																	
Results Indicator 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan		1	Yes/No	No	Yes	Draft strategy document prepared and at least 4 agreements with private sector and 4 agreements with academia to assist the implementation of said strategy signed	Committee established by decree	Strategy document finalized	Action plan published	-	One action from the action plan implemented	-	One additional action implemented from the action plan	One additional action implemented from the action plan	Bi-annual	Receipt and verification of final strategy and copy of signed agreements with private sector and academia; receipt of decree establishing working group and inclusion of actions in Annual Budget Law	CEDE
Results Indicator 2: Analysis of and improvement in governance mechanisms for productive sector development policy (including skills development)			Yes/No	No	No	-		-	Action Plan Published		One action implemented		Two actions implemented	Annual	Receipt and verification of Action Plan endorsed by government, and subsequent evidence of implementation of actions.	SEPLAG	
Results Indicator 3: Establishment of monitoring system for TVET programs		2	Yes/No	0	No	-		-	-	First monitoring report published		Second monitoring report published		Two Occurrences	Receipt and verification of monitoring reports.	IPECE	
Results Indicator 4:		3	Number	8	No	-		-	10	12	13	15	16	18	Bi-annual	Data from	SEDUC

Results Indicators	Core	DLI	Unit of Measure	Baseline	Prior results financing	Target Values								Frequency	Data Source/Methodology	Responsibility for Data Collection	
						Yr 0	Yr 0.5	Yr 1	Yr 1.5	Yr 2	Yr 2.5	Yr 3	Yr 3.5				Yr 4
Total number of agreements in effect with private companies to contribute equipment, in situ training, and provide input to curriculum design or course instructors			(cumulative)													<i>Diário Oficial do Estado.</i> Comprises agreements with productive sector (industry, agribusiness, ICT and tourism), both public and private, to contribute training, equipment, inputs to curriculum design or instructors.	
Results Area 2: Family Assistance																	
Results Indicator 1: Creation and functioning of multi-sector advisory ECD committee (SEDUC, SDA, SESA, STDS, SEPLAG, IPECE)			Yes/No	0	No	-		Two resolutions published		Additional two resolutions published		Additional two resolutions published		Additional two resolutions published and report on Committee activities published	Annual	Decree published in <i>Diário Oficial do Estado.</i>	SEPLAG/FE COP
Results indicator 2: Percentage of families with children 0-5 in Cadastro Unico in targeted municipalities receiving family support through CRAS		4	Percentage	0		-	-	-	-	10.0%	-	15.0%	-	25.0%	Bi-annual	Data from STDS (Coordenaria de Protecao Social Basica)	STDS
Results Indicator 3: Percentage of technical teams in		5	Percentage	0	No	-		-	15%	30%	42.5%	55%	75%	95%	Bi-annual	Data from STDS (Coordenaria de	STDS

Results Indicators	Core	DLI	Unit of Measure	Baseline	Prior results financing	Target Values									Frequency	Data Source/Methodology	Responsibility for Data Collection	
						Yr 0	Yr 0.5	Yr 1	Yr 1.5	Yr 2	Yr 2.5	Yr 3	Yr 3.5	Yr 4				
CRAS trained in family support																Protecao Social Basica)		
Results Indicator 4: Percentage of FECOP-financed family assistance projects with log frames		6	Percentage	0	No	-		-	22.5%	45%	55%	70%	82.5%	95%	Bi-annual	Data from FECOP, verified by SEPLAG.	SEPLAG	
Intermediate Results Area 3: Water Quality																		
Intermediate Results Indicator 1: Establishment of inter-agency water security committee		7	Yes/No	0	Yes	Committee established by decree	-	-	Diagnostic of Watersheds complete	-	Minutes of at least two committee meetings held in the first semester of CY16	Minutes of at least two committee meetings in the second semester of CY16	Minutes of at least two committee meetings held in the first semester of CY17	Minutes of at least two committee meetings held in the second semester of CY17	Bi-annual	Decree published in the <i>Diario Oficial do Estado</i> , diagnostic and minutes of meetings received by Bank	SRH/CONPAM	
Intermediate Results Indicator 2: Submission of water security plans for three strategic watersheds			Yes/No	0	No	-		Terms of reference complete		Plans prepared		Plan adopted and under implementation		Implementation of plans monitored	Various stages	Implementation progress reports	COGERH	
Intermediate Results Indicator 3: Submission of new watershed protection law			Yes/No	0	No	-		Proposal & consultations complete		Draft law submitted		Dissemination of law		Implementation of law in strategic watersheds	Various stages	Draft law prepared, consulted, & submitted to Legislative Assembly; implementation progress reports	COGERH	
Intermediate Results Indicator 4: Submission of revised solid waste management law			Yes/No	0	No	-		-		Dissemination and implementation		Implementation and monitoring-		Implementation and monitoring-	Single occurrence	Draft law prepared, consulted, & submitted to Legislative Assembly	CONPAM	
Intermediate		8	Percentage	83.3%	No	-		83.8%	84.3%	84.6%	84.9%	85.2%	85.5%	85.7%	85.9%	Bi-annual	Data from the	CAGECE

Results Indicators	Core	DLI	Unit of Measure	Baseline	Prior results financing	Target Values									Frequency	Data Source/Methodology	Responsibility for Data Collection
						Yr 0	Yr 0.5	Yr 1	Yr 1.5	Yr 2	Yr 2.5	Yr 3	Yr 3.5	Yr 4			
Results Indicator 5: Percentage of households with adequate connection to sewage system																Enterprise Information System (SEI)	
Intermediate indicator 6: Index of Environmental Enforcement quality		9	Index	17%	No	-	28%	40%	50%	60%	65%	70%	75%	80%	Bi-annual	Data from SEMACE/SRH (enforcement); COGERH (monitoring); CONPAM (environmental education)	CONPAM/COGERH/SEMACE/SRH
Intermediate Results Indicator 7: Implementation of participatory water quality monitoring		10	Number	0%	No	-	-	-	Monitoring methodology defined and adopted	Data collection protocol defined and adopted		Methodology implemented in one strategic reservoir		Methodology implemented in additional two strategic reservoirs	Annual	Annual reports from municipalities	COGERH
Intermediate Results Area 4: Public sector management																	
Intermediate Results Indicator 1: Number of Borrower secretariats using the model for aligning incentives with its respective strategic objectives		11	Number (cumulative)	0	No	-	-	Approval of model for aligning incentives	1	2	3	4	5	6	Bi-annual	Data from SEPLAG	SEPLAG
Intermediate Results Indicator 2: Total percentage of public investments under the Program prepared using approved methodology		12	Percentage	0	No	-	-	Approval of methodology	-	-	5%	10%	25%	40%	Bi-annual	Data from SEPLAG	SEPLAG

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

PforR Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement – planned disbursements (US\$ millions)								
				Year 0	Year 0.5	Year 1	Year 1.5	Year 2	Year 2.5	Year 3	Year 3.5	Year 4
DLI 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan	62.8	20.0	0	39.375	4.4625	6.198	2.744448	-	3.444	-	3.444	3.120
DLI 2: Establishment of monitoring system for TVET programs	6.9	2.2	0	-	-	-	-	-	3.444	-	3.444	-
DLI 3: Total number of agreements in effect with private companies to contribute equipment, in situ training, and provide input to curriculum design, or course instructors	19.6	6.2	8	-	-	-	2.744444	3.40375	3.444	3.438	3.444	3.120
DLI 4: Percentage of families with children aged 0-5 enrolled in Cadastro Unico located in targeted municipalities receiving family support through CRAS	10.0	3.2	38.2	-	-	-	-	3.40375	-	3.438	-	3.120
DLI 5: Percentage of technical teams in CRAS trained in family support	19.6	6.2	0	-	-	-	2.744444	3.40375	3.444	3.438	3.444	3.120
DLI 6: Percentage of FECOP-financed family assistance projects with log frames	19.6	6.2	0	-	-	-	2.744444	3.40375	3.444	3.438	3.444	3.120
DLI 7: Establishment of an inter-agency water security committee	55.6	17.7	0	39.375	-	-	2.744444	-	3.444	3.438	3.444	3.120
DLI 8: Percentage of households with adequate connection to sewage system	31.0	9.9	83.3	-	5.25	6.198	2.744444	3.40375	3.444	3.438	3.444	3.120
DLI 9: Index of Environmental Enforcement quality	31.0	9.9	17	-	5.25	6.198	2.744444	3.40375	3.444	3.438	3.444	3.120
DLI 10: Implementation of participatory water quality monitoring	12.7	4.0	0	-	-	-	2.744444	3.40375	-	3.438	-	3.120
DLI 11: Number of Borrower secretariats using the model for aligning incentives with its respective	25.8	8.2	0	-	-	6.198	2.744444	3.40375	3.444	3.438	3.444	3.120

	<i>Total Financing Allocated to DLI</i>	<i>As % of Total Financing Amount</i>	<i>DLI Baseline</i>	<i>Indicative timeline for DLI achievement – planned disbursements (US\$ millions)</i>								
				<i>Year 0</i>	<i>Year 0.5</i>	<i>Year 1</i>	<i>Year 1.5</i>	<i>Year 2</i>	<i>Year 2.5</i>	<i>Year 3</i>	<i>Year 3.5</i>	<i>Year 4</i>
strategic objectives												
DLI 12: Total Percentage of public investments under the Program prepared using approved methodology	19.6	6.3	0	-	-	6.198	-	-	3.444	3.438	3.444	3.120
Front-end fee in respect of Program					0.7875							
Total Financing Allocated:	315.0	100	-	78.75	15.75	30.99	24.70	27.23	34.44	34.38	34.44	34.32

PforR DLI Verification Protocol Table

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1	DLI 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan	Strategy defined and private sector committed to joint implementation	No	CEDE/ADECE/private sector/universities	Bank/ Independent technical auditor	Receipt and verification of strategy document, letters of agreement and decree by Bank and inclusion of actions in Annual Budget Law
2	DLI 2: Establishment of monitoring system for TVET programs	Monitoring reports generated	No	IPECE	Independent technical auditor	Receipt of monitoring reports by Bank
3	DLI 3: Total Number of agreements in effect with private companies to contribute equipment, in situ training, and provide input to curriculum design, or course instructors	Increase in agreements between skills development providers and private companies	Yes	SEDUC/companies	Independent technical auditor	Receipt and verification of signed agreements by Bank
4	DLI 4: Percentage of families with children 0-5 in Cadastro Unico in targeted municipalities receiving family support through CRAS	Increase in families receiving support via CRAS	Yes	STDS	Independent technical auditor	Reports submitted to Bank (subject to independent technical audit)
5	DLI 5: Percentage of technical teams in CRAS trained in family support	Increase in training provided to CRAS teams	Yes	STDS	Independent technical auditor	Reports submitted to Bank (subject to independent technical audit)
6	DLI 6: Percentage of FECOP-financed family assistance projects with log frames	Increase in percentage of projects with log frames (by value)	Yes	SEPLAG	Independent technical auditor	Reports submitted to Bank (subject to independent technical audit)
7	DLI 7: Establishment of an inter-agency water security committee	Committee established	Yes	CONPAM & SRH/ Publication of decree	Bank / Independent technical auditor	Receipt of copy of published decree by Bank
8	DLI 8: Percentage of households with adequate connection to sewage system	Increase in sewage connections as measured by index.	Yes	CAGECE	Independent technical auditor	Reports submitted to Bank (subject to independent technical audit)

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
9	DLI 9: Index of Environmental Enforcement Quality	Increase in effectiveness of environmental monitoring and enforcement	Yes	CONPAM/COGERH/ SEMACE/SRH	Independent technical auditor	Reports submitted to Bank (subject to independent technical audit)
10	DLI 10: Implementation of participatory water quality monitoring	Increase in participation in water monitoring committees	Yes	COGERH	Independent technical auditor	Report submitted to Bank (subject to independent technical audit)
11	DLI 11: Number of Borrower secretariats using the model for aligning incentives with its respective strategic objectives	Secretariats more effective in achieving strategic goals	Yes	SEPLAG	Independent technical auditor	Receipt of copy of decree (Year1); reports submitted to Bank (subject to independent technical audit)
12	DLI 12: Total percentage of public investments under the Program prepared using approved methodology	Improved quality of public investment	Yes	SEPLAG	Independent technical auditor	Receipt of copy of decree (Year 1); reports submitted to Bank (subject to independent technical audit)

Bank Disbursement Table against DLIs

#	DLI	Bank financing allocated to the DLI (US\$ millions)	Of which Financing available for		Deadline for DLI Achievement ¹	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
1	DLI 1: Approval of skills development strategy, preparation of the action plan and implementation of selected actions under the action plan	62.8	100%	0%	Signature (first incidence), closing date (thereafter)	-	-	Pass/fail
2	DLI 2: Establishment of monitoring system for TVET programs	6.9	0%	100%	Closing date	-	-	Pass/fail
3	DLI 3: Total number of agreements in effect with private companies to contribute equipment, in situ training, and providing input to curriculum design, or course instructors	19.6	0%	100%	Closing date	1	18	Linear
4	DLI 4: Percentage of families with children 0-5 in Cadastro Unico in targeted municipalities receiving family support through CRAS	10.0	100%	0%	Closing date	1%	25%	Linear
5	DLI 5: Percentage of technical teams in CRAS trained in family support	19.6	0%	100%	Closing date	1%	95%	Linear
6	DLI 6: Percentage of FECOP-financed family assistance projects with log frames	19.6	0%	100%	Closing date	1%	95%	Linear
7	DLI 7: Establishment of inter-agency water security committee	55.6	100%	0%	Signature (first incidence), closing date (thereafter)	-	-	Pass/fail (Year1/2) Linear
8	DLI 8: Percentage of households with adequate connection to sewage system	31.0	0%	100%	Closing date	83.4%	85.9%	Linear
9	DLI 9: Index of Environmental Enforcement Quality	31.0	0%	100%	Closing date	18%	80%	Linear

10	DLI 10: Implementation of participatory water quality monitoring	12.7	0%	100%	Closing date	1%	80%	Pass/fail (Year1/2) Linear
11	DLI 11: Number of the Borrower's secretariats using the model for aligning incentives with its respective strategic objectives	25.8	0%	100%	Closing date	1	6	Pass/fail (Year 1); Linear
12	DLI 12: Total percentage of public investments under the Program prepared using approved methodology	19.6	0%	100%	Closing date	1%	40%	Pass/fail (Year1); Linear

If the Bank is satisfied that a DLR has been exceeded by the date by which said DLR is set to be achieved, in a manner that it fully or partially achieves a subsequent and respective DLR, the Bank may decide, at its sole discretion and at any time, by notice to the Borrower, to authorize the withdrawal of such amount of the unwithdrawn proceeds of the **Program Loan** then allocated to said subsequent and respective DLR which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR.

If the Bank is not satisfied that any of the DLRs (except the DLRs under Categories for the Program (1)(b) through (g), (2), (7)(b), 10(a) and (b), 11(a), and 12(a)) as set out in the Loan Agreement, has been achieved by the date by which the said DLR is set to be achieved, the Bank may, at any time, by notice to the Borrower, decide, in its sole discretion, to:

- (i) authorize, except for the DLR under Categories for the Program 7(c) through (f):
 - (A) the withdrawal of such lesser amount of the unwithdrawn proceeds of the **Program Loan** then allocated to said DLR under the respective Category for the Program which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR, said lesser amount to be calculated in accordance with the Formula;
 - (B) subsequent disbursements against the respective DLR (except the DLRs under Categories for the Program (3) and (11)) to be calculated in accordance with the Formula for Subsequent DLR;
 - (C) disbursement of previously undisbursed amounts allocated to the respective DLR (except the DLRs under Categories for the Program (3) and (11)), if and when the Bank shall be satisfied, on the basis of evidence acceptable to the Bank, that a partially achieved DLR for which a lesser amount has been disbursed pursuant to subparagraph (A) above has been fully achieved;
- (ii) reallocate all or a portion of the proceeds of the Program Loan then allocated to said DLR to any other DLR; and/or
- (iii) cancel all or a portion of the proceeds of the Program Loan then allocated to said DLR.

“Formula” means the measure for calculating disbursements against DLRs given by the following formula:

$$\frac{X_n - B}{V}$$

$$T_n - B$$

where:

- (a) “X_n” is the result achieved in the current period;
- (b) “B” is the DLR Baseline;
- (c) “T_n” is the DLR for the current period; and
- (d) “V” is the value attributed to the DLR.

“Formula for Subsequent DLR” means the additional measure for calculating disbursements against DLRs pursuant to Section IV.B.2(c)(i)(B) of Schedule 2 of the Loan Agreement, given by the following formula:

$$\frac{X_n - T_{n-1}}{T_n - T_{n-1}} \cdot V$$

where:

- (a) “X_n” is the result achieved in the current period;
- (b) “T_{n-1}” is the DLR for the prior period;
- (c) “T_n” is the DLR for the current period; and
- (d) “V” is the value attributed to the DLR.

Annex 4: Summary Technical Assessment

1. Strategic Relevance and Technical Soundness:

1. The Government of Ceará has asked for the Bank's support in implementing its Multi-Year Plan (*Plano Plurianual* or PPA) for 2012-15.³⁴ The objectives of the Plan are to promote equitable social development, sustainable economic development and to contribute to the emergence of a more efficient and participatory public sector.

2. The operation will build on previous Bank support for public sector reform by strengthening results-based management within sector agencies and providing incentives for collaboration among agencies and with the private sector. This will contribute to strengthening the implementation of Government programs in the following areas: skills development, family assistance and water quality.

3. The activities to be supported have been chosen on the basis of the importance to these goals, the state's commitment to them (as reflected in the PPA) and the Bank's capacity, in view of its experience in other Brazilian states and elsewhere, to contribute to improving their design and execution.

A: Technical Assistance Component:

A1: Cross-Cutting Public Sector Management (US\$12.3 mln):

<i>Technical assistance projects</i>	<i>Beneficiary agency</i>	<i>Value (US\$ m)</i>
Strengthening results based management	SEPLAG	1.8
Investment planning and costing methodology.	SEPLAG	2.1
Payroll audit and human resource management.	SEPLAG	4.4
Budget preparation and execution procedures.	SEPLAG	0.8
Strengthening citizen participation and monitoring.	SEPLAG	1.8
Implementation support for IPECE and technical audit of DLI compliance	IPECE, CGE	1.4

4. Since 2003 the Government of Ceará has strengthened its ability to deliver services to citizens and invest in social and economic infrastructure. Among other advances it has increased the transparency and efficiency of revenue administration, including the adoption of new technology for tax and customs payments to increase efficiency and reduce corruption, with the result that tax revenues have increased by 13.5% annually in nominal terms since 2006 (7.7 % in real terms). Net current revenue meanwhile has increased by 12.7%, compared to an average of 12.4% in other Brazilian states. The Government has also integrated its financial management

³⁴ The PPA is available at http://www.seplag.ce.gov.br/images/stories/Planejamento/Plano-Plurianual/PPA-2012-2015/Livro%20I_Mensagem_Governo.pdf

systems and adopted accrual accounting in 2012, and centralized its competitive procurement function. Though there is still room for improvement in contract management, Ceará's procedures for procurement planning are sophisticated and benefit from multiple information systems to ensure compliance and inform policy-making.

5. One of the most important achievements has been the development of an integrated investment management system (MAPP) which keeps data on proposals for and the implementation of all public investment projects. As part of this program the Government has introduced elements of Results Based Management (RBM) through the establishment of a series of strategic goals, which require each sector to develop a strategic plan and set of priority programs, each with its set of outputs and operational plans, and report on their implementation annually to the Governor. This involved the setting up of a Committee for Result-based Management and Fiscal Management (COGERF), a 'super-cabinet' composed of the four most powerful secretariats (SEPLAG, SEFAZ, CGE and Casa Civil), and a 'situation room' to facilitate monitoring by the Governor's office.

6. The current model has been effective in ensuring the implementation of the Governor's high priority investments. Moreover, the reforms to tax and revenue administration, together with a buoyant economy, have enabled Ceará to increase investment to over 20% of Net Current Revenues (RCL). However, despite the introduction of many of the characteristics of RBM models, the program did not, with one or two exceptions, engage sector agency staff or result in any changes to operational practices. Moreover, the principal institutional element of the system (COGERF) focuses more on detailed day-to-day budget management rather than on results. Overall, the culture of results based management has yet not taken root within secretariats.³⁵

7. Another closely related and important issue for strengthening of public sector management is that of Human Resource Management. This has two aspects. The first is that the State of Ceará has 135,881 officials on its payroll, of which 62,227 are working and 73,654 are retired and receiving pensions. Wage and pension payments make up R\$ 6.81 billion out of total net revenues of R\$12.1 billion (56.3%). A new payroll system has just been introduced and there is a strong suspicion that substantial resources are being paid in error or through fraud. If savings of even 5% could be made through reduction in errors and fraud this would amount to R\$340 million annually or almost 3% of annual revenue. The second issue is that effective human resource management and ensuring that staff is properly rewarded, is a pre-requisite for any results management system.

8. It is common for governments to concentrate at first on the formal manifestations of RBM and to pay insufficient attention to incentives for individuals to align their behavior with the achievement of targets set by the executive. This was the case, for example, in the State of Minas Gerais, when it was quickly realized that simply having targets agreed between Secretaries and the Governor was insufficient in most areas to improve performance. The reforms were deepened by ensuring that first level performance agreements were backed by second level agreements between Secretaries and teams within each secretariat and incentives were introduced to ensure that each team was focusing on results. The model was decentralized so that individual

³⁵ As the Government observed in its comments on the ICR for the SWAp II: (i) the role of COGERF could have been better specified and (ii) those sector agencies involved in the project should develop procedures for communicating commitments and information to all levels of the organization.

secretariats could develop the ability and internal institutions to manage for results, rather than have a centralized and thus relatively fragile structure.

9. There is however no one model of results management. Instead there are general principles which will need to be applied to the specific characteristics of the state. These principles include ensuring that (i) the results to be managed are relevant and achievable; (ii) that there are incentives throughout the whole administration to achieve them; (iii) that institutional mechanisms are developed to allow for experimentation and problem solving; and (iv) that basic administrative, financial and budgeting systems are working effectively.

10. Solving complex problems such as those in skills provision, family assistance and water quality requires more than setting targets and monitoring. Merely increasing the supply of public outputs through the top-down expansion of expenditure programs is not sufficient. The risk in this case is that resources will be wasted or simply spent ineffectively. Instead improved public management requires governments to pay attention to service quality and to the alignment of its outputs with the real needs of citizens and the private sector. This involves developing and institutionalizing mechanisms for gathering and responding to feedback, both from within the public institutions and also through mechanisms including participation of citizens in both the design and implementation of policies. It also requires cooperation across institutional boundaries and with the private sector: between the agencies responsible for environment and land use management in the case of water quality; among education, health and social protection for family assistance; and between public research and training institutions and the private sector for innovation and skills provision.

11. A central element of this process is decentralized problem-solving subject to overall objectives. This comprises three stages, linked in an iterative cycle. First, it requires the setting of broad framework goals – in this case, improvements in water quality, the responsiveness of public training programs to demand and the quality of programs to assist poor families. Second, sector agencies are given broad discretion to pursue these goals in their own way, allowing space for innovation in technical designs and operational practices – including in their manner of interaction with each other and with end-users of the services they provide. Third and as a condition of this autonomy, these units would be required to report regularly on their performance and participate in a collective review of progress, and discussion of mechanisms to achieve targets, as well as focusing on internal mechanisms to review and improve performance. This review may lead to adjustments in the specification of objectives in line with an evolving social or political consensus, and the institutional process of discovery of what works and what does not.

12. Ceará already has some of the formal elements in place for this to work and has in some policy areas, through trial and error, been converging towards it in practice. It has an effective system for setting framework goals, through the PPA, and for transmitting these goals to the heads of sector agencies. It is also very effective at monitoring outputs, reviewing performance and at transmitting this information from sector agencies to the Governor's office, a process that was strongly reinforced through the two SWAs. The coordination committee established under IPECE involved key technical staff from all participating sector agencies, met twice monthly, and was a useful tool in uncovering problems and working towards multi-sector responses when warranted. It was through this repeated interaction among sector units and between sector and a

central monitoring unit, for example, that the complexity of the challenge involved in tackling water quality became apparent.

13. Where the system might be strengthened is in measuring the relationship between these outputs and impact variables (e.g. productivity, learning outcomes, water quality), ensuring that their supply is properly aligned with the needs of citizens and private sector enterprises, and in holding sector agencies accountable if they are not. This applies equally to large infrastructure projects, where there is a common disjuncture between social objectives and the investment planning process, as to smaller scale service delivery, where there is a lack of targeting and evaluation.

14. The operation will reinforce this process of policy learning in two ways. First, it will further contribute to changing the operating culture in the four participating agencies – SEDUC, STDS, CIDADES, SRH – by encouraging them to concentrate on intermediate outcomes (as opposed to budget execution) and to reflect on the relationship between these outcomes and their social objectives (which will be tracked as PDO indicators). Second, the operation will provide technical assistance through the TA component for specific public sector management functions, improvements in which will also be tracked through secondary (i.e. non-disbursement linked) indicators. These will be in the following areas:

15. *Strengthening management for results (US\$ 1.8 million):* This consultancy will assist in the design of institutional mechanisms to build into administrative processes the necessary incentives to help staff to focus on the objectives of the State, and to have fluid communication and joint problem solving across sectors. Special attention will be paid to the development of incentives and coordination mechanisms between the institutions involved in the areas of family assistance, skills development and water quality. An important element of this work will be to provide in assistance in improving quality, utility and relevance of results indicators. Particular attention will be paid to ensuring that the indicators have operational content and managerial implications.

16. *Investment planning and costing methodology (US\$ 2.1 million):* This activity will assist the State in developing and implementing the proposed investment planning methodology for strategic projects, a first draft of which was prepared in June 2013. It will refine a methodology for quality-based investment selection and provide training in the economic analysis of investment projects. It will also assist in the development of a methodology and system for costing projects, including sector-wide guidelines that define cost concepts and methods of cost allocation. Close cooperation will be required with the consultancy on budget processes to ensure that investment planning is an integral part of the budget planning process. Just as importantly the consultancy will provide support to assist in designing the necessary institutions and accountabilities to allow the planning methodology to inform management decisions.

17. *Human resource management (US\$ 4.4 million):* The assistance in this area will start with a payroll audit to improve efficiency of personnel expenditures in the Government of Ceará by identifying anomalies and errors in pay and employment in the public sector; and developing recommendations to strengthen payroll processes and controls, ensuring an efficient payroll management going forward. The payroll audit will then be followed by assistance to redesign human resource management processes including a stock-taking of current and required skills,

develop of career plans, processes of appointment, rotation, promotion and dismissal. The assistance will also include a developing a proposal to improve the technological basis of human resource management in the State.

18. *Budget preparation and execution (US\$ 0.8 million)*: This activity will support reforms to budget preparation and execution procedures, particularly cash management and the management of increasing revenues to ensure that sufficient short and medium term financial shock absorption exists to reduce the need for detailed intra-year adjustment of the budget. One of the key elements in this assistance will be to develop procedures to allow flexible budget management of uncertain revenue sources and expenditures dependent on external sources (such as *convênios* with the Federal Government). Another element will be to develop an organizational and technical capacity to produce consistent and conservative revenue forecasts. This will involve the development of internal coordination and validation mechanisms for revenue forecasts. Finally this assistance will include support for the methodology and organization of a budget reform unit, whose function would be to identify deficiencies in the budgetary process, and develop proposals for changes and reforms. Together the measures supported by this consultancy will gradually restore the credibility of the budget and planning process and allow COGERF to concentrate on strategic issues rather than day to day budget management.

19. *Citizen participation and monitoring (US\$ 1.8 million)*: This will improve ongoing participatory processes in the state, leveraging its capacity to better identify citizens' demands for policies and services. It includes an evaluation of the current participatory practices in the multi-year state planning (PPA), followed by the development of a tailored methodology to optimize the process, aiming to avoid elite capture and redundancy in the process of identification of demands. It will also devise strategies and develop technological solutions to enable third party monitoring of governmental programs and actions, notably those related to family assistance (in particular early childhood development) and professional education. Particular attention will be paid to a better articulation between participatory institutions and results based management practices in the state.

20. *Support for the Operation Coordination Unit (IPECE) (US\$ 1.4 million)*: The operation will support IPECE's contracting of consultants for procurement, financial management and development of a monitoring system, as well as CGE in contracting an independent technical audit of the achievement of DLIs.

21. These activities are aligned with the PPA and fit squarely within the third pillar, 'Participatory, Ethical and Competent Government.' The technical assistance activities will support the execution of the following Guidelines: (i) 'Strengthening of the Relationship between Government and Society'; (ii) 'Democratic, Transparent and Results-Oriented Management.'

A2: Sector Specific Public Sector Management (US\$ 19.2 mln):

<i>Technical assistance projects</i>	<i>Beneficiary agency</i>	<i>Value (US\$ mln)</i>
<i>Skills development:</i>		
Strengthening monitoring and management of skills development and innovation programs	SEDUC, SECITECE, STDS	2.8
Design and implementation of private sector development strategy	ADECE, CEDE	0.4
<i>Family assistance:</i>		
Training for ECD coordinators and school principals	SEDUC	0.5
Development, implementation, evaluation of a pilot home-based parenting program;	SEDUC	2.5
Monitoring and capacity building for social assistance centers	SDA, STDS	0.9
Design and monitoring of FECOP-financed programs	IPECE	0.8
<i>Water quality:</i>		
Support for water resource management	FUNCEME, SRH	2.3
Support for environmental management	COGERH, CONPAM	2.7
Support for solid waste management	CONPAM, ARCE	4.0

22. The operation will also support technical assistance activities to strengthen public sector management functions in those agencies implementing the Program (SEDUC, STDS, SRH, CAGECE, COGERH, CONPAM and FUNCEME) and others carrying out related functions (ARCE, SECITECE, SESA and SDA). These activities will be largely grouped around core public sector management functions such as investment planning, monitoring and impact evaluation.

Skills development (US\$ 3.2 mln):

23. The operation will also finance technical assistance activities to help the state: (1) improve the design, monitoring and evaluation of programs related to vocational education and innovation; and (2) improve the design, planning and supervision of state strategies to support the growth of the productive sector. These activities will benefit several state government agencies beyond those involved in the PforR Program, notably SECITECE, STDS, ADECE and CEDE.

24. *Improvements in the design, monitoring and evaluation of vocational education and innovation programs (US\$ 2.8 million):* The program will provide technical assistance to improve the monitoring, evaluation and design of vocational training and innovation programs in Ceará. It will emphasize the collection of new and better quality data on program processes, outputs and outcomes, as well as improved internal procedures to take this newly collected data

into account in the decision making process. Technical assistance will also be provided to conduct impact evaluations of vocational training and innovation programs currently under implementation and to strengthen the design of evaluation strategies of initiatives yet to be launched (for example, Technology Parks). The operation will also finance an assessment of the institutional context and management practices within the secondary vocational training system and help improve the design of training for instructors, teachers and directors, the provision of entrepreneurship training, student support services and student testing.

25. Improvements in the design and implementation of a private sector development strategy (US\$ 0.4 million): The operation will support an analysis of coordination mechanisms in the state and their effectiveness in promoting the growth of the productive sector. It will also assist in strengthening the monitoring of private companies' commitments under existing incentive schemes. The aim will be to generate recommendations for improving coordination and feedback mechanisms to inform the planning, supervision and design of new instruments and helping improve the functioning of existing ones. The recommendations will also address how to improve participation of stakeholders outside the state government, such as academia, the private sector and the federal government, in developing a strategy for economic growth.

Family Assistance and Poverty Reduction (US\$ 4.7 mln):

26. The operation will provide technical assistance in the following areas:

27. Training for municipal ECD coordinators and school principals (US\$ 0.5 million): This activity will train: (i) municipal ECD coordinators in techniques for coaching crèche and pre-school instructors; and (ii) school principals in management, with an emphasis on results based management and pedagogy.³⁶ Inadequate technical capacity is one of the main constraints on the effectiveness of ECD programs at the municipal level. The assistance will focus on those same 36 poor municipalities targeted under the PAIC. It will also provide support to evaluate the effectiveness of the training.

28. Development and evaluation of a home-based parenting pilot program (US\$ 2.5 million): This activity will help design a pilot home-based parenting program and assess its impact and cost effectiveness vis-à-vis the standard institutional model. Ceará has a high rate of illiteracy among parents which poses substantial challenges for the quality of support provided by caregivers to children at home. The Early Child Development Support Program (*Programa de Apoio ao Desenvolvimento Infantil - PADIN*) will train parents and caregivers in providing better cognitive and language stimulation to children under five years old. The visits will be conducted by a trained ECD agent supervised by an education specialist. The agents will train caregivers in literacy skills, in interactions that encourage child development such as play dates and in building toys with low cost materials.³⁷

³⁶ The coaching course consists of 56 hours of academic and practical instruction distributed throughout the school year. The management course lasts 24 hours.

³⁷ The program will be led by SEDUC but the multi-sector ECD committee being created through this operation will review and provide comments on the design and implementation of PADIN. All those agencies participating in the ECD committee (SDA, SEPLAG, SESA, STDS, IPECE and municipal representatives) will have the opportunity to advise and comment on program design. Special attention will be paid to the coordination of the work led by the PADIN home agents and the related work already

29. *Monitoring and capacity building for the CRAS (US\$ 0.9 million):* This activity will improve the family support plan of the CRAS by strengthening their ability to target families in need and oversee program implementation. It will facilitate the exchange of knowledge on monitoring systems between STDS, SDA, IPECE and the Federal Ministry of Social Development and promote their inter-operability and capacity to learn from each other. The project will start with support to ten municipalities and will, in the last year of the project, assess the feasibility of an extension to others.³⁸

30. *Strengthening of monitoring and results-based management of FECOP-financed programs (US\$ 0.8 million):* This activity will improve the targeting and effectiveness of FECOP-supported programs, with particular emphasis on activities related to family assistance, by: i) producing an inventory of existing programs directed towards families registered in the CadUnico and sharpening the articulation among them; ii) developing operations manuals for these programs; iii) providing training in the development and use of program log frames; and iv) providing IT support to ensure that the information contained in CadUnico is the backbone of the targeting and monitoring system of FECOP-financed programs.

Water Quality (US\$ 9.0 mln):

31. The operation will provide technical assistance to strengthen water resource, environmental and solid waste management:

32. *Water resource management (US\$ 2.3mln):* This activity will evaluate and provide recommendations for improving the legal and institutional framework for water management in Ceará, including mechanisms for participatory watershed management; it will support a strategic environmental assessment of state policies and programs that will inform the water security plans; it will assist in classifying the state's strategic reservoirs (Pacoti, Riachão, Gavião) by use and water quality objective, as required by federal legislation; it will develop a methodology for modeling water quality in Ceará, using the Aracoíaba reservoir as an example; and it will strengthen capacity to monitor water quality, including through an institutional assessment of existing water quality laboratories and equipment and participatory water management.

33. *Environmental Management (US\$ 2.7mln):* This activity will strengthen the municipal environmental agencies in the three strategic watersheds through capacity building for technical staff and identification of necessary regulatory instruments; it will provide technical assistance to assess the economic impact of environmental degradation and climate change and to develop draft legislation to support the emergence of a market for environmental services in Ceará; it will also help in strengthening capacity to monitor compliance with environmental legislation and punish infractions.

Solid waste management (US\$ 4.0mln): This activity will assist municipalities in preparing recovery plans to mitigate the environmental liabilities associated with degraded open air dumps, as required by federal legislation (CONPAM); it will also provide assistance, including

conducted by other agencies. The PADIN and health agents envision regular meetings to ensure a smooth and continuous coordination throughout program implementation which will also include the exchange of protocols, routines and materials.

³⁸ The ten municipalities will be chosen on the basis of their high levels of poverty, participation in the PAA-Leite Program and the presence of a CRAS. At least some will also be recipients of PADIN.

environmental education, in devising and implementing a recycling program in the three strategic watersheds (CONPAM); and it will assess and provide recommendations for improvements in the structure of solid waste management regulation in Ceará, in particular the design of regulatory instruments and financing mechanisms for regulatory bodies (ARCE).

B: PforR Program: Skills Development, Family Assistance and Water Quality

B1: Skills Development:

Strategic relevance:

34. The state's recent economic growth has been driven by regional infrastructure projects like airports, ports and digital communications. Recent private sector development has depended mainly on large investments in capital-intensive industries like steel and petroleum refining. Otherwise, production has historically been concentrated in traditional sectors such as leather, agricultural products and tourism, with low levels of technological content that can be more vulnerable to shocks and that have not invested in upgrading the technology used in its productive processes. Exports consist largely of traditional products such as footwear and perishables to slow growing mature markets such as Europe and the United States. This pattern of concentration has prevented the state from raising its rate of growth of labor income.

35. To ensure that a larger share of the population benefits from growth, the state will need to shift towards a strategy based around increasing private sector productivity. Among other things, this will involve investing in worker training. Interventions to support private sector development in lagging regions address the need for better access to skills, technology and finance, targeted investment promotion and improvements in the investment climate, transport and physical infrastructure.³⁹

36. Skills shortages are one of the main constraints on doing business not only in the North East, but in Brazil as a whole.⁴⁰ It takes Brazilian firms on average 8.8 weeks to fill a skilled vacancy, compared to a LAC average of 6.5 weeks.⁴¹ The situation is particularly difficult in Ceará. According to the Bank's 2009 Enterprise Survey, over 90 percent of firms there view an inadequately educated workforce as a major constraint on their operations – ahead of business licenses, trade and labor regulations and infrastructure. This is a higher percentage than in any other state than Amazonas and Paraíba and well above the national average of 69 percent. Data from the *Instituto de Desenvolvimento Industrial do Ceará (INDI)* reinforce the picture: 66 percent of all firms and 75 percent of large firms surveyed point to the lack of qualified labor as a major problem for their operations.⁴² Shortages are particularly acute among production and technical staff – more so than for managers and engineers.

³⁹ Thomas Farole. *Competitiveness and Connectivity: Integrating Lagging Regions in Global Markets*.

⁴⁰ Menezes Filho (2012), "Apagão de Mão de Obra Qualificada? As Profissões e o Mercado de Trabalho Brasileiro entre 2000 e 2010.

⁴¹ Almeida and Jesus Filho (2011). *Technology Adoption and the Demand for Skills: Learning from the Time to Fill Job Vacancies in LAC*. Mimeo, World Bank.

⁴² Instituto de Desenvolvimento Industrial do Ceará (2011). "Efeitos da Escassez de Trabalhador Qualificado na Indústria". Carta Econômica No. 2, Ano 4, Fevereiro 2011.

37. Strategies for coping with skills shortages range from in-house training through external training to the recruitment of professionals via the labor market. The prevalence of rural employment and of small and medium-sized enterprises in Ceará means that firms are less likely to train workers themselves and more likely to rely on external recruitment.⁴³

38. Public investment in vocational and professional training is justified by the inability of private enterprises to appropriate returns on general training and in the uncertainty and lack of information about the returns on investment in human capital. In Brazil, the problem may be compounded by high rates of labor turnover that create additional disincentives for firms to train workers.⁴⁴

39. The state government has responded by establishing and expanding the state network of technical and vocational training institutions, targeted at those of high-school age (14-18 year-olds). The number of schools increased from zero in 2008 to 97 in 2013, with a further 43 under construction and planned for the 2013-2015 period.⁴⁵ The idea behind the expansion is to provide all those municipalities whose population is over 25,000 with a training institution, while attending to remaining locations through consortia with one school attending more than one municipality.

40. In addition to these secondary professional schools managed by SEDUC, SECITECE also runs 12 Technology Vocational Centers, and is implementing a new Center for Technical Training (*Centro de Treinamento Técnico do Ceará, CTTC*). Also, like other states, Ceará benefits from the federally administered S system (SENAI, SENAC, SNAR, SENAT) and from a network of federal training institutions (CEFETs), both of which are targeted towards professional education and are funded, among other sources, from the federal *Programa Nacional de Acesso ao Ensino Técnico e Emprego* (PRONATEC).⁴⁶

Technical soundness:

41. International experience in both developed and developing countries indicates that a few basic principles and characteristics underlie most successful technical and vocational training programs. First, they respond to a clearly identified source of demand for skills and teach curricula that are aligned with what the private sector requires. Second, they enlist employers in providing opportunities for internships and in some cases contributing equipment for classroom use. Third, they measure results – in terms of firms' access to skills and students' employability and earnings – and develop policies and standards for quality assurance.⁴⁷ Fourth, they establish

⁴³ Almeida and Aterido (2012) *The Investment in Job Training: Why Are SMEs Lagging So Much Behind?* IZA DP No. 4981 show that SMEs in Latin America, including in Brazil, have a smaller expected return from the investment in job training than larger firms. Those differences hold after accounting for differences in a number of observable characteristics across firms.

⁴⁴ Corseuil, C., Foguel, M., Gonzaga, G. and Ribeiro, E. Youth employment in Brazil: Evidence on low attachment and an evaluation of a youth targeted program. Mimeo.

⁴⁵ The expansion of skills development programs in Ceará followed on the heels of a large push to increase technical education at the federal level, which led to the creation of 214 new federal training institutes between 2003 and 2011. It was accompanied by the creation in 2007 of the federal program *Brasil Profissionalizado* whose objective was to strengthen networks of middle school technical and vocational training at the state level. It will have disbursed around BRL 1.8 billion to state and municipal governments by 2014.

⁴⁶ A large part of the funding for the S system comes from the Fundo de Amparo ao Trabalhador (FAT) which is financed by the PIS and COFINS taxes.

⁴⁷ This is of particular importance given that professional and vocational education is generally more costly than other general education programs.

governance structures that focus attention on efficient management of training provision, collaboration and information sharing among training providers and communicate this information to the public.⁴⁸

42. The operation will strengthen the Government program in the following respects:

43. *Responsiveness to demand:* The Government should do more to identify current and future sources of demand for skilled labor, particularly from among potential large investors. Some communication occurs between ADECE and private industry organizations but its results are often not transmitted to other public agencies. The government is aware of this deficiency and the PPA alludes explicitly to strengthening the articulation between SEDUC and SECITECE on the one hand and ADECE and CEDE on the other.⁴⁹ The operation will assist by supporting the validation with the private sector of the state strategy for private sector growth currently being developed, which includes a pillar on skills development. Moreover, it will also support an evaluation of existing mechanisms for coordination of professional education initiatives in the state, with a goal of improving how institutions use information on program results and outcomes to inform program adjustments and the design of new initiatives.

44. *Engagement with private firms:* SEDUC has developed partnerships with companies and other institutions to jointly design curricula, to provide internships and other training opportunities for students and to make available laboratory materials and equipment for student training. Several such agreements have already been established, with companies such as PETROBRAS, *Companhia Docas do Ceará*, and industry organizations such as SINDIQUIMICA and SIMEC.⁵⁰ In several sectors, particularly engineering, agreements for the transfer of equipment have worked well. Arrangements for joint curriculum design have been useful in information technology and some other service sectors. The operation will support these efforts through a DLI that measures the number of such agreements.

45. *Results measurement:* SEDUC has conducted one initial assessment of graduate placement but does not track graduates' career trajectories, earnings and employability systematically. Assessments among the other secretariats have also been few and sporadic, and have focused on outputs and not on impact. The operation will support improvements in the measurement of results through a number of activities: (i) the establishment of a monitoring and evaluation system for technical and vocational education programs run by SEDUC, SECITECE and STDS; (ii) implementation of impact evaluation assessments of professional education programs in the state; (iii) support to improve the design of a proficiency evaluation that all students will have to take to test mastery of content at the end of their program. Finally, the operation will track outcome results - labor insertion rates and firm satisfaction with the training provided - as secondary indicators to further encourage a focus on results measurement and monitoring.

46. *Coordination and information sharing:* The diversity of professional education programs at different levels poses a coordination challenge. The government is aware of these issues and

⁴⁸ Almeida, R., & World Bank. (2012). *The right skills for the job?: Rethinking training policies for workers*. Washington, D.C: World Bank.

⁴⁹ Ceará: Diretrizes para o Plano do Governo, p. 78.

⁵⁰ SINDIQUIMICA is the state association of chemical, pharmaceutical and refining industries; SIMEC represents the mechanical, electrical components and metallurgical industries.

SECITECE, for example, has proposed to develop a professional and technological education plan for the state. The operation will help the state government to evaluate and improve mechanisms for inter-institutional coordination - including articulation among the various public providers of vocational training - and consultation on issues related to private sector growth. It will also examine the management structure of the network of skills development schools and provide recommendations on the appropriate degree of autonomy for individual establishments. Finally, the assessment will also suggest ways to improve and increase public dissemination of program results. This will help improve decision-making by providers, users (current and potential students) and beneficiaries (firms).

Institutional Arrangements:

47. *Capacity:* SEDUC is responsible for implementing the secondary professional training program in Ceará, through its department for professional education. Its tasks include policy development, curriculum design and implementation, teacher training, structuring partnerships with the private sector and tracking graduates in the labor market. SEDUC has proved its capacity to launch and implement the secondary professional education program through the establishment of 117 schools since 2008. SEDUC is also a long term beneficiary of Bank operations and participated in both SWAp. Under SWAp II SEDUC received a ‘high’ rating for all its target indicators according to the assessment undertaken for the ICR.⁵¹ It was also ranked second of fifteen participating agencies in its financial and procurement management.

48. *Commitment:* The government’s commitment to professional education is attested to by its inclusion in the PPA under three different sections: science and technology, basic education and economic development.⁵² The activities supported under the Program correspond to the following PPA Guideline: ‘middle-school professional education through the expansion of training facilities in municipalities and internship opportunities.’⁵³ Middle-school professional education was also mentioned as ‘one of the most important strategic challenges’ facing the state by the Governor in his January 2012 address to the legislative assembly.

B2: Family Assistance and Poverty Reduction:

Strategic relevance:

49. Poverty levels in Ceará are still very high – according to one definition 13 percent of the population lives below the regional extreme poverty line and almost a third below the poverty line.⁵⁴ Infant mortality and adult illiteracy have fallen consistently over the last decade but remain well above the Brazilian average. As in the rest of Brazil, the highest rates of poverty are among families with children under 7. Many public programs exist to support these households

⁵¹ ICR p. 21.

⁵² Law n° 15.109, of January 2 2012, of the state of Ceará.

⁵³ Education: Guideline 2. Ceará: Diretrizes para o Plano do Governo, p. 26.

⁵⁴ The ‘Extreme Poverty Line’ is defined as the income required for a minimum intake of 2,000 calories per day according to the World Health Organization. The ‘Regional Poverty Line,’ as defined by IPEA, is double the income level of the Extreme Poverty Line. In February 2013 1.726.763 Cearense families were registered in the CadUnico, of which 1,022,038 reported a per capita monthly income of less than BRL 70. In April 2013, just over a million families in the state were beneficiaries of Bolsa Familia, each receiving an average monthly benefit of BRL 152.

but lack of information or misunderstanding of the eligibility requirements often means that they do not benefit those who need them the most.

50. Like the rest of Brazil, Ceará has committed itself to eradicating extreme poverty. The most visible effort towards this goal is *Brasil sem Miséria*. Launched in June 2011 by President Dilma Rousseff, *Brasil sem Miséria* is a comprehensive national poverty alleviation program whose aim is to lift 16.2 million Brazilians out of extreme poverty through cash transfer initiatives, increased access to education, health, welfare, sanitation and electricity, and productive inclusion. This federal government flagship program expands existing initiatives in partnership with states, municipalities, public and private companies and civil society organizations to extend the opportunities generated by Brazil's strong economic growth to its neediest citizens.

51. *Brasil sem Miséria* extends a broad range of public services to the extreme poor, including documentation, electricity, literacy, medical, dental and ophthalmic treatment, daycare and sanitation. Among its beneficiaries are eligible citizens who are not already enrolled in Brazil's existing cash transfer programs, such as *Bolsa Família*. The program also emphasizes productive inclusion at both the national and regional levels, increasing the capacity of citizens to participate in economic activity. In rural areas, for example, it provides technical assistance and commercial support to small farmers. In urban areas, it focuses on skills development and the identification of employment opportunities. The more than 7,000 existing CRAS that are spread throughout municipalities nationwide are the bridge between families and this array of social initiatives. The challenge is to ensure that they are reaching and communicating effectively with those families who most need it.

52. The federal government also runs several other programs whose aim is to improve welfare among poor families with children, including *Brasil Carinhoso* and *Proinfância*. *Brasil Carinhoso* establishes financial incentives to municipalities to provide child care with the goal of expanding access to kindergartens among children under 4, especially beneficiaries of *Bolsa Família*. *Proinfância* meanwhile provides resources for the construction, renovation and purchase of equipment and furniture for nurseries and pre-school education. However, many municipalities find it difficult to implement them.⁵⁵ Part of the problem is that the smaller municipalities lack the resources to meet the co-financing requirement. They also find it hard to cope with the administrative burden, in particular the need to provide proof of land ownership before building crèches and other facilities.⁵⁶

53. The Government is also conscious of the need to improve the targeting and evaluation of its efforts to reduce poverty more generally. Its main instrument for doing so is the state Anti-Poverty Fund (FECOP) which finances the programs of eleven departments, under the coordination of SEPLAG. FECOP's size and importance make it an indispensable actor in Ceará's education, health and social protection programs. Previous Bank operations have

⁵⁵ In Ceará services related to ECD are delivered by municipalities but part financed and coordinated by the state government, through a central unit in SEDUC, the *Coordenadoria de Cooperação com os Municípios* (COPEM).

⁵⁶ Federal financial benefits are proportional to the number of children registered in the *Bolsa Família* in crèches or per the number of new classrooms in crèches. For each eligible child aged 0-4 years enrolled in a public crèche or accredited private crèche, MDS provides an additional 50% of the resources allocated by FUNDEB. The process requires coordination between the municipal *Bolsa Família* and education authorities because the former has information on children in the program and the latter on children in crèches.

attempted to improve the execution of programs funded by FECOP but not the criteria according to which the programs receive funding or the quality of their design.

54. The most pressing problem facing FECOP is to ensure that its resources are being directed to the poorest segments of the population and that its activities are properly articulated with other anti-poverty programs. At present FECOP lacks a systematic approach or methodology for targeting and monitoring. Project selection is overly influenced by the availability of federal government financing⁵⁷ and there is only limited feedback of existing evaluation efforts into policy design. The operation will provide technical assistance for a monitoring and information system. This will include training in defining log frames, needs assessments and impact evaluations. It will also support the development of an interactive data set to improve program targeting and the tracking of program performance. As with federal anti-poverty programs, the backbone of the system will be the CadUnico.

Technical soundness:

55. The success of social assistance systems relies on the ability to reach the most vulnerable households and individuals and ensure that they take advantage of the set of programs available to them. This requires more effective targeting, communication and outreach in order to stimulate demand for assistance among those most in need of it. It also requires a high level of integration and coordination across social protection and labor, health and education programs and policies.⁵⁸

56. The proposed program addresses these challenges. First, it will expand the network of CRAS to regions with higher levels of extreme poverty, including those in remote and inaccessible locations, and extend the reach of existing social protection and labor market programs to poor families with children. Second it will improve the quality of outreach undertaken through the CRAS by investing in the skills of those who manage them. Finally, it will promote collaboration among the sector agencies whose activities contribute to ECD through the establishment of a multi-sector ECD committee comprising representatives from SEDUC, SESA, STDS, SEPLAG and municipal counterparts, reinforced through a secondary indicator.

Institutional arrangements:

57. *Capacity:* The Program will be implemented by STDS. STDS has not participated in previous Bank-financed operations but the Bank has assessed its implementation capacity as adequate.

58. *Commitment:* The activities to be supported are grounded in the social development axis of the PPA and correspond to the following *Diretrizes*:

⁵⁷ For example, program coverage is heavily pointed towards Fortaleza, which has relatively low levels of extreme poverty but receives 71 percent of the program's resources.

⁵⁸ One such successful multi-sector ECD program in Brazil is Rio Grande do Sul's 'Better Early Childhood Program' (*Programa Primeira Infância Melhor - PIM*).

- Basic education with equity and a focus on the success of the pupil, undertaken in an environment of collaboration between different levels of government and the managers of the education system;⁵⁹
- Consolidation of the social security system; broadening of the network of protection and guarantee of the rights of children and young people.⁶⁰

59. The program requires substantial coordination with municipal government. Previous experience in Ceará has shown that the coordination with municipal government can be problematic.⁶¹ Recent protests against corruption and low quality of public services around Brazil, may affect the management of municipal governments, especially in Fortaleza. In the case of this program however, there are reasons to think that things will be different. STDS has a strong track record of working with municipalities to implement the PAIF, which is jointly financed by the Federal Government and the municipalities.

B3: Water Quality:

Strategic relevance:

60. Ceará is one of Brazil's driest states. Approximately 70% of its territory lies within the so-called 'drought polygon' (*Polígono das Secas*). Rainfall is limited to three to four months a year. Due to the physical characteristics of the land, composed of crystalline rocks and shallow soils, the portion that infiltrates and is stored to be released through base flow is very small. Most precipitation is converted into runoff and practically all streams are seasonal. As a consequence and as is common in the rest of the Brazilian North East, Ceará experiences chronic water scarcity, with long and severe droughts. To minimize the impact of its climate and geology the state has, over the course of its history, built over five thousand reservoirs. More recently the Government, with Bank support, has invested heavily in integrating water basins, drilling wells and constructing aqueducts. These efforts have transformed stretches of rivers from intermittent to perennial and increased the reliability of water supply. However, this strategy has run its course. Water storage capacity is already estimated at over 90 percent of potential with approximately 18 billion cubic meters available in existing reservoirs. Another five dams under construction will add a further 1.3 billion cubic meters.⁶²

61. At the same time, there has been a troubling deterioration in raw water quality. During the period of implementation of the SWAp II, the proportion of sampled treated water complying with the state regulator ARCE's quality standards fell from 37.5 to 20 percent, compared to an end-project target of 80 percent.⁶³ Historically, Ceará's water management strategy has paid

⁵⁹ Diretrizes do Governo p. 26.

⁶⁰ Diretrizes do Governo p. 51.

⁶¹ In August 2012, for example, the Municipality of Fortaleza returned unspent funds it had received from the state government as a transfer to support family health teams.

⁶² SRH has issued a call for proposals for the following new dams: Lontras (350 million m³), Melancia (27 million m³), Amarelas (48 million m³) and Germinal (2 million m³) and through DNOCS for the Fronteiras dam (850 million m³).

⁶³ In addition to the decline in raw water quality attributable to watershed pollution, this may reflect the increasing stringency of standards applied by SESA.

insufficient attention to quality.⁶⁴ Increased influxes of pollutants, combined with fluctuations in water volume, have contributed to a degradation of the water quality in key reservoirs throughout the state. As water levels fall, particularly during droughts, conditions may become eutrophic (excessively nutrient rich) and water becomes unusable, precisely when it is most needed. More generally, the degradation of surface and groundwater resources from pollution resulting from increased urbanization and economic growth, increased use of agrochemicals, and improper water resource management practices, has led to a reduction in the supply of safe water and increasing negative impacts on the environment.

62. The primary sources of pollution of surface and groundwater vary by location.⁶⁵ In urbanized areas, such as the metropolitan region of Fortaleza, discharges of untreated municipal sewage and industrial effluents have been growing steadily over the past four decades, at a much faster pace than capacity to treat them, even at a primary level. The widespread, unregulated and unmonitored use of septic tanks in dense urban areas has affected the quality of groundwater. Years of solid waste dumping in inadequate facilities, alongside rivers, or directly into drainage channels has polluted groundwater and surface water.⁶⁶ In rural areas the primary sources of pollution are agricultural run-off, livestock discharges and lack of basic sanitation. In the case of reservoirs, the encroachment of livestock, including the use of water bodies for fish farming, and pollution generated by the inappropriate application of fertilizers and pesticides has led to widespread eutrophication. Bays and stretches of urban coastline also show persistent levels of pollution, primarily caused by discharges of raw sewage and depending of the area, untreated industrial waste

63. The Program will concentrate on three water basins (Metropolitan, Salgado and Acaraú), chosen for their economic importance and because they have already built, or are in the process of building, sanitary landfills and so do not require additional investments in physical infrastructure. All three face pollution from a combination of domestic sewage, pesticide and fertilizer runoff, garbage dumps and waste from livestock. The Metropolitan basin is home to more than 3.6 million people or about 43% percent of the state's population. It also hosts a large concentration of industries, including the Maracanaú industrial district and the Pecém industrial complex which includes a steel plant and oil refinery. The Salgado basin has a population of 914,000 and is dominated by Juazeiro do Norte, the second largest city in the state and destination for 2-2.5 million religious tourists per year, who come to pay homage to Padre Cicero. The Aracaú basin has a population of 790,000 and is mainly urban.

64. Poor water quality imposes a large economic and social cost. It pushes up the cost of treating water intended for human consumption and reduces its suitability for other uses. CAGECE reports a steady increase in the level of chemicals used in its treatment plants – to the point where investment in a secondary treatment process has become necessary. There are also important consequences for health and wellbeing. It is estimated that the reduction in

⁶⁴ The Bank's IEG Report on the Ceará Integrated Water Resources Management Project (P006449) noted as a lesson learned that more attention should have been paid to water quality in the project's design.

⁶⁵ Ceará is divided into 12 Units for Water Resources Management (*Unidades de Gerenciamiento de Recursos Hídricos* or *UGRHH*).

⁶⁶ There are approximately 284 open dumps in Ceará, all of which are required by the 2010 National Law to have closed by 2014.

gastrointestinal infections arising from extending access to basic sanitation for all Brazilian households would save BRL 745mln a year in hospital costs.⁶⁷

Technical soundness:

65. Improving water quality demands a systematic approach that comprises: a) an adequate legal and regulatory framework; b) appropriate institutional arrangements; c) management tools, including administrative and technical capacity, for controlling pollution sources and promoting water quality management in rivers and reservoirs.

66. Ceará already has some elements of this approach in place. The legal frameworks for environmental and solid waste management are generally adequate, though work is still required to align federal and state laws and to define regulatory instruments. Land use and water management are governed by the recently passed Federal Forest Code (Law 12.651/2012), which establishes forests and other forms of vegetation in the country as public goods of common interest to all Brazilians and establishes clear property rights and obligations for each category of use. The code allows rural smallholders to plant temporary and short cycle crops on the banks of rivers or lakes exposed during the dry season, subject to their not suppressing native vegetation or wildlife and conserving water and soil quality. The framework for solid waste management is determined by the National Policy on Solid Waste (Law 12.305/2010), which establishes obligations at the state and municipal levels. The state has a plan for integrated solid waste management which is consistent with national guidelines and identifies general targets for the collection, treatment and disposal of solid waste. The Program will assist in operationalizing it in the three strategic watersheds. There are no legal or policy-related obstacles to extending the scope of sewage connections. The federal legislative and regulatory frameworks for pesticide use and control are also adequate. The principal weaknesses are institutional and managerial. A greater focus is needed on policy coordination, decentralized watershed management, including through user participation, and the treatment of water as an economic good.

67. *Incompatible policy objectives:* The deterioration in water quality in large part reflects a failure of coordination among the institutions responsible for environmental and natural resources management. This is partly due to incompatible policy objectives. Agricultural interests, for example, often run counter to those of the agencies responsible for water quality and, indirectly, to the health and well-being of downstream users. Programs to support rural productive inclusion encourage fish-farming in reservoirs or allow farmers to graze their livestock or plant crops in riparian zones, all of which raises nutrient and pesticide loads. Aligning these divergent interests requires political intervention.

68. *Inefficient institutional arrangements:* The current institutional and legal framework for an integrated approach to water resource management has been strengthened in past decades but is still weak. Implementing water security plans requires engagement with other public institutions, levels of government and with civil society. The existence of multiple agencies with overlapping mandates and jurisdictions is confusing and inefficient. Collaboration is perceived as a burden that impedes individual agencies from accomplishing the tasks agreed on in their multiyear

⁶⁷ Trata Brasil, Fundação Getulio Vargas. 2010. Benefícios Economicos da Expansão do Saneamento Brasileiro.

planning instrument. Inter-agency agreements exist on paper but are ineffective in practice.⁶⁸ Moreover, river basins often span several municipalities, meaning their management is subject to multiple local committees. These committees lack decision-making powers and their recommendations are too often not translated into monitoring or enforcement actions.

69. *Poor management tools and weak capacity:* Ceará lacks the capacity to properly monitor and value natural resources. Some initial steps have been taken towards measuring the impact of human-caused degradation, for example through environmental inventories of critical watersheds that assess the effects of effluent from domestic sewage, animal husbandry in riparian zones, irregular disposal of solid waste and the indiscriminate use of pesticides in agriculture. It also lacks the capacity to enforce environmental regulation.

70. *Lack of social awareness:* There is a widespread lack of public awareness of the magnitude of the water quality problem, of its causes and of the complexity involved in mitigating pollution. A shift in social attitudes and individual behavior will be needed if integrated management approaches are to be effective. This will require environmental education to better demonstrate the impact of individual actions (*e.g.* illegal sewage discharges, dumping of municipal solid waste, agricultural and industrial discharges) on environmental quality.

71. The Program will address these weaknesses. The water security plan will facilitate the achievement of a balance between water supply and its many competing uses (*e.g.* drinking water, irrigation, sanitation, energy and environmental services) in a way that sustains economic growth and social welfare without compromising its long-term sustainability.⁶⁹ The formation of an inter-agency committee for water security will improve coordination among the various bodies whose activities have a bearing on water quality. Meanwhile, the development of solid waste management plans will clarify the responsibilities of municipalities with respect to collection, sorting and disposal and provide them with tools (*e.g.* models for consortia) to fulfill these responsibilities. The optimization of the sewage network will include a campaign to sensitize citizens to the health and other costs of illegal connections or of not connecting at all. Finally, the technical assistance component will support the monitoring of variables that affect water quality, better enabling the state to anticipate and mitigate the effects of extreme weather, including drought.

Institutional arrangements:

72. Five separate agencies will execute the four components of the water quality program: (i) SRH will lead the preparation of the water security plans; (ii) CAGECE will be responsible for household sewage connections; (iii) CONPAM will lead the development of municipal solid waste management plans and associated measures to improve municipal capacity, and lead the Water Security Committee; (iv) FUNCEME will design the water quality monitoring protocol and (v) COGERH will implement the water quality monitoring program in the strategic watersheds.

⁶⁸ In 2011 SRH, CONPAM and SEMACE signed an agreement to manage water resources through ‘joint efforts to integrate enforcement actions, quantitative and qualitative monitoring of water and environmental education.’ The results have been modest due to inertia, lack of funding for cross support and a failure to involve local water committees.

⁶⁹ Water security is defined as “the availability of an acceptable quantity and quality of water for health, livelihoods, ecosystems and production, coupled with an acceptable level of water-related risks to people, environments and economies.” Grey, D., C. W. Sadoff. *Water Policy* 9 (2007) 545–571.

73. *Capacity:* All five agencies are well established, were involved in earlier World Bank-financed projects and should be capable of executing their assigned tasks. However, the performance of the Government in implementing the PROGERIRH project was rated moderately unsatisfactory, due to delays in completing works and a failure to address issues around resettlement at the Gameleira and Umari dams. SRH in particular and, to a lesser degree, SEMACE suffer from a shortage of experienced and qualified staff. The agencies will also need to learn to work more effectively with each other – for example, through the Water Security Committee and regular meetings of the PforR Committee.

74. *Commitment:* The PPA includes several guidelines to improve water management. These are grouped under the theme of ‘Economy for a Better Life’ and three headings: urban development and regional integration, environment and water resources. They include all those activities to be supported under the Program. The PPA was amended in March 2013 to include the development of a Water Security Plan. At the same time the Governor approved the creation of the inter-agency committee for water security. The PPA also recognizes the importance of optimizing the sewerage network through additional connections, including through an information campaign to raise awareness of the benefits of adequate sewage disposal. It includes measures to improve solid waste management and achieve compliance with the federally mandated requirement of eliminating open air dumps by 2014.

2. Program Expenditure Framework:

Budget structure and classification:

75. Ceará uses a classification system that allows expenditure tracking by administrative unit (ministries and other entities), economic category (recurrent, capital spending etc.), function (health, education etc.) and government program. The functional classification is derived from national guidelines issued by the federal government and is composed of 28 primary functions and 109 sub-functions. These are consistent with international standards (IFS/COFOG) and are identical to those used by the three levels of Brazilian public administration.

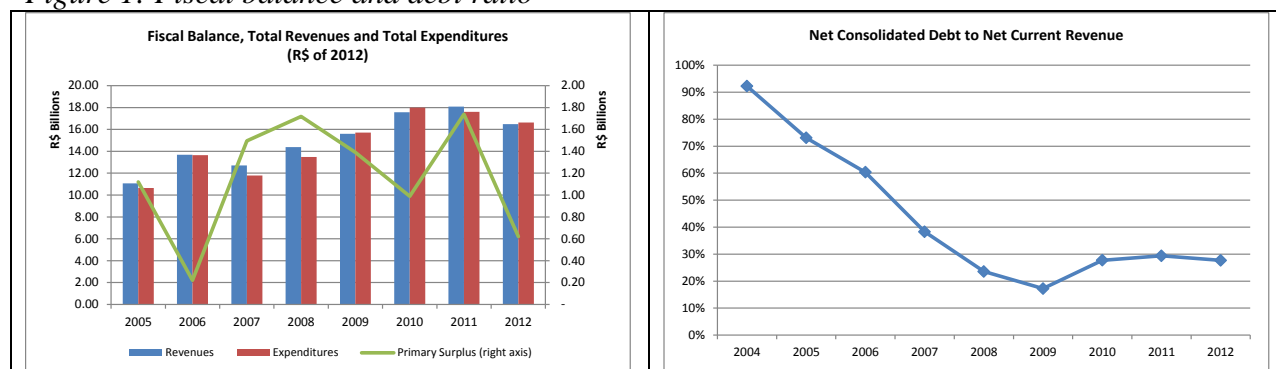
Financing sustainability and funding predictability:

76. Ceará’s fiscal position is sound. Revenues grew steadily between 2007 and 2011, reflecting strong economic activity and improvements in the efficiency of tax collection⁷⁰. In 2012, current revenues expanded by a modest 0.5 percent in real terms and current transfers dropped by 0.4 percent. The two main sources of revenue are the ICMS (45 percent) and transfers from the federal State Participation Fund (27 percent). Expenditures have risen at more or less the same rate. Growth in spending was faster in 2008-11 than in 2004-8, reflecting a deliberate policy of accelerating capital investments, particularly in physical infrastructure, which have expanded at almost 20 percent annually since 2008. Spending dropped 5.5 percent in 2012, with current expenditures and capital expenditures contracting 3.6 and 13.4 percent, respectively. Despite considerably lower investments in 2012, Ceará still reported one of the highest ratios of

⁷⁰ According to SEFAZ, an example of this effort is the “tax substitution”, which consists of supervising large wholesalers instead of focusing on small scale retailers. Wholesalers are obliged to collect taxes which apply to retailers. Moreover, Ceará increased surveillance at its borders and implements cross checks with credit card companies in order to assess the reliability of companies’ revenues statement.

investment to net current revenue (14 percent) and the sixth largest investment outlay in nominal terms of any Brazilian state. However, it is also compliant with all the requirements of the Fiscal Responsibility Law. Personnel expenditures, in particular, have been kept within the limits of 60 percent of net current revenue for total payroll (2012: 51 percent) and 49 percent for the executive branch (2012: 42 percent).

Figure 1: Fiscal balance and debt ratio



Source: SEFAZ, WB calculations.

77. The effects of strong revenue growth and expenditure control are evident in the state's operating and primary balances and debt profile. The gross operating balance returned to surplus in 2010-12 after deficit in 2006-9; the primary balance has been in surplus throughout.⁷¹ The lower GDP growth observed in 2012, led to lower tax revenues and worse fiscal performance across all levels of governments. Still, Ceará sustained the ratio of net consolidated debt to net current revenue at 28 percent in 2012, among the lowest of any Brazilian state and far within the 200 percent limit established by the Fiscal Responsibility Law. Ceará has shown a strong commitment to managing its debt responsibly, engaging in several extraordinary amortizations and reducing debt service by almost half to just 5.6 percent of expenditures between 2004 and 2012 (helped in part by the appreciation of the BRL).⁷² The new Program for Fiscal Adjustment, approved by the Federal Government, allows Ceará to borrow up to 16 percent of net current revenue over 2013-2016. However, it is unlikely that the borrowing limit will be met. New borrowing amounted to on average only 8.5 percent of revenue per year in 2009-2012.

Table 1: Primary and Operating Balances

R\$ millions of 2012	2006	2007	2008	2009	2010	2011	2012
Primary Balance	221.33	1,495.51	1,718.82	1,390.37	988.75	1,738.27	621.07
Operating Balance	(323.96)	(1,489.63)	(815.66)	(489.96)	1,390.41	573.23	138.65

Source: SEFAZ, National Treasury.

Table 2: Main Fiscal Responsibility Law indicators

share of NCR	FRL Limit	2006	2007	2008	2009	2010	2011	2012
Personal expenditures (executive power)	49.0%	39.0%	39.9%	38.2%	40.8%	40.9%	40.0%	42.0%
Net Consolidated Debt	200.0%	60.4%	38.3%	23.5%	17.2%	27.7%	29.4%	27.7%
Guarantees provided	22.0%	11.4%	10.7%	9.6%	9.0%	8.5%	6.2%	7.0%
Credit operations (internal and external)	16.0%	9.6%	3.5%	1.7%	7.6%	11.0%	8.3%	6.7%

Source: SEFAZ, National Treasury.

⁷¹ The SWAp II included two fiscal DLIs, the current fiscal balance and an index of tax concentration. Both were met consistently.

⁷² Given Ceará's low debt levels, any further depreciation of the BRL in 2013 should not give cause for concern even though 40 percent of its obligations are indexed to the USD.

78. The changes in intergovernmental finance arrangements underway will benefit Ceará in the most likely scenario⁷³. The change in FPE, which will start to be implemented in 2016 is the only that will reduce Ceará's revenues. However, due to the slow transition mechanism put in place, the state would lose only 0.4 percent of Net Real Revenue (NRR) by 2020. On the other hand, it would gain 10.3 percent of NRR due to all other changes by the same year. The major gain would come from royalties (6.4 percent) and from ICMS (3.8 percent). The change in interest rates would represent a saving of just 0.1 percent of NRR due to the current small size of the state renegotiated debt. Overall these changes are highly unlikely to affect the state's capacity to finance the PforR Program.

Adherence to priorities:

79. The Government's medium-term priorities are defined in the *Plano Plurianual de Ação* (PPA). The current PPA is for the period 2012-2015 and, following federal practice, represents a change with respect to previous PPAs. Until 2011, the PPA was very detailed and its content was reflected closely in the annual budget law. The 2012-2015 document is more qualitative and is organized by themes rather than sectors. Its purpose is to outline the Government's vision and priorities, not to detail the technical activities needed to accomplish it. Though its goal is to ensure consistency between medium-term objectives and annual budget allocations, the PPA is non-binding. In practice, this means that such consistency is hard to achieve.

80. The government's primary financial planning and control tool is the Annual Budget Law (LOA - *Lei do Orçamento Anual*). No expenditure can be executed if the LOA does not include it. The investment planning process is dominated by the Governor's office through the WEBMAPP (monitoring of priority actions and projects) system. This strengthens monitoring of execution but undermines the connection between investment selection and sector priorities. It also weakens financial planning in that, with a few exceptions, investment project budgets do not properly account for recurrent or maintenance expenditures.

81. The SWAp II encouraged budget discipline through the 70 percent rule for the supported 10 eligible expenditure programs.⁷⁴ The rule was met in all cases by project closing, though sometimes via the substitution of activities and extension of interim deadlines. Between 2007 and 2011, the average level of budget execution was 80 percent, as measured by the ratio of committed to budgeted expenditures. Also the procurement of large contracts, such as public works, is sometimes disrupted by appeals from unsuccessful bidders. Indeed, contract management in general is poor with frequent delays and prices increases during project execution.

⁷³ This scenario includes the change in FPE as passed into Complementary Law 143/13, the application of the new royalties sharing scheme to all fields, the change in ICMS as in the proposal submitted by the government to Congress and the reduction in interest rates accrued on the renegotiated state debt.

⁷⁴ The 70 percent rule required the Government to disburse at least 70 percent of the approved annual budget in each EEP budget line. For each EEP that failed to meet the rule, ten percent of the next planned disbursement would be rolled over to the next disbursement.

Table 3: Budget execution by PforR implementing agency & Program 2007-2011 & 2012

Implementing agency	# PPA 2007-2011	Percentage executed 2007-11	# PPA 2012-2015	Percentage executed 2012
SEDUC	058	84.3	072	90.0
	534	82.9	014	80.0
CIDADES	711	68.3	032	56.3
STDS	066	67.8	049	92.3
	534	90.0	050	85.6
	052	95.7		
	022	95.9		
	713	91.2		
	714	73.2		
SRH	054	68.52	041	44.0
	091	47.3		
CONPAM	046	41.8	082	40.4

3. Results framework and M&E:

A: M&E capacity:

82. Previous Bank operations relied on the state's own systems for monitoring expenditures and results. The SWAp II included a provision allowing for an independent audit of technical compliance if the Bank felt it necessary, but it was not triggered. All implementing agencies provide data on their activities to the Governor's office to supply the central monitoring program or MAPP. This data is of high quality and is available in real time.

Table 4: Results framework (disbursement linked indicators in bold; * = disbursement condition for Prior Results Financing)

Government Program	Output-level indicators	Intermediate outcome-level indicators	PDO-level or impact-level indicator
<i>Skills development</i> 'Vocational training' & 'Secondary school professional education'	Approval of skills development strategy, preparation and implementation of related action plan* Establishment of monitoring and evaluation system for skills development programs	Number of agreements in effect with private companies to contribute equipment, in situ training, inputs to curriculum design or course instructors Analysis of and improvement of governance mechanisms for productive sector development policy (including skills development)	Number of technicians with completed secondary education absorbed by productive sector (public and private)
<i>Family assistance.</i> 'Social assistance'	Percentage of FECOP-financed family assistance projects with log frames Creation of multi-sector advisory ECD committee (SEDUC, SESA, STDS, SEPLAG, municipal counterparts)	Percentage of families with children 0-5 in Cadastro Único in targeted municipalities receiving family support through CRAS Percentage of technical teams in CRAS receiving training in family support	Percentage of families in Cadastro Único in targeted municipalities receiving support from CRAS with trained staff
<i>Water quality</i> 'Environmental protection,' 'Integrated health quality,' 'Water management,' 'Promotion, protection and health,' & 'Natural resources and environmental management.'	Establishment of inter-agency water security committee* Submission to legislature of water security plan for three strategic water bodies Submission to legislature of new watershed protection laws Submission of revised solid waste management law	Percentage of households with adequate connection to sewage system in three strategic watersheds Index of environmental enforcement quality Implementation of participatory water quality monitoring	Raw water quality in the Metropolitan Region of Fortaleza
<i>Public sector management</i> Coordination of planning and investment' & 'Human resources management' and 'management modernization'		Number of Program sectors adopting model for aligning incentives with strategic objectives Percentage of Program investments prepared using standardized methodology	All three PDO-level indicators

Skills development:

83. The PDO-level indicator is the number of technical staff (*técnicos*) with a completed secondary education absorbed by the private sector. There are three output type indicators. The first is a DLI partially associated with prior results financing: the development of a state strategy to promote the development of skills aimed at strengthening innovation and the development of the productive sector in Ceará, together with a formal commitment from key stakeholders in the private sector and academia to validate and monitor its implementation through an action plan (DLI#1). The second is the definition of a governance model, with attributions, roles and responsibilities assigned, to coordinate policies aimed at promoting the growth of the productive sector. The third is the establishment and operation of a monitoring and evaluation system for state programs related to professional and technical education (DLI#2). The intermediate indicator, also a DLI (DLI#3), is the number of agreements between EEEPs and companies in the productive sector to contribute equipment, training opportunities or instructors.⁷⁵

84. The results framework is based on the idea that regular institutionalized communication between public providers and the productive sector will help align the supply of skills with demand and this will be reflected in employers' willingness to hire and in their degree of satisfaction with the quality and relevance of training provided. The three output indicators with strengthen public-private coordination and consultation mechanisms and assist in making information about the effectiveness and impact of programs more reliable and widely available. The intermediate outcome DLI is a direct measure of private sector involvement in program execution and a proxy for the sustainability of the professional education effort in the state, in the sense that firms' willingness to contribute equipment, inputs to curriculum design and training opportunities is likely a reflection of the program's utility. It is important to recognize the existence of potential confounding factors – in particular the broader economic context and the potential growth of private training programs – when evaluating the performance of this indicator. Where possible, the targets have been adjusted for the economic cycle. SEDUC, IPECE, CEDE and SEPLAG will be responsible for gathering and reporting information on these indicators (see Annex 2).

Family Assistance:

85. The PDO-level or impact indicator is the percentage of families in Cadastro Único in targeted municipalities receiving support from CRAS with trained staff. There is one DLI output indicator: the percentage of FECOP-financed family-targeted projects with log frames. This will ensure that agencies consider the relationship between available resources, planned activities, and desired changes or results. This in turn, should support the identification of synergies between programs and improve collaboration among those agencies whose activities contribute to family assistance. There are also two intermediate or outcome DLIs: the percentage of families in the Cadastro Único in targeted municipalities receiving support through the CRAS and the percentage of technical teams in CRAS trained in family support. This measure captures two of the core dimensions of the family assistance program: expansion in coverage and improvement in quality. All are objective and closely correlated with and attributable to program activities.

⁷⁵ The productive sector comprises private and public companies in manufacturing, agribusiness, tourism and ICT. For more details, refer to the indicator protocols.

86. The objective of this component is to increase the coverage and quality of services provided to vulnerable families and those in extreme poverty. This will happen in two ways. First, the program will support an expansion in the network of CRAS in those municipalities characterized by extreme poverty. This expansion in coverage will be captured by the intermediate-level DLI. Second, the program will support improvements in the quality of outreach services by providing technical assistance to CRAS staff.

Water Quality:

87. The PDO-level or impact indicator is an index of raw water quality for the metropolitan region of Fortaleza (i.e. entering the existing treatment plant at the Gavião reservoir and the planned new plant in the municipality of Caucaia).⁷⁶ The Project is expected to contribute to a modest but measurable improvement in its value from 61.2 to 67.5. There are four output indicators, the establishment of an inter-sector committee for water security (DLI#7), the submission of water security plans for the three strategic watersheds, the submission of a new watershed protection law and the submission of a revised solid waste management law. The intermediate indicators are: (i) the percentage of households with adequate connections to the existing sewage system in the three strategic watersheds (DLI#8); (ii) an index of environmental enforcement quality (percentage of environmental infractions corrected, fraction of total reservoir area monitored through telemetry, percentage of population participating in municipal environmental education programs) (DLI#9); and (iii) the implementation of a participatory water quality monitoring program through the watershed committees). The index of environmental enforcement quality will be the joint responsibility of CONPAM, COGERH, SEMACE and SRH. The implementation of the participatory water quality monitoring program will be the responsibility of COGERH.

88. The results framework is based on the idea that untreated sewage and the use of riparian zones for agriculture, animal husbandry and waste disposal are important causes of the decline in water quality.⁷⁷ The formation of an inter-agency committee for water security will improve coordination among the various bodies whose activities have a bearing on water quality. The optimization of the sewage network and improvements in the quality of enforcement will directly reduce the volume of contaminants entering the water supply. There are several important risks to achieving improved water quality. The main one is drought. Under normal meteorological and hydrological conditions and assuming no other changes in relevant policies, we would expect better sewage and watershed management to achieve the desired effect. However, Ceará is now experiencing the worst drought in 60 years, strongly impacting reservoir capacity and the eutrophic state of the majority of reservoirs.⁷⁸ Prolonged droughts will likely increase the frequency and intensity of low river flows, affecting both water quantity and water quality.

⁷⁶ The Water Quality Index was developed by the National Sanitation Foundation in 1970 to provide a standardized method for comparing the water quality of various bodies of water. There are nine parameters included in the index: dissolved oxygen (DO); fecal coliform; pH; biochemical oxygen demand (BOD) (5-day); temperature change (from one mile upstream); total phosphate; nitrate; turbidity; total solids. It is on a scale of 0 (worst) to 100 (best) and has been widely adopted in Brazil.

⁷⁷ Riparian zones provide a series of well documented environmental services: water infiltration and flood mitigation; soil retention, with a corresponding reduction in erosion and siltation; retention of nutrients and pesticides (insecticides and herbicides) originating in agricultural areas; biodiversity conservation; ecological corridors creating habitat for flora and fauna throughout the productive landscape; and a source of food and shelter for aquatic organisms.

⁷⁸ <http://www.hidro.ce.gov.br/reservatorios/qualidade/eutrofizacao>

B: Capacity building for M&E:

89. The state has effective systems for monitoring and reporting on outputs and outcomes. It is less effective at collecting data on final impact or at assessing the relationship between these outputs and outcomes and final impacts. The operation will provide technical assistance in the following areas:

90. *Skills development:* The operation will help with the establishment of a systematic and comprehensive monitoring and evaluation system for vocational and professional training in the state. An immediate output will be more reliable, comprehensive and timely information on key outcomes. The establishment of a monitoring and evaluation system should also inform the operation of current programs and provoke adjustments in the design of new ones. It is important that data is made available to current and potential students, school instructors and directors, policy makers and employers. SEDUC has conducted an assessment of graduate placement, but this effort is not regular nor does it feed into what should be periodic evaluations of the efficiency, quality and relevance of training programs.

91. *Family assistance:* Close program monitoring will be needed with the possibility of adjustments during implementation. STDS is committed to the objective of improving the effectiveness of the program for which it is responsible but lacks the technical knowledge to define appropriate indicators and carry out a comprehensive assessment of the results and impact evaluations. The operation will facilitate the exchange of knowledge on monitoring systems between STDS and other Government agencies concerned with the implementation of family assistance programs and the federal Ministry of Social Development.

92. *Water quality:* The state's capacity for monitoring outcomes related to the water quality program is weaker than in other areas of the Program. There is only a limited amount of reliable data on water quality, most of it for the metropolitan region of Fortaleza. Also the information that exists is often presented in terms of water quality indices, which provide easy to interpret qualitative representations of environmental parameters (e.g. 5-point scale composite ratings), but do not convey the specificity and magnitude of actual pollution impacts. Reporting actual data on, for example, coliform bacteria, dissolved oxygen, biochemical oxygen demand levels and heavy metal concentrations would provide a more accurate guide for mitigation. The operation will provide technical assistance to improve the collection and dissemination of this data. Monitoring the performance of the sewage connections indicator will require strengthening the relationship between CAGECE and SEMAM (*Secretaria do Meio Ambiente Municipal*) to identify non-compliant households (particularly in the smaller municipalities outside Fortaleza). The information required to construct the environmental enforcement index is already available.

4. Economic Evaluation:

Rationale for public provision and financing:

93. *Skills development:* The standard justification for public investment in transferable skills lies in lack of information about the returns on investment in human capital and the inability of private enterprises to appropriate returns on general training. In Brazil, it may also be that the

problem is compounded by high rates of labor turnover that create additional disincentives for firms to train workers.⁷⁹

94. *Family assistance*: As poor families tend to lack the awareness and material resources necessary to take advantage of social assistance programs, there is a strong case for public provision.

95. *Water quality*: Investments in basic sanitation produce significant externalities. The economic impact of environmental degradation is typically around 3 to 9% of GDP.⁸⁰ In Ceará it might be higher given the critical situation with respect to water quality. Improving the quality of water at source eliminates a series of costs associated with water filtration and treatment as well as related impacts on health, quality of life and natural resources. It also reduces costs associated with the burden of disease, as measured by disability-adjusted life years.

Program economic impact:

96. *Skills development*: There have been relatively few rigorous evaluations of training programs in Brazil. All have focused on the effects of training on labor outcomes (employability and income) and none at the impact on firm productivity and performance. Severnini and Orellano (2010) use cross-sectional data from the Brazilian South East and North East to show that participation in vocational training is associated with higher earnings and a greater likelihood of employment. Reis (2012) uses longitudinal data from the Monthly Employment Survey in Metropolitan areas to find that training increases the likelihood of subsequent employment by around 6 percent and earnings by between 18 percent and 45 percent.⁸¹ Assunção and Gonzaga (2010) find a 9.8 percent impact of professional education on workers' earnings.⁸²

97. *Family assistance*: Similar efforts to target and coordinate interventions to assist indigent families have been shown to be effective. Chile's anti-poverty program, *Chile Solidario*, for example, led to increases in the take-up of income support and employment programs. Also the programs intermediated through the CRAS have themselves been shown to have significant impacts.⁸³ Early child education, for example, has been demonstrated to show significant impacts, the best example being a 7-10 percent rate of return on the United States-based Perry Pre-school Program. Estimates from North Eastern and South Eastern Brazil are between 12.5 percent and 15 percent.

98. *Water quality*: The proposed interventions in water quality and solid waste management are expected to generate significant returns, in part by enabling the state to capitalize on investments already made (e.g. the sewage network). The benefits associated with averting mortality and morbidity from poor sanitation far exceeds the cost of implementing and maintaining low-cost

⁷⁹ Corseuil, C., Foguel, M., Gonzaga, G. and Ribeiro, E. Youth employment in Brazil: Evidence on low attachment and an evaluation of a youth targeted program. Mimeo.

⁸⁰ Saraf, Maria. World Bank.

⁸¹ Mauricio Reis. 2012. *Vocational Training and Labor Market Outcomes in Brazil*. IPEA, Working Paper 045.

⁸² Assunção, J. and Gonzaga, G. (2010). *Educação Profissional no Brasil: Inserção e Retorno*. Série Cenários no. 3, SENAI.

⁸³ Carneiro et al 2009.

sanitation systems. Globally, the return on investments in low-cost sanitation provision may be as high as \$9 for each \$1 spent.⁸⁴

World Bank added value:

99. The Bank's role in relatively sophisticated public sector environments such as Ceará is to: (i) broker technical knowledge through the identification and marshaling of internal and external experts; (ii) transmit and reinforce the Government's commitment to achieving results through the inclusion of pre-existing activities in the Program and as DLIs. The first of these functions is helped by the Bank's engagement on identical topics in similar jurisdictions:

100. *Results-based management:* The Bank is supporting or has supported the introduction and refinement of RBM systems in other Brazilian States (Minas Gerais, Rio do Janeiro and Pernambuco), as well as through previous operations in Ceará, and has substantial relevant experience in other countries.

101. *Skills development:* The Bank is supporting similar initiatives in other Brazilian states (Pernambuco, Rio Grande do Sul) and at the federal level through the Brazil: Skills and Jobs Study (P133162) and is well placed to intermediate across these experiences.

102. *Family assistance:* The Bank team includes specialists familiar with the Chilean experience of implementing family assistance programs. The Bank is well positioned to bring this and other operational examples to the government.

103. *Water quality:* The Bank has a long tradition of supporting efforts to improve water quality in Brazil and elsewhere. It is financing the Federal Integrated Water Project – INTERAGUAS which includes national water security initiatives that complement Ceará's. The Bank also has closely related projects in Pernambuco and Sergipe and is engaged in projects with environmental management components in Espírito Santo, Paraná, Rio de Janeiro, Santa Catarina and São Paulo.

5. Inputs to the Program Action Plan:

104. There are no technical inputs to the Action Plan. See Annex 8.

6. Technical Risk Rating:

105. The technical risk rating is Substantial. Successful execution of all three programs depends on a high degree of coordination across sector agencies and with municipalities, particularly in the case of the ECD and water quality components. This will require continuing political commitment from the Government that will take office at the end of 2014 and from mayors in ECD targeted municipalities and the three strategic watershed areas. Most of the executing agencies have participated in previous Bank projects. However, in the case of the PROGERIRH project the Government's performance was rated moderately unsatisfactory and there continue to be concerns over its capacity to retain qualified technical staff in the water sector. The water

⁸⁴ Hutton, G., Haller, L. and Bertram, J. (2006) 'Economic and health effects of increasing coverage of low cost water and sanitation interventions.' Report prepared for the United Nations Development Programme Human Development Report 2006.

quality component will require particularly close supervision and assistance during implementation.

Annex 5: Full Fiduciary Systems Assessment

1. This assessment refers to the fiduciary arrangements governing the Program. Those governing the TA component are described in Annex 9.

1: Program Fiduciary Legal Framework, Institutional Arrangements and Procedures:

2. The fiduciary assessment found that the procurement and financial management arrangements are in line with OP 9.00 and that the capacity and performance of the implementing agencies are adequate for the purposes of the Program.

1.1 Fiduciary legal framework

3. The fiduciary arrangements for the Program are anchored in the Brazilian Federal Constitution. A public accountability law (Lei 4.320 of 1964) regulates financial controls, budgeting and reporting at the federal, state and municipal levels. The Law of Fiscal Responsibility (LRF) of 2000 established particular requirements for macroeconomic and fiscal discipline that define many aspects of the PFM environment. Federal accounting and finance laws and the FRL define the public accounting regulations that are followed by Ceará. The federal National Treasury Secretariat (*Secretaria do Tesouro Nacional* - STN) is responsible for issuing instructions to the States on how to apply the requirements of the law. It also prepares consolidated financial statements for the public sector in Brazil (at the federal, state and municipal levels).

4. For procurement, the federal framework of laws and regulations is solid and transparent, and is familiar to both public officials and to the private sector⁸⁵. These laws and regulations take precedence over those for the sub-national levels. States and municipalities may complement federal legislation but not contradict it, nor may they create new procurement methods. Open competitive bidding is the default procurement method, as defined by Article 37 of the Constitution, and provides fair opportunities for bidders to contest decisions including through appeal to an independent entity. All procurement opportunities, regardless of estimated cost, are published via the internet. Companies are required to have local representation to bid on government contracts. This involves establishing a local office or designating a local agent to serve as local representative and obtaining a taxpayer identification number or CNPJ (*Cadastro Nacional de Pessoas Jurídicas*). Once incorporated in Brazil, foreign companies are treated as locals and subject to the same rules and conditions as domestic companies.

5. The provisions in the federal Brazilian legal framework governing fraud and corruption are also binding on state and municipal public administrations. The Bank's assessment is that they are adequate. The Federal Constitution and principal anti-corruption statute, the 1992 Law on Administrative Improbity (LIA), define various categories of misconduct and provide for such sanctions as the suspension of political rights, removal from public office, freezing of assets and financial compensation for damages caused to public treasury. The Constitution also stipulates

⁸⁵ This assessment draws heavily on the 'Assessment of the Procurement Systems of the Brazilian Federal Government and the Brazilian State of São Paulo - In Support of a Use of Country Systems Pilot Project in Procurement in São Paulo State' ('The UCS Report').

that there is no statute of limitations when seeking reparations for damages caused to the public treasury by government officials. Legal action can be filed in court by the public entity that suffered the losses or by the *Ministério Público*; in practice, it is almost always the *Ministério Público* that initiates. Any person can file a complaint requesting an investigation of suspected wrongdoing. The Constitution and LIA have been complemented by other federal and state legislation inter alia regulating citizens' access to information and establishing a code of ethics for state officials.⁸⁶

1.2 Fiduciary institutional arrangements

6. The institutional framework for the management of public finances in Ceará features a clear definition of responsibilities and institutional arrangements for the management of public finances. This framework will be adopted for the Program, for which the key agencies responsible for the fiduciary arrangements (and the main responsibilities) will be as follows:

- SEPLAG - Coordination of the budget preparation process; procurement policies and regulations, manages IT systems supporting procurement, ensures procurement compliance and financial reporting (on the program)
- PGE – Competitive procurement;
- Sector agencies – Non-competitive procurement, preparation of technical specifications, terms of reference, bid evaluation, contract signature and contract management;
- SEFAZ – Financial planning, treasury operations, accounting;
- *Ministério Público* (MP): fighting corruption, criminal and civil investigations;
- CGE – Internal audit and ensuring compliance with internal controls; and
- TCE – Undertaking the external audit.

7. The capacity of each of these agencies is assessed below. In summary, these agencies have the necessary capacity to manage the resources and to execute procurement under the program. The assessment identified opportunities for strengthening the agencies, including the continuation of training and dissemination of new accounting regulations, staff training and supporting the implementation of risk focused approaches for internal audit, the continuation of the modernization of the external audit methodologies that place more emphasis of performance and results, the additional upgrade of the integrated management information system to allow the better monitoring and evaluating of procurement implementation, setting up an IT system which could help improving contract management of works and drafting standard bidding documents.

⁸⁶ These include Federal Law 10.028 (2000) extending the scope of crimes against public finances to reflect the FRL, Federal Law 12.527 (2011) regulating citizens' access to information rights enshrined in the Constitution and Federal Decree 5.151 (2004) barring federal government agencies from contracting active duty federal, state and municipal employees in international technical cooperation projects. In addition Ceará State Decree 31.198 (2013) establishes a Code of Ethics and Conduct for all officials and employees and State Decree No. 31.199 (2013) regulates the organization and functioning of the state's access to information sector committees, whose mission is to enforce transparency and citizen access to information rules within the state's executive branch.

1.3 Fiduciary procedures and capacity of the implementing agencies.

Budget preparation:

8. SEPLAG oversees the state-wide public sector planning and budget preparation. The agencies responsible for implementing the Program will prepare initial budget proposals containing the expected program expenditures. Within the sectoral agencies such as SEDUC, a central planning unit coordinates proposals from sub-agencies before transmission to SEPLAG. Planning and budget preparation activities for the program follow an established annual budget calendar. Budget ceilings are communicated by SEPLAG to sector agencies through a budget circular. In addition, SEPLAG (through IPECE) will be responsible for supervising and monitoring the Program.

9. The PPA, currently for 2012-2015, is the state's main multi-year planning tool. The PPA describes the objectives, indicators, financial physical and targets of government programs, for at least four years. Investment programs in which expenditures are incurred over a period exceeding a single fiscal year are required to be reflected in the PPA covering that period. Additional resource requests for projects/programs have to be explicitly authorized by the Legislature. This normally occurs during the annual PPA revisions; in any other case, a specific bill relating to the program would need to be passed. The annual budget preparation process is guided by a specific Budget Guidelines Law (*Lei das Diretrizes do Orçamento - LDO*) approved by the Legislative assembly. In addition to budget preparation guidelines, the LDO specifies budget priorities and targets, budget structure and organization, conditions for transfer of government resources to the private sector and estimated recurrent and capital expenses for the coming year. It also includes specific directives for the preparation of the State's Annual Budget Law (*Lei do Orçamento Anual - LOA*). The LOA is a comprehensive document that covers all state entities, including central administrative units and organizations. The budget classification system is governed by federal rules that are consistent with international standards. These rules also lay down specific requirements relating to the inclusion of comprehensive information in the budget documents.

10. The initiatives to be supported by the Program, their location within the PPA for 2012-15, the agencies responsible and the approximate volume of financing associated with each over the course of the Bank operation (from all sources) is indicated in the section on the scope of the program above.

11. SEPLAG has sufficient capacity to undertake and coordinate the planning and budgeting for the program, and Ceará has consistently met deadlines for the preparation of key budget documents and for submitting them to the legislature for consideration and approval. The level of stakeholder participation and coordination with sectoral agencies and discussion is also adequate. The State Assembly has also reviewed and approved the proposed budget documents in a timely manner. The existence of an inter-Secretariat Results and Fiscal Management committee (*Conselho de Gestão por Resultados e Gestão Fiscal - COGERF*) helps to ensure that the overall budgeting process is a fair reflection of execution agency proposals in the final budget. Where necessary, SEPLAG provides technical assistance to sector agencies on the development and execution of plans, programs and budgets and monitoring and evaluation of the budget, program and project execution.

12. Despite the existence of this strong legal framework, however, institutional weaknesses hinder proper linkages between medium term planning and annual budget preparation. Expenditure policy decisions have been tied to the development of select priority programs and projects, chosen on the basis of generic studies and the administration's political platform. Multiyear costs are often only roughly estimated, and on an aggregate basis. There is a general absence of sector strategies, vital for the identification of relevant investment and recurrent expenditures.

Procurement planning:

13. Procurement planning in Ceará is sophisticated, the result of years of fine tuning. Competitive procurement is the responsibility of a central team housed at PGE (*Central de Licitações*) which implements all competitive bidding processes for the entire government. Its activities include preparing and issuing bidding documents and request for proposals, responding to bidders' questions and reviewing the bid/proposal evaluation reports. The central procurement team is staffed by around 170 employees and is organized around particular processes. Teams are assigned to a procurement method for a year and then rotated. The central procurement team also has an internal audit team from PGE that is assigned to review procurement processes.

14. Non-competitive procurement (via *'dispensa'* and *'inexegibilidade'*)⁸⁷ is implemented by sector agencies, which in 2010 and 2011 represented 15% and 22 % respectively of the total State's expenditures. It should be noted that this figure includes utilities, such as power, water, payment of postal services and such, are recurrent costs and no subject to competitive bidding. Thus the amount of procurement carried out by the sectors is relatively small and largely for simple items. The sectors are responsible for all steps in the process including securing budget allocation, preparing terms of reference or technical specifications and cost estimates, providing technical opinions during bid evaluations, managing contracts, receiving goods, works and services, and paying suppliers, contractors and consultants. SEPLAG provides regular training on low-value procurement (up to BRL 8,000, equivalent to US\$ 4,000 for goods and BRL 14,000 equivalent to US\$ 7,000 for works), which constitutes the bulk of *'dispensa'* processes. Sector agencies also rely on advice from legal advisors assigned by the PGE.

15. All seven agencies implementing the Program will be handling procurement activities. These will include the acquisition of environmental and rainfall stations, water testing and monitoring equipment, pipes, teaching materials, refurbishment of schools and construction of child education centers (each following the same model for an estimated cost of USD 50,000). There are no high value contracts expected under the Program and specifically no contracts above the OPRC threshold.

16. SRH, COGERH, CAGECE, FUNCEME and SEDUC have previously worked on Bank funded operations. Based on the assessment conducted in November 2012 and their performance under previous operations, they are considered to have demonstrated sufficient capacity to exercise their functions.

⁸⁷ *dispensa*: competition exists and bidding is possible but it is not mandatory (art 17 and 24- Law 8666) – *inexegibilidade*: no competition and bidding is not possible (art. 25 - law 8666)

17. The capacity assessment analyzed a high volume of contracts executed in 2010 and 2011 and concluded that SRH and SEDUC awarded contracts through competitive procurement procedures. The assessment showed that contract execution delays and contract amendments to works contracts are quite frequent, as explained in section 2.2.

18. Procurement has to be undertaken using the state's information systems, which thus provide the state with a strong control on the processes. These processes are embedded in information systems and are automatic. Low-value and high volume items are typically purchased through framework agreements that aggregate demand from sector agencies to achieve economies of scale.⁸⁸ All government agencies are required to buy from framework agreements if one is available. The most significant framework agreements by value are those for school meals and pharmaceuticals. Also notable are the agreements governing vehicle maintenance and fuel purchases, which must be made by special credit card that monitors usage and flags any unusual consumption patterns.

Procurement initiation and the budget execution cycle:

19. Sector agencies initiate procurement through an '*intenção de gasto*' or declaration of intent. The budget execution cycle in Ceará, as in the rest of Brazil, is comprised of three phases: commitment (*empenho*), verification (*liquidação*) and payment (*pagamento*). The State Secretariats and agencies responsible for the implementation of the Program (e.g SEDUC for the Skills Development component) will undertake the first two phases of the transaction cycle following completion of the necessary procurement procedures. Once bidding processes are concluded and before contract signature, they will lock in the financial resources at the commitment stage. No contract can be awarded until the commitment has been approved, and it represents an obligation on the part of the state pending the implementation of the delivery of goods or services. The primary requirement to initiate any expenditure transaction is that it should have a corresponding allocation in the LOA as approved by the assembly: no bidding process can start unless it is linked to a line item in the LOA. Financial quotas are set for each quarter and released in monthly installments. In order to secure proper authorization, Secretariats and agencies will have to remain within their financial limits when processing commitments. The commitment stage is recorded in the State's integrated financial management system, SIC, using a Commitment Note (*Nota de Empenho* - NE) and observing credit allocation limits. These commitment notes are sequentially assigned a unique identification number. Similar controls are exercised at the subsequent stages of execution using SIC.

20. The various accounting procedures used to capture expenditure program transactions will be undertaken electronically, directly on SIC. The executing agency will be responsible for ensuring that goods or services have been delivered. Once this is done and an invoice is received from the supplier, the financial administration units within the State Secretariats implementing the programs will issue a bank payment notice (*Nota de Pagamento* - NP) and register the payment request within the SIC. SEFAZ will regularly monitor the bank payment notices generated in the system in order to issue payment instructions from the Single Treasury Account. Payments are made in the form of electronic bank transfers.

⁸⁸ In 2011, Ceará had 164 framework agreements encompassing 2,154 items for a total amount of R\$ 856 million Source: SEPLAG, Report named "Participação nas atas de registro de preços vigentes", March 2012.

Procurement methods:

21. *Works and engineering services:* The non-auction open competitive bidding procurement method required by Law 8.666/93 applies equally to all processes, regardless of size or the type of item. In practice, however, it is used mainly for works and consulting services. The mode of invitation varies by size of award. For works/engineering services with an estimated cost of up to BRL 150,000 (US\$ 75,000) and goods up to BRL 80,000 (US\$ 40,000) , public agencies can use ‘*convite*,’ where the invitation of at least three interested bidders is enough to launch the bidding process. For those between BRL 150,000 and BRL 1.5 million, public agencies must use a procurement method known as ‘*tomada de preços*,’ where the process is open to any interested bidder provided they have registered in the government supplier database. For works/engineering services over BRL 1.5 million (US\$ 750,000) and BRL 650,000 (US\$ 325,000) for goods, public agencies must use the ‘*concorrência*’ method, which is open to any interested bidder regardless of registration status. As the most open of the three invitation modes, ‘*concorrência*’ can be used for any procurement, regardless of size, at the discretion of the implementing agency.

22. *Goods and non-consulting services:* Goods and non-consulting services are usually procured by reverse auction, either electronically or offline. In the case of electronic reverse auctions, participating bidders must be registered in the government supplier database. For awards below BRL 650,000, auctions must be advertised in the official gazette and via the procurement web portal; for those between BRL 650,000 and below BRL 1.3 million (about US\$ 720,000), the advertisement must also appear in a local newspaper; and, for those above BRL 1.3 million, it must also appear in a regional or national newspaper. All offline reverse auctions must be advertised in the official gazette, but only optionally via the procurement web portal and a newspaper of “wide circulation”. In practice all offline reverse auctions are published via the state’s procurement web portal.

23. *Consulting services:* The Brazilian procurement framework does not distinguish between goods, works and consultants. The same rules apply to both, except for reverse auctions, from which consultants and works are excluded. For consultants, the legal framework provides for award criteria based on “quality and cost” or “quality only”.⁸⁹ Under these methods, bidding documents always require the proposal to be an integral part of the bid package and bidders must submit three sealed envelopes: the first contains the legal, financial, fiscal, and technical qualification documents; the second the technical proposal; and the third the price proposal. Qualification envelopes are opened first. Only qualified bidders move to the second stage of technical evaluation. Technical proposals are scored on the basis of objective criteria, and only those which attain a minimum pre-defined score move to the third and final price stage. The price of the winner is negotiated with reference to that received from the lowest qualified consultant.

Contract administration:

24. There are several controls to ensure that goods, works and services delivered to sector agencies comply with bid specifications. The terms of reference used as technical inputs for the bidding documents are prepared by sector agencies and provide a means of comparison with what is actually delivered. For procurement of goods, the central procurement team usually

⁸⁹ As defined in Articles 45 and 46 of Law 8.666/93.

requests samples which are sent to sectors as a benchmark for verification upon delivery. When items do not comply with bid terms, suppliers are subject to monetary penalties and can be debarred. However, most of the mechanisms for quality control revolve around the bidding process. Tools for correcting supplier performance post-award are limited to penalties and sanctions.

Procurement performance:

25. The procurement system of the State of Ceará is a combination of highly centralized procurement process and decentralized contract management supported by multiple information systems. The capacity assessment indicates that it functions efficiently. The central procurement entity (PGE) has the capacity and resources to handle a high volume of procurement processes, PGE carries out 85% of the State's value put out for bidding and in 2012 PGE conducted 2,600 bidding processes for a total value of BRL 6,370,000,000 (US\$ 3,000,000,000). The Bank did not find any complaints from the sector agencies about PGE's performance. However, PGE's bidding management system, "*Licitar*" has some limitations. While it provides some statistical data (total number of bidding processes conducted during the year, the volume of bidding and contracts awarded), it is not designed to generate reports on PGE's performance in the bidding processes. The TA component will support its upgrade to improve its monitoring capacity. Although the state's procurement arrangements appear sufficient in general, there are a number of weaknesses that need to be addressed. The first concerns cost estimates for the procurement of goods. Since there is no current data base available, the contract estimates for goods are made with reliance on three quotations from prospective suppliers, and this may not be the best manner in which to determine the estimates. A second difficulty is the fact that the State relies on the Federal system (Comprasnet – Banco do Brasil) to conduct its reverse auction. Since there is no IT linkage to the contract monitoring system (*Sistema de Acompanhamento de Convênios e Contratos - SACC*), the information for each bidding process has to be manually entered into SACC at the end of each bidding process. This weakens the enforcement of budget controls and limits the availability of data for statistical analyses and audits. The Government is aware of this shortcoming and has developed its own reverse auction information system which is yet to become operational. Finally, the state lacks standardized bidding documents and each agency uses its own set. This may cause delays in their approval by PGE.

26. The TA component will support SEPLAG in upgrading its integrated management information system to better monitor and evaluate procurement implementation. This will help to reduce transactional costs and fragmentation in small value procurement and allow SEPLAG to craft better procurement strategies and policies. In addition, the TA component will help to produce a set of standardized bidding documents for goods, e-reverse auction and works.

27. The procurement system (law 8666) is ineffective at recruiting high quality consultants. Because of the deficiency in the law, when hiring highly skilled individuals, agencies tend to do so through noncompetitive methods.⁹⁰ TCE reports indicate that some agencies try to divide up consulting contracts to either avoid competitive procurement methods or bypass the central procurement team entirely. In addition, with the national procedures for selecting consultants it is sometimes hard to select the best quality proposal: agencies tend to design very precise bid

⁹⁰ For example, there were only 71 competitive awards on a 'quality and cost' or 'quality only' basis between 2008 and 2012, compared to a total of 44,631 bidding processes for goods, works, consultants and non-consulting services.

evaluation criteria (e.g. years of experience or number of diplomas) in an attempt to show fairness and be consistent with the National Procurement law. The problem is that this procedure does not permit the exercise of professional judgment required to assess quality. These difficulties were apparent during the implementation of the SWAs.

Contract management performance:

28. This is the weakest link of the supply chain, particularly in agencies with decentralized operations. The deficiencies are more pronounced among contracts for works, which are subject to frequent delays and price increases during execution. In 2010, for example, 85% of works contracts ran late and 58% were subject to price increases after signing. The average contract extension was 372 days, representing an almost tripling of original delivery schedules. This is particularly relevant for the Program, given that it supports the maintenance, construction and refurbishment of vocational training schools and child centers. Construction projects of public facilities such as school buildings constitute an important risk for fraud and corrupt behavior in Brazil. It is not infrequent for construction projects to surpass initial budget estimates. Brazilian procurement and contracting legislation then allows for cost adjustments in order to preserve contractual ‘economic-financial equilibrium.’ The law also allows for additions to the initial contract of up to 25% or 50% of the original amount, respectively for construction and refurbishment of buildings. Such legal provisions can and are misused by corrupt officials and business to circumvent legitimate procurement objectives and generate illegal rents. Through the TA component the project will help the Government of Ceará to elaborate and implement a strategic program to improve contract management by setting up systems and methodologies for the improvement of internal controls of contracts of works. Furthermore, the TA component will help to strengthen the capacities of the key staff on contract management.

Resolution of contract disputes:

29. Contract disputes are either settled following administrative procedures described in the procurement law or are else referred to the judiciary. The mechanisms are well-known to government officials and to the private sector and function in a predictable manner. For contracts already under implementation, a firm’s first step is to file an administrative petition. If this is insufficient, it may take the dispute to court. Article 79 of the procurement law provides three grounds for rescinding a contract: (i) unilaterally by the hiring agency on account of malfeasance or non-delivery, for reasons of public interest or *force majeure*; (ii) by mutual agreement; (iii) by judicial act or order.

Treasury management, payments and flow of funds:

30. As mentioned above, Ceará maintains a single treasury account system that is managed by SEFAZ. Payments in respect of the Program will be made by SEFAZ in accordance with duly documented payment requests received from the implementing agencies. A Ceará state decree requires agencies to pay contracts for works in no more than five days⁹¹.

31. As part of its treasury management responsibilities, SEFAZ prepares the state’s annual financial plan and monthly cash flow projections, monitors its implementation, and consolidates the daily cash balances. COGERF will establish the monthly financial programming quotas for

⁹¹ State Decree 29.918 dated 09 October 2009 and “Instrução Normativa”001/2010.

the fiscal year at the beginning of that year. Working within these ceilings, SEFAZ will communicate authorized quarterly amounts to the sectoral implementing agencies. These will be used to guide the scheduling of activities to be supported by the program. The approved cash flow ceilings will be updated on a monthly basis. Reconciliations of all central government accounting records with commercial bank account statements are performed at least once a month.

32. For the SEDUC implemented program, financial resources will be transferred in advance by SEDUC and directly administered by the school administrators⁹². There are twenty-one SEDUC regional offices (CREDE) which are responsible for monitoring and oversight of nearly seven hundred schools. CREDEs are responsible for reviewing and approving financial requests made by school principals. They also analyze the schools' financial forecasts, bank accounts and reconciliation statements. Transfers to the schools will be made in quarterly advances in accordance with specific agreements that will set out the conditions of the transfers, the activities to be financed, and requirements for accountability. The transfers will be conditional upon satisfactory accountability for prior advances. To help in monitoring the use of such resources, SEDUC has issued a number of guidelines to such schools, including standard documentation that should be submitted in accounting for advances. This includes documentation in respect of bank reconciliations, accounting statements and physical reports. In addition, SEDUC has a modern public school administration system (*Sistema Integrado de Gestão Escolar*). The system has a financial management module where the manuals, guidelines and standard forms used by schools for recording commitments and payments and preparing financial reports can be downloaded. In such cases, the funds will be transferred in advance by SEDUC.

Accounting and financial reporting:

33. SEFAZ will be responsible for maintaining the accounting records for the Programs. In addition to federal accounting and finance laws, the federal National Treasury Secretariat (STN) has issued accounting instructions that will be applied by the *Coordenação do Tesouro* (COTES) within SEFAZ in recording the transactions of the Program. COTES has two units that have direct responsibility for administering the State's accounting records, and issuing financial statements and reports. From 2013 all federal entities in Brazil have adopted international public sector accounting standards. The state's financial accounting system (SIC/S2GPR), administered by SEFAZ is key in ensuring the successful implementation of the new accounting rules. The accounting module in the system is used to record data for all accounting transactions, and it enables the preparation of the State's financial reports. Additional steps taken to support the introduction of the new accounting system include a stock take and evaluation of all its fixed assets, training and sensitization programs, and the upgrade of its information systems. Overall, it provides timely and regular information on actual budget performance. SIC users have direct access to information, thus helping manage approved funds and implement their budgets. The most used status reports on budget execution as well as monthly statements are preprogrammed in the mainframe system.

34. SIC/S2GPR, which will be used for the maintenance of the program's accounting records. The system will enable Ceará to adequately record the program financial transactions using a Chart of Accounts that was introduced recently following the adoption of accrual accounting

92 As part of the "Programa Dinheiro Direto na Escola" (PDEE).

35. SEFAZ periodically prepares and publishes the government's financial reports. Budget execution reports are prepared on bi-monthly and quarterly bases. Interim Financial Reports specific to the program will be prepared in a semi-annual basis by SEPLAG/IPECE, showing program expenditures by program, budget line and activity. The reports will be submitted to the bank within 60 days after the end of each semester. Annual Program Financial Statements will also be prepared for the Program and will show the total revenues and expenditures related to the Program. The format of these has been agreed between the Bank and the GOC. Periodic bank reconciliations also facilitate preparation of the annual consolidated financial statements. Ceará has consistently been able to prepare its financial statements in a timely manner in each of the last three years. These same systems will be used to prepare the financial statements for the Program.

36. In general, from the audits of the Ceará SWAP operations and reports prepared by the CGE and the TCE, accounting regulations have been found to be properly and consistently applied. Minor exceptions have been detected and noted in CGE and TCE reports. The 2012 report, for instance, highlights the inclusion of some classes of transactions in the financial statements without the inclusion of explanatory notes. The audit reports contained recommendations for remedial actions to be taken. The implementation of a new Chart of Accounts, improvements in the integrated financial management system and the training that has accompanied these are bound to strengthen the state's accounting performance further.

37. In the past, the TCE has recommended to SEFAZ and SEPLAG the update of the skills and knowledge of their staff as a way of limiting errors in the recording of accounting information. The TCE was subsequently satisfied that this recommendation has been fully implemented, with the *Escola Pública de Gestão* running regular training programs for staff in accounting procedures. These programs are also intended to help provide staff with the requisite knowledge on the new international public sector accounting standards.

Controls:

38. *Payroll controls:* Civil servant payroll is centralized at SEPLAG's *Coordenadoria de Remuneração de Pessoas* which maintains the personnel database and manages the monthly wage bill. The payroll is run using a mainframe based system. Administrative units at each state agency are technically responsible for the maintenance of individual personnel records and staff status changes. Sector units, nevertheless, have been slow to update their personnel information on the electronic payroll database. As a result personnel records and payroll are not updated monthly. Some employee related administrative tasks related to employees require formal publication in the State Register. Any necessary retroactive adjustments are then performed. SEPLAG checks the payroll for accuracy every month, comparing taxpayer IDs with personnel records to identify possible ghost workers and other inconsistencies. Nonetheless, these safeguards have, at least in some cases, proved insufficient. CGE audits and an SGE audit of SEDUC have previously found lapses, including unjustified payments for overtime, inadequate verification of employee attendance, improper accumulation of jobs by individuals and questionable awarding of vacation time.

39. *Non-payroll controls:* Various laws and regulations exist to underpin the internal control environment that will be used for the program. These controls will limit program expenditures to those approved within the LOA and for which financial resources have been sufficiently

programmed. As mentioned above, once the annual budget is passed, information on the budget allocations and financial quotas for the various budget units is captured in SIC/S2GPR by SEFAZ/COTES, initiating the budget execution phase. In accordance with the LOA, financial quotas are aggregated by both economic classification and source of funds. The primary requirement to initiate any expenditure transaction is that it should have a corresponding allocation in the LOA as approved by the assembly. Financial quotas are set for each quarter and released in monthly installments. In order to secure proper authorization, units and agencies must remain within their financial limits when processing commitments. Responsibility for budget execution is decentralized (see above under procurement).

40. All state units except independent public enterprises are required to use SIC/S2GPR for recording financial transactions. The system contains a series of controls which effectively limit expenditure commitments and payments to cash availability and approved budget appropriations. The system also helps to keep track of expenditures for goods and services, casual labor wages and discretionary staff allowances. The system is thus an effective mechanism to control the budget execution cycle.

Audits:

41. *Internal audits:* The internal audit of the Program will be undertaken by the CGE, which also functions as the state ombudsman and is responsible for enforcing disciplinary actions across the executive branch. In addition the CGE is responsible for developing and maintaining the state's transparency portal. Its procurement-related activities include reviewing the use of non-competitive methods (*'dispensa'* & *'ineligibilidade'*) and supporting the monitoring of contract performance. The CGE also verifies the extent to which contracts awarded correspond to the LOA. The CGE plays a key role in monitoring the implementation of the recommendations contained in the TCE's annual report on the Government's financial statements. It is expected that the CGE will play this role specifically in relation to recommendations in respect of the expenditure programs supported under the Program.

42. The CGE enjoys a satisfactory level of professional independence and is legally empowered to access information and report its findings. Promotions are based on employee performance and demonstrated improvement of technical skills. However, the agency has had difficulty in retaining staff attracted by the prospect of better-paying jobs in the private sector. It currently has 60 vacancies – almost double the number of auditors it employs – and operates at well below the staffing levels specified in the regulatory framework. A number of reforms are underway to strengthen the capacity of the CGE. These include the introduction of risk based methodologies to better target internal audit efforts, and training for staff. Some of these reforms will be supported under the Program and are described in the TA Section.

43. *External audits and scrutiny:* The state's audit agency, the TCE, is mandated to conduct audits of all uses of public funds in Ceará. The TCE is an independent agency that reports to the legislature. It audits the Government's annual financial statements, the state administrator's annual accounts and reviews the bimonthly and quarterly fiscal reports issued by SEFAZ for accuracy and fairness. The TCE audit approach has sufficient focus on risks and performance. The TCE's performance is widely seen to be satisfactory, and its reports contain detailed findings and recommendations. With the support of the CGE, it also regularly assesses the extent to which its recommendations are implemented. All audits are carried out according to national

auditing standards. The TCE also carries out detailed audits of procurement by sector agencies, principally with the aim of limiting the use of non-competitive methods. The TCE has recently undertaken a number of reforms to enhance the impact of its audits and increase the skills and knowledge of its staff. These include the adoption of international standards for supreme audit standards and the introduction of new methodologies in respect of financial and performance audits. The TCE has also undertaken a rigorous training regime to update the skills and knowledge of its staff in respect of the new methodologies.

44. The TCE will be responsible for auditing the program's annual financial statements. The scope of the audit will be defined in the terms of reference to be agreed between the Government and the Bank. A copy of the audit report will be submitted to the Bank no later than 12 months after the end of the financial year to which the financial statements relate.

Access to information:

45. Public access to financial and procurement information is guaranteed through the Federal Access to Information Act of May 2012. The Law requires the disclosure of annual budget documents (PPA, LDO, LOA), budget execution reports and the mandatory bi-monthly and quarterly FRL reports published by SEFAZ. These are available online via the state's web portal, as are the state's year-end financial statements. The Act also requires online disclosure of all bidding documents, contract awards and signed contracts. Bidders have access to an online pre-registration site through the state's procurement web portal.⁹³ Tender invitations for 'convite' processes are published online; those for 'tomada de preços' or 'concorrência' processes are published in the official gazette, on the procurement website and in at least one widely circulated regional or local newspaper. All reverse auctions are advertised on the procurement website. The wide use of the internet in Brazil facilitates public access.

46. Complaint mechanisms:

47. The procurement complaint mechanism in Brazil is regulated by Federal law 8.666/93. Complaints by bidding firms or individual members of the public may be directed to either: (i) the bid evaluation committee for the relevant sector agency, in which case a decision is taken by the 'ordenador de despesa;' (ii) the TCE, which can stop a procurement process by special order if it finds strong evidence of wrongdoing; or (iii) the courts. Whichever the channel, it is unusual for a procurement process to be interrupted unless there is a strong suspicion of fraud.

48. Responsibility for ensuring that complaints are properly handled lies with the ombudsman (*Ouvidoria*). It ensures that they are addressed to the relevant party and monitors their progress through the system. The ombudsman also acts as a watchdog and can intervene itself if it suspects fraud. It may even independently recommend the suspension of a procurement process to the Governor.

Fraud and anti-corruption

49. The CGE and the TCE play key roles in ensuring compliance with laws and regulations. In addition to these institutions, the *Ministério Público* (MP) is an independent state agency responsible for public prosecution. It plays a prominent role in fighting public corruption and can

⁹³<http://www.portalcompras.ce.gov.br/categoria2>.

undertake criminal and civil investigations either with the police or independently. The MP is not subordinate to any other branch of government: it can and routinely does file litigation against government itself and government officials, including high-ranking ones. Each prosecutor benefits from independence safeguards similar to those held by judges (*i.e.*, he cannot be fired or transferred at will) and has full autonomy in handling his cases. Each Public Ministry branch has its own Attorney General (who manages the agency's administrative matters) and Inspector General (who provides disciplinary oversight over all prosecutors), but they cannot dictate the decisions prosecutor should take in each individual case.

50. Any case involving the misuse of public funds may reach the state court system, particularly if the Public Ministry is involved. Ceará has no specialized courts to try organized fraud, corruption or money laundering. There also exists a separate Municipal Court of Accounts (TCM) which exercises financial oversight over the use of public funds at the municipal level. Its role and powers are very similar to the TCE but its mandate is limited to funds originating with municipalities.

2: Assessment of Program fiduciary risks:

51. Overall fiduciary risks are considered moderate. The FM risk is moderate. FM arrangements meet the Bank's minimum requirements. There are however some weaknesses in internal controls, delays in the submission of audit reports and high rates of staff turnover. Procurement risks are also moderate. Ceará's procurement system provides reasonable assurance that the fiduciary principles of transparency, economy, efficiency, effectiveness and accountability will be met. The main risks are in contract management, recruitment of highly qualified consultants and small value procurement. The fraud and corruption risk is moderate.

Financial management risks:

52. The key financial management risks arise from (i) weaknesses in the planning process, particularly the linkages between sector plans and budgets, (ii) the introduction of new accounting rules following the adoption of international accounting standards and (iii) the capacity of the CGE to monitor the implementation of internal controls and TCE recommendations.

53. The linkage between Government priorities and the annual budget, including allocations for the Program, could be strengthened. In addition, the costs of sector plans are sometimes not properly assessed due to a lack of cost accounting information (see Technical Assessment, Component A1: Cross-Cutting Public Sector Management).

54. The recent adoption of international accounting standards requires the preparation of government financial statements on an accruals accounting basis. It is envisaged that this will result in the availability of accurate information and this improve decision making. However, it also requires more sophisticated accounting knowledge and skills on the part of staff, and sensitization of government officials to ensure that information is properly understood and used. To address the resultant risks, the government has undertaken extensive training and sensitization programs. There is also a wide availability of guidance materials that were prepared and disseminated by the Federal Government. In addition, improvements in the information

system architecture are likely to provide tools for the better application of the new accounting rules.

55. Finally, there is a risk that implementing agencies may not fully comply with existing internal controls, as indicated in some of the recent internal and external audit reports. In mitigation of this risk, both the CGE and the TCE are developing their capacity to identify areas of key risks and support the government's focus on performance and results.

Procurement risks:

56. The procurement system provides reasonable assurance that the fiduciary principles of transparency, economy, efficiency, effectiveness and accountability will be met. It also provides an adequate mechanism to ensure fairness and guarantees the right to appeal decisions on individual bidding processes.

57. *Transparency:* All competitive procurement processes are published online at the state's open-access procurement webportal. The procurement regulatory body at SEPLAG carries out periodic workshops with private sector companies to explain how to become a supplier of the State government. The initiative aims at broadening the base of suppliers of the government and at encouraging the participation of small and medium enterprises. The procurement webportal was designed with the objective of becoming a one-stop shop for the State government procurement and, as a result, facilitating private sector companies to supply to the government. At the portal, companies can register to receive emails and text messages with bidding opportunities and to enroll on the State's database of suppliers (also known as CRC). Once enrolled at CRC, companies are able to verify the status of their applications online and to update this information through the internet, pending delivery of supporting documentation. On the flip side of the coin, the State is able to quickly verify at the CRC if bidders are legally and technically qualified, therefore, speeding up a process known in Brazil as '*habilitação*.' A manual explaining how to become a supplier of the State and how to register at the CRC is available for download at the procurement webportal.

58. *Economy and efficiency:* In terms of economy and efficiency, data provided to the Bank showed that in 2010, 85% of all contract expenditures done by the State followed open and competitive bidding processes, through *concorrência*, *pregão*, *tomada de preço* or *convite*. This result, which already is very good, would have been even better if the dataset allowed for segregation of non-procurable items, such as utility bills, which are paid through *dispensas*.

59. *Accountability:* The processes and procedures supporting implementation of procurement in Brazil assign very clear roles and responsibilities for all steps of the process. The *Ordenador de Despesa* is responsible for authorizing expenditures and he or she will perform this function with the advice of specialized teams in budget and planning, procurement, bid evaluation, legal issues, and financial management. Each of these specialized teams is individually accountable for their specific contribution. Oversight of this operation is performed by control agencies, such as CGE and TCE, which rely on different information systems to ensure compliance with legislation. For instance, the procurement system will only allow a bidding process to move forward if the required budget appropriation had been previously made at the budgetary information system. In the same vein, a payment can only be made within the financial management system if a contract had been duly awarded and recorded at the contract information system. The valuable

information collected by these systems allows the CGE and the TCE to play a very effective control role in the system and to ensure that implementing agencies comply with rules and procedures. The fact that only 3% of the number of contracts signed in 2011 were subject to amendments shows that the State of Ceará has effective controls to manage contract implementation and keep change order to a minimum of contracts.

60. *Fairness:* In terms of fairness, the procurement legal framework in Brazil is mature, solid and very well known to all stakeholders. This is a result of the constant evolvement of the regulatory framework since 1993, when the landmark procurement law was enacted. Also, there are three ways through which bidders and any citizen can voice complaints during a bidding process: directly to the implementing agency, to the Supreme Auditing institution or TCE, or to the judiciary. The first two channels are free of charge and TCE is independent from the implementing agency.

61. *Risks and mitigation measures:* the key risks on procurement result from the weaknesses identified under paragraph 2.2, which are (i) ineffective national procedures for selecting high qualified consultants, (ii) small value procurement and lack of a price data base for goods, (iii) weaknesses on contract management for works and (iv) insufficient information generated by the *Licitar* system used by the central procurement agency PGE.

Fraud and corruption risks:

62. The operation presents a number of fraud and corruption risks. Bank funds will be exposed to the same opportunities for rent-seeking behavior as other public funds. These are especially notable in the case of activities executed by municipalities, as are parts of all three components of the Program. The smaller municipalities in particular lack internal control mechanisms. Moreover, municipal election campaigns are often financed illegally by local business people in the expectation of paybacks once the beneficiaries are in office.⁹⁴ In view of this, and given that the bulk of anti-corruption efforts are directed towards ex-post detection and restitution rather than ex-ante prevention, the overall risk of fraud and corruption is considered moderate.

63. *Ex-ante detection:* The Government's main tool for detecting fraud ex-ante is the Federal Cadaster of Debarred and Sanctioned Firms (CEIS) and the state-level *Sistema de Informações Gerenciais* (SIG). CEIS is maintained by the *Controladoria Geral da União* and consolidates all debarment and sanctions data on both firms and individuals at the state and federal level. Brazil's national procurement law stipulates that firms cannot be barred from entering a procurement process. Instead proposals are screened against the CEIS and SIG when initially received and any proposal from a firm or individual registered on CEIS immediately disqualified. A second screening takes place at the contract award phase. The selected firm or individual is once again checked against the debarment lists and if found, disqualified in favor of the next lowest bidder. If for some reason a firm on the Bank's debarment list is not on the CEIS or SIG and is not excluded at the beginning of the procurement process, it would be excluded at the later stage prior to award (Article 42, § 5^o of Lei 8.666). The CGE also has some capacity to monitor change orders on government contracts and monitors unit prices within contracts. It has

⁹⁴ The Ministerio Publico has developed a program (*Operação Antes Desmonte*) to perform due diligence on the use of municipal funds six months before a mayor is due to leave office. Assets are frozen and reviewed, deterring incumbents from malfeasance.

undertaken a risk analysis of all 39 state agencies, assessing their procurement, financial management and payroll management capacity. It began to co-locate anti-fraud and corruption staff in those agencies deemed a high risk from October 2013.

64. *Ex-post treatment and restitution:* Although the Brazilian procurement legal framework is well developed, public agencies that oversee the execution of public contracts do not necessarily respond to instances of corruption with the necessary promptness and expediency. Fraud in construction contracts is frequently identified only after the fact and once payment has been made. The most common form of malfeasance involves the use of substandard materials and techniques by contractors or, even worse, the delivery of unfinished projects. Even after identification and investigation, itself a lengthy process in these cases, the inefficiency of the justice system can make it impossible to obtain reparations or punish perpetrators. An exception to this is the use of negotiated settlements or plea bargaining. Both the federal agency tasked with investigating and prosecuting economic crimes, CADE, and the *Ministério Público* can use plea bargaining to enforce compliance and extract restitution.

65. *Fiduciary risks and mitigation measures:* Table 1 provides the key risks and mitigation measures.

3. Conclusion on fiduciary performance and recent Bank experience

66. The conclusion of the assessment is that the fiduciary arrangements for the Program are in line with OP 9.00 and that the capacity and performance of the implementing agencies are adequate for the purposes of the Program. The performance rating for financial management arrangements under other Bank projects has been Moderately Satisfactory. Reviews by external auditors of the SWAP have revealed some lapses in internal controls, particularly in SEDUC, SESA and SECITECE. The implementing agency (IPECE) was effective in tracking activities under the technical assistance components of the SWAPs. However, TCE audit reports have pointed out some deficiencies in contract management on the part of sector agencies. Procurement performance has also been Satisfactory. The PGE is capable of carrying out its procurement responsibilities under the Program, the sector agencies are equipped with the qualified technical staff to provide inputs to PGE for competitive procurement and with the proposed mitigation measures the Government will have effective tools for improving the procurement and management of works contracts.

4: Improving fiduciary performance:

4.1 Financial management:

67. In addition to the technical assistance for budget preparation and execution, HR management including tightening of payroll controls and investment planning to be delivered through the public sector management umbrella, the Government and the Bank have identified a number of areas where ongoing medium/long-term reforms can be supported through technical assistance:

- *Support for the adoption of international public sector accounting standards (US\$ 0.2 mln)* (SEFAZ/CGE): The adoption of international public sector accounting standards (IPSAS) will improve the quality and relevance of financial information available for

decision making by public sector managers. The TA will supplement ongoing efforts to introduce IPSAS through: the provision of training and the dissemination of manuals; a staffing needs assessment to determine the most appropriate organizational structures; improvements in information systems and support for the implementation of a Chart of Accounts.

- *Strengthening risk and performance-based external auditing (US\$ 1.0 mln) (TCE)*: The TCE has been strengthening its audit capacity in recent years and is working on a strategy to modernize its audit methodology, putting more emphasis on performance and efficiency in the use of public resources. This activity will support the implementation of international accounting and auditing standards, including training and the preparation of guidance materials, and strengthen coordination with legislatures and citizen participation mechanisms.

68. Other actions to strengthen financial management performance include: the development of costing methodologies and investment planning tools that will contribute to enhance linkages between multi-year plans and annual budgets; and training for accounting staff on the new international accounting standards and their application in Ceará. The first of these will be supported through the technical assistance for cross-cutting technical assistance; the second is an item in the Program Action Plan.

4.2 Procurement:

69. Based on the weaknesses and opportunities for improvement identified in the risk assessment, the following technical assistance activities will enhance the performance of the procurement system:

- *Design and implementation of management information system and proposal for improving standard bidding documents (US\$ 1.2 mln) (SEPLAG)*: This activity will support three integrated information systems to support the execution of bidding processes: (i) a tool to enable procurement planning and the more timely implementation of procurement processes (\$ 0.5 mln); (ii) a platform to implement framework agreements for the procurement of low-value and high-volume items by consolidating demand across sectors (\$0.5 mln); and (iii) a database of all goods, works and services purchased by the Government to provide more reliable and accurate information for purchasing strategies (\$ 0.2 mln). These three information systems will be connected to S2GPR, allowing better disclosure of information and internal controls. The activity will also finance the preparation of a proposal for improving the Government's standard bidding documents.
- *System of preventive internal controls, management information system and social outreach (US\$ 1.5 mln) (CGE)*: This activity will help the Government improve its contract management system through the following activities: (i) introduction of preventive internal controls of works and other contracts; (ii) implementation of information system to collect and analyze data from all major Government databases and offer a user-friendly interface for officials to manipulate data relevant to their decision making; (iii) design of a social outreach program to raise awareness and train communities and civil society organizations to use data disclosed by the government to empower social oversight of public contracts.

- *Modernization of 'Licitar' information system (US\$ 0.5 mln) (PGE):* This activity will revamp the 'Licitar' information system currently used by PGE in order to be able to produce actionable data and reports on bidding processes.

4.3 Application of anti-fraud and corruption guidelines for the Program:

70. The Government will be responsible for complying with the Bank's Anti-Corruption Guidelines for the Program (ACGs, dated February 2012). The Government agreed to implement the Program in accordance with the Anti-corruption Guidelines, applicable to PforR operations (ACGs). The ACGs will be implemented in accordance with the following arrangements as agreed:

(a) **Reporting:** the State of Ceará will provide the Bank with reports annually or more frequently as may be required or if requested by the Bank, detailing the status of complaints received and actions taken by the institutions of the State relating to the application of the Fraud and Corruption (F&C). Likewise, the Bank will report to the State on similar allegations or any relevant information it may receive and convey to the institutions of State. The main contacts for exchange of information are the Bank's Task Team Leader and IPECE. Recognizing the legal and regulatory framework, and judicial independence Brazil and the State of Ceará, the State agreed to inform the Bank if any situation arises that causes any inconsistency with the applicability of the ACGs, and resolve such situations on a case by case basis.

(b) **Investigations:** According to the Anti-corruption Guidelines, which are an integral part of the Loan Agreement, the Bank may, in collaboration with the institutions of the State, exercise the right to investigate allegations of fraud and corruption and will coordinate the modalities with the Borrower in accordance with its existing legal and regulatory framework. For fraud and corruption cases, the Bank can request an investigation by the State, and the State will respond under its legal and institutional framework, including actions by the PGE, consulting with the judicial branch (*Ministério Público*), and any other organ of government responsible for investigating fraud and corruption allegations. The State will share the findings of investigations with the Bank, as well as make public the results of the same upon conclusion in accordance with its legal and regulatory framework.

Table 1: Fiduciary Risk and Mitigation Measures

<i>Risk</i>	<i>Mitigation Measure</i>
There may be weak link between Government priorities and the annual budget, including allocations for the Program. In addition, the costs of sector plans may not properly be assessed due to a lack of cost accounting information.	The program will support the strengthening of results based management, including mechanisms for inter-sector coordination; design and implementation of investment planning and costing methodology; and the reform of budget preparation and execution procedures to strengthen linkages between sector plans and annual budgets.
The recent adoption of international accounting standards and the preparation of government financial statements on accruals accounting basis, and more sophisticated accounting knowledge and skills on the part of staff, and sensitization of government officials to ensure that information is properly understood and used.	The government has undertaken extensive training and sensitization programs. There is also a wide availability of guidance materials that were prepared and disseminated by the Federal Government. In addition, improvements in the information system architecture are likely to provide tools for the better application of the new accounting rules.
Implementing agencies may not fully comply with existing internal controls, as indicated in some of the recent internal and external audit reports.	Both the CGE and the TCE are developing their capacity to identify areas of key risks and support the government's focus on performance and results.
Delays and price amendments in the execution of work contracts	Setting up systems for improving contract management and setting preventive internal controls in work contracts (CGE) to permit better contract management and planning.
Apparent over use of <i>Dispensa</i> in the procurement of small value items	Setting up a procurement planning module to enable SEPLAG to consolidate data on procurement needs allowing the use of framework contracts and minimizing fragmentation of contracts through <i>Dispensa</i> .
Lack of information about PGE's performance and bidding response time	Improving the <i>Licitar</i> and PGE's IT bidding systems.
Lack of standard bidding documents	PGE with the assistance of a consultant will draft standard bidding documents for goods, e-procurement, non-consulting services and works.
Ineffective national procedures for selecting high qualified consultants.	High quality consultants will be selected following the Bank's procedures under the TA component.
Inappropriate purchasing strategies, Lack of reliable price estimates for goods	Setting up a price data base for goods.

Annex 6: Summary Environmental and Social Systems Assessment

1. This assessment refers to the arrangements governing the management of social and environmental risks relating to the PforR Program. Those relating to the IPF component are described in Annex 9.

1. Environmental and social impacts, risks and benefits:

2. The Program is likely to generate only minor to moderate adverse environmental and social impact and significant benefits. The relevant interventions are the refurbishment of existing and construction of new skills development facilities, the physical maintenance of existing social inclusion centers and the extension of connections to the sewage network. The activities comprise civil works, capacity building and policy reforms. Likely impacts, risks and benefits are as follows:

Skills development program:

3. *Civil works:* The refurbishment of existing skills development centers is expected to generate only minor environmental and social disturbances. The PforR lending instrument prohibits support for activities considered likely to have a significant adverse impact on the environment or affected people. All construction will be done to standard state approved engineering plans. The number and location of the centers has not been determined and may not be known until implementation. However, it is clear that construction will take place only in urban space that has already been converted from its natural state and will not affect natural habitats, forests or protected areas. Environmental impact will be limited to local noise and air pollution, a minor increase in local traffic disruption during the construction phase and the generation of a minor to moderate level of construction waste that will need to be properly managed and disposed of. Health and safety regulations are adequate but it will be important to establish a monitoring mechanism for works supported by the program. Current building standards do not take into account accessibility for people with disabilities though the government is revising its standards to ensure that new construction will give access to people with disabilities. The positive environmental effects include improved quality of infrastructure and a reduction in the pollution and degradation associated with dilapidated and vacant buildings in urban areas.

4. *Capacity Building:* The capacity building envisioned under the skills development program is unlikely to generate any adverse environmental impact given that the activities are limited to face-to-face learning events involving classroom based teaching. It will not involve laboratory work, the generation of hazardous, chemical or medical waste, field site testing or any other type of activity that might present an environmental risk. The indirect physical footprint of these capacity building activities may be moderate to significant depending on the nature of the private sector operations that the trainees are employed in following completion of their training. These indirect impacts and risks are beyond the scope of the operation. The capacity building elements of the program will have significantly positive social impacts by supporting the development of vocational skills in areas of demand by the private sector at State level. The primary objective of this component is to fill critical gaps observed during project preparation and technical discussions between skills in demand on the part of the private sector and the profile of graduates

for skills development. This key feature has, therefore, driven the focus areas and topics for professional training. The PforR and, therefore, the TA project that supports it have not included a focus on topics such as rural education where a specific outreach strategy for IP areas would make sense. Given the above, the project will ensure that critical barriers identified by IP and Quilombola Groups to participating in skills development programs overall are addressed by: (i) providing information on available courses, locations; grants; and (ii) ensuring adequate training of staff in terms of cultural sensitivity to avoid discriminatory practices.

Family assistance:

5. *Capacity building:* The capacity building planned as part of the family assistance programs is also unlikely to generate any adverse environmental impact. No new construction is envisioned nor will the program support involve any physical rehabilitation or refurbishment, as the PAIF program is implemented via a network of existing CRAS. There are plans to improve the network's outreach to vulnerable groups, including female heads of households, and to provide more specialized services such as the prevention and treatment of drug addiction. Social protection programs currently rely on information available through the *Cadastro Único* as well as on direct demand from walk-in beneficiaries. There are three centers that focus on indigenous peoples and four that provide support to Quilombola communities but these groups currently lack adequate information about the services available. The Program Action Plan therefore includes the following activities to address these gaps: (i) development of a communications strategy to ensure that information is available outside urban areas on the types of services available (ECD) and CRAS; and (ii) development of an outreach strategy to target vulnerable groups in isolated areas during the first year of program implementation which include "active search" of vulnerable groups to raise the awareness of the programs, enrolment and follow-up. The strategy will be developed during the first year of implementation for roll-out during the remainder implementation period of the PforR.

Water quality program:

6. *Civil works:* Construction of new household sewage connections is expected to generate only minor, site specific, time bound and readily mitigated impacts at the works sites. Sewage connections will only be financed in those cities where an existing public sewage system exists.⁹⁵ All construction will occur on private property and will not result in the loss or conversion of natural habitats. Any damage caused to existing structures will be repaired or adequate compensation paid to affected households. Other potential adverse effects are likely to include moderate soil disturbance, minor floor demolition, a minor to moderate increase in local traffic disruption, limited noise and air pollution and accumulation of construction waste. Also, should the connections fail there would be an increase in local pollution equivalent to that generated by currently unconnected households. Any chance finds of physical cultural property will need to be handled appropriately. The environmental benefits associated with these investments are reduced pollution and improvements in water quality in the target watersheds.

7. *Capacity building:* Support for the water quality program will involve a number of capacity building activities, including payment for environmental services and process-oriented interventions in regional and municipal solid waste management (consultations on waste

⁹⁵The effectiveness of the sewage treatment stations in the municipalities where the sewage connections will take place is adequate and CAGECE has confirmed that the stations have sufficient capacity to handle the planned network expansion.

management plans, setting up of recycling cooperatives and training in environmental management for municipalities). The operation will not support the construction of sanitary landfills or closure of open waste dumps. The potential environmental effects are likely to be positive, as a consequence of reduced pollution and the preservation of natural habitats. The activities related to solid waste management may however adversely affect the livelihoods of waste-pickers on open dump sites. The ESSA analysis identified that the current framework at State level requires close collaboration with waste picker cooperatives and the development of adequate livelihood alternatives to mitigate against adverse impacts. The Water Quality program and accompanying TA have therefore included measures to ensure State procedures are adequately followed. The waste management plans will also need to take into account the impact of any changes in waste collection fees on households' ability to pay. CAGECE's current practice of subsidizing connections for poor and vulnerable households (including those with female heads) is adequate. Given the potential for disruption to livelihoods (e.g. in small-scale aquaculture) as a result of the water management plans envisaged under this program, it will be important to carry out an assessment of the likely impact, consult with affected communities – including through the municipal water management committees – and develop a framework for compensating households that might be negatively affected. The latter will be part of the Program Action Plan.

8. *Policy Reforms:* The Program will support development of three watershed-level water security plans and proposals for new watershed and solid waste management laws. The potential long-term environmental benefits of such reforms are significant and will lead to measurable improvements in water quality. Given that the reform interventions are limited to the preparation of strategies, plans and programs, they are not expected to generate a physical footprint or any direct environmental impact. However, the development of the water security plan may disrupt the livelihoods of those engaged in small-scale aquaculture or raising livestock in riparian zones. It will be important to carry out a more detailed assessment, involving consultations with potentially affected communities, to inform the content of the plan during program implementation.

Cumulative and induced effects:

9. The area of influence for the Program is the entire state of Ceará. There are no significant cumulative or induced effects associated with program activities. The construction of day care centers, preschool facilities and vocational training centers will be dispersed evenly and it is unlikely that any single municipality will receive more than one of any single type of investment. The sewage connections will have an impact only in the immediate vicinity of each house.

Gender considerations:

10. Regarding gender, consultations carried out for the preparation of the ESSA with Government Agencies, the *Coordenadoria de Políticas Públicas para as Mulheres* (Office for Public Policy dealing with Women's Issues, which is part of the Governor's office) and civil society organizations have indicated a strong focus on gender mainstreaming across the key State Programs supported by the PforR. The above-mentioned *Coordenadoria* has as its mandate a focus on working with State level institutions to ensure adequate attention to gender issues across all newly developed programs and policies. Recent areas of emphasis have been: (i) the dissemination of information on women's legal rights (at Federal, State and Municipal level)

with a focus on the Lei Maria da Penha (on Violence Against Women); (ii) dissemination of information regarding access to services aimed at women at State and Municipal (including directories of women's associations at State level and specialized services for women victims of violence; and (iii) implementation of analytical pieces on women at risk/particularly vulnerable (the latest publication focuses on Women in Prison in Ceará State). While the Coordenadoria does not have a specific budget for program implementation, consultations carried out with key agencies (SEDUC, STDS and CAGECE) confirmed a strong emphasis on gender mainstreaming in the program areas supported.

- There has been a strong focus in ensuring the enrolment of women trainees in skills development programs. Women have consistently outnumbered men in these training programs and gender disaggregated data on enrolment and completion is systematically/consistently collected,
- STDS' focus on developing an outreach strategy for vulnerable and marginalized groups through CRAS acknowledges the need to develop a stronger focus on ensuring that female headed households, women at risk (particularly women victims of violence) are able to effectively access services. This is a core element of STDS overall approach.
- CAGECE's sanitation program includes specific activities to address the needs of vulnerable groups and households. As further described below, this approach provides access to sewage systems at highly subsidized rates for poor and marginalized households. Female headed households are specifically targeted under this program to ensure they are covered by CAGECE services in spite of potentially lower incomes.

2. Environmental and Social Management Risk Systems:

Adequacy of environmental and social policies and laws:

11. The laws and guidelines for environmental assessment and management in Ceará are comprehensive and generally well-structured.⁹⁶ The state has updated its policies on solid waste management, forestry management, adopted measures for climate change adaptation and to combat desertification and developed a policy on environmental education. Some gaps still exist, for example in the division of licensing responsibilities between the state and municipalities, but these are being addressed.

12. The law and procedures regulating expropriation and resettlement are also generally adequate to avoid and/or mitigate adverse social impacts.⁹⁷ They do not however, provide for compensation to be made to people without legal title to property; nor do they provide for the restoration of livelihoods. Arrangements to address these two issues have been made by putting in place a screening mechanism that will exclude any construction sites requiring resettlement and relocation under the skills development and family assistance programs. Secondly, and in

⁹⁶ Applicable Environmental Policies, Laws and Guidelines are readily available at the Brazilian Government's portal (www.mma.gov.br/) including the most recent updates and status of all relevant legislation regarding environmental assessment and management in Brazil. The portal includes the Federal legal and regulatory framework for a number of areas relevant to the PforR operation, including: general environmental assessment, water, protected areas, biodiversity, sustainable cities, climate, territorial management and socio-environmental responsibility. Detailed information on the 2010 Solid Waste policy can be found at this site: Política Nacional de Resíduos Sólidos do Brasil. Lei 12.305, de 2 de agosto de 2010. (www.planalto.gov.br/ccivil_03/ato2007-2010/2010/lei/112305.htm). State environmental legislation can be found at the state government portal (www.ceara.gov.br/).

⁹⁷ The relevant legislation is Decree 1941/3365. See http://www.planalto.gov.br/ccivil_03/decreto-lei/del3365.htm

line with other Bank supported operations in Ceará, current federal legislation affords adequate protection to households without legal title regarding their use of water resources in protected areas. The water management plans to be developed will fall under this federal legal framework.

Institutional capacity and performance:

13. The challenge for Ceará is that the agencies responsible for enforcing these laws and regulations lack the resources to do so properly. In the case of environmental protection, state agencies are understaffed and the existence of multiple institutions with overlapping mandates and jurisdictions is confusing and inefficient. The resource deficit is even more acute among municipalities. In 2009 only 30% had more than two permanent employees dedicated to environmental affairs.⁹⁸ A similar situation exists with respect to expropriation and resettlement. The agency responsible for indigenous peoples' affairs, FUNAI, lacks the staff to carry out its responsibilities adequately. Land demarcation, for example, is a slow process: there is just one recognized indigenous area in Ceará, with four areas under review and 26 pending requests.⁹⁹ This complicates the process of land acquisition for large-scale investments and generates the possibility of conflicts as licenses may be granted without the necessary clearances or consultation.¹⁰⁰

14. The Program deliberately avoids activities that are likely to generate significant environmental and social adverse impacts or require mitigating measures. The new construction associated with the expansion of the networks of vocational training centers and pre-school facilities is small-scale and will take place in vacant sites. Furthermore, the state's record in handling the risks associated with similar investments under other Bank-financed projects has generally been sound. The two SWAPs and SANEAR II Program also supported increases in household sewage connections.¹⁰¹ In all cases, CAGECE's performance in addressing and complying with the Bank's core environmental safeguards requirements was found to be satisfactory. The relevant unit has extensive experience with both resettlement and social marketing and the approach followed under the SANEAR program may be extended to other CAGECE operations. There were however problems with SRH's enforcement of safeguards compliance under the PROGERIRH project and there continue to be concerns over its capacity.

Grievance mechanisms:

15. There are two main channels for the expression of grievances. The first is through the *Coordenadoria dos Direitos Humanos*, or Human Rights Coordinator, in the Governor's office which was established at end-2011 and is still working to set up its outreach program. Most of the requests it receives relate to land disputes. The second is through a network of ombudsmen overseen by the CGE. This comprises an individual ombudsman for each government

⁹⁸ CONPAM has a training program for municipal environmental affairs officers but it is severely resource constrained. The operation will provide technical assistance to advise on its design and implementation.

⁹⁹ The Comissão das Desapropriações was created by Lei Complementar 56-2006) and began functioning 2009/2010. It has just eight members of staff, comprising lawyers, sociologists and engineers, and is therefore not able to carry out field supervision of expropriation or resettlement processes.

¹⁰⁰ In the case of the Pecem Zone 6, for example, land intended for the proposed Petrobrás refinery was claimed by an indigenous group in Calcaia. The PGE and Comissão de Desapropriações are negotiating a land swap with affected groups.

¹⁰¹ There have been several other programs to support the extension of municipal sewage networks in Ceará. They include Projeto Alvorada (federal and state governments), PROURB (World Bank), Pro-Saneamento II (FGTS and Caixa Economica) and PRODETUR/NE (Banco do Nordeste, BNDES and IDB).

department and utility company plus a telephone helpline and outreach services at the main hospitals. Complaints and requests for information are expected to be answered within 15 days of being lodged. Given the historically low levels of literacy and culture of patronage politics in Ceará, the government recognizes that more needs to be done to raise awareness of these services. In particular, outreach is needed at the municipal level and to vulnerable groups such as the rural poor, indigenous groups and Quilombolas.

16. Ceará is also implementing a transparency initiative with budget, expenditure, and fiscal performance indicators published on-line regularly through the *Portal da Transparência*.

3. Summary analysis:

17. The Bank's assessment of the strengths, weaknesses, opportunities and risks of the Program with respect to each of the Bank's core environmental and social risk management principles is as follows:

18. *Core principle 1: General principles of environmental and social management:* Overall the program is well aligned with the government's strategy, includes an explicit commitment to environmental and social objectives and supports programs that are well-received and uncontroversial. The activities to be supported are likely to yield significant benefits in terms of poverty reduction and environmental sustainability. There are however weaknesses in the capacity of some state agencies and among municipalities to enforce environmental and social legislation. This reflects a shortage of human and financial resources, poor coordination among agencies and, in the case of some municipalities, an absence of political commitment. Finally, the change in government in 2014 entails a risk that support for some parts of the Program may be discontinued. The operation provides an opportunity to address many of these shortcomings, through technical assistance and the inclusion of DLI-based incentives for inter-institutional collaboration.

19. *Core principle 2: Natural habitats and physical cultural resources:* The adverse impact of civil works on natural habitats is likely to be limited as they will be restricted to already developed urban areas. There are some concerns over the state's capacity to enforce rules governing chance finds. The risk can be minimized by appropriate screening and Bank support during implementation.

20. *Core principle 3: Public and worker safety:* Current federal legislation and safety standards are adequate but inspections and monitoring of compliance could be strengthened through Bank implementation support.

21. *Core principle 4: Land acquisition:* Construction activities will be small-scale and largely restricted to public land. Adequate compensation and grievance procedures exist for households with legal title. Compensation for those without title has been made in the case of large-scale infrastructure projects but requires an exceptional decree. Also the level of compensation for untitled property is set very low and excludes loss of land. Indigenous peoples are well organized but the slowness with which land demarcation occurs and the consequent possibility of conflict requires a rigorous approach to screening all proposed sites before construction begins to ensure the exclusion of sites where resettlement or relocation would be required.

22. *Core principle 5: Indigenous peoples and vulnerable groups:* There is an active indigenous peoples' network in Ceará and the Quilombola movement is beginning to organize itself. They have interlocutors in the Governor's office on human rights, racial equality and gender mainstreaming. Nonetheless, indigenous peoples and Quilombolas still suffer from inadequate access to public services. They are also affected by the inefficiency with which land claims are adjudicated. The operation provides an opportunity to extend educational and social services to these vulnerable groups and others in isolated areas.

23. *Core principle 6: Social conflict:* Low or negligible risk as any civil works requiring land acquisition or resettlement will be screened out of the Program.

24. *Environmental and Social Risk Rating:* Based on the ESSA findings and agreed-upon risk mitigation and improvement measures, the environmental and social impact risk rating is considered moderate, provided that the Program Implementation Support Plan is implemented successfully.

4. Consultative Process

25. The preparation of the ESSA has drawn on a wide range of data. These include: (i) a desk review of policies, laws and program documents, including from previous Bank operations and those financed by development partners; (ii) an institutional analysis of those entities responsible for implementing the Program, prepared in Portuguese and filed in WBDocs; (iii) field visits and interviews conducted between August 2012 and May 2013 to watershed areas, water treatment plants, municipal solid waste dumps and municipal reservoirs; and (iv) a thorough consultation process on the ESSA and Action Plan for validation of the analysis and proposed measures included in Annex 8. Consultations were carried out from the 27th to the 30th of August with 174 participants. Discussions were organized with civil society groups (Indigenous Groups, Quilombola Associations, Youth Organizations and Women's Rights Organizations), watershed management committees as well as with State Level implementing agencies.

26. The Bank may also gather citizen feedback on elements of the Program through a joint reimbursable advisory service project with the IDB which is planned for late 2013.

5. Inputs for Program Action Plan

27. Most of the measures still required to manage ESSA risks effectively can be met through Bank implementation support without the need for a specific Action Plan. The Bank has nonetheless singled out five measures that may require special attention. These are: (i) development of outreach strategies (including active search of vulnerable households) to ensure that marginalized and vulnerable groups (indigenous peoples and Quilombolas) benefit from the ECD program; (ii) the inclusion of a module on culturally appropriate methodologies in the teacher training technical assistance project for skills development; (iii) screening of proposed civil works to ensure the exclusion of any areas where resettlement or relocation (with or without legal title) would be required; (iv) development of compensation framework for households negatively by changes in land-use patterns as a consequence of the water management plans and (v) the design and implementation of a communications campaign on water quality.

Annex 7: Integrated Risk Assessment

STRENGTHEN SERVICE DELIVERY FOR GROWTH, POVERTY REDUCTION AND ENVIRONMENTAL SUSTAINABILITY IN THE STATE OF CEARÁ

Stage: Board

1. PROGRAM RISKS			
1.1 Technical Risk	Rating: Substantial		
<p>Description:</p> <p>The main risk for the skills development program is that the state continues to invest substantial resources in vocational training without ascertaining its effectiveness and efficiency. There is also a risk of a duplication of effort among the different agencies tasked with skills development programs.</p> <p>There are several risks associated with the water quality program. The first is that sector agencies will fail to cooperate with each other. A second risk has to do with attrition among staff in executing agencies. SRH, in particular, suffered an exodus of experienced technical staff after the 2006 elections and the same may happen in 2014. A third risk concerns the interaction between state and municipalities. Municipal cooperation is required in several areas: for the development of the SWM plans and for water quality monitoring.</p> <p>There may be inconsistency between the federal and state levels in the implementation of new legislation relating to access to information.</p>	<p>Risk Management:</p> <p>The operation will assist with the collection and interpretation of data on impact and ensure that it is used to adjust programs as necessary. It will also assess and provide recommendations on institutional structures to ensure proper coordination and governance of skills development programs.</p> <p>Strong political will is required to integrate actions around water management. The Bank will emphasize the importance of cross-sector collaboration to the incoming Government in 2014 and will pay attention to the political dynamics of water quality management to avoid any weakening in the sector's institutional framework. It will also be important to be able to contract expertise in local universities, NGOs and other centers of knowledge should qualified staff leave. Finally, federal law obliges the municipalities to comply with SWM requirements; their cooperation will be tracked through a secondary indicator.</p> <p>The Project will assist the CGE in implementing federal legislation related to open government and access to information.</p>		
	Resp: Government and Bank	Stage: Implementation	Due Date :
	Status: Not yet due		
2.2 Fiduciary Risk	Rating: Moderate		

<p>Description:</p> <p>The chief financial management risk is that the State's information system architecture is old and there is a possibility that accounting information may be inaccurate. Also the comptroller general's unit is not properly staffed nor does it carry out regular internal control reviews to ensure compliance with regulations, including TCE recommendations.</p> <p>Procurement risks relate to contract enforcement and to the possible fragmentation of bidding processes to avoid competitive procedures or bypass the central procurement unit.</p> <p>Local procedures are inadequate for selecting consultants based on quality; sector agencies lack capacity to prepare terms of reference and cost estimates for consultants</p>	<p>Risk Management:</p> <p>The Government is putting in place a new internal financial management information system, preparing for the introduction of public sector accounting standards and strengthening its internal audit function. Program financial statements will be audited by the TCE. IPECE will be responsible for internal control under the IPF/TA component.</p> <p>The project will help improve contract management by developing and monitoring performance and compliance indicators and by building capacity to evaluate and monitor performance of suppliers and quality of goods and services.</p> <p>Consulting services under the technical assistance component will be procured using Bank procedures. The Bank will work with the client to define responsibilities for the preparation of terms of reference and estimated costs for selection of consultants.</p> <table border="1" data-bbox="898 667 1919 773"> <tr> <td data-bbox="898 667 1209 773">Resp: Government</td> <td data-bbox="1209 667 1497 773">Stage: Implementation</td> <td data-bbox="1497 667 1785 773">Due Date :</td> <td data-bbox="1785 667 1919 773">Status: Not yet due</td> </tr> </table>				Resp: Government	Stage: Implementation	Due Date :	Status: Not yet due
Resp: Government	Stage: Implementation	Due Date :	Status: Not yet due					
<p>2.3 Environmental and Social Risk</p>	<p>Rating: Moderate</p>							
<p>Description: The enforcement of environmental regulations is weak, particularly at the municipal level.</p> <p>Vulnerable social groups (e.g. indigenous peoples and Quilombolas) may be excluded from public decision-making and access to benefits from the operation.</p> <p>The regulatory framework for involuntary resettlement (e.g. as a consequence of the implementation of water security plans) is generally adequate but compensation procedures might be improved.</p>	<p>Risk Management: The Bank will work with the client to strengthen its capacity for environmental compliance at the state and municipal level. It will also identify alternative livelihood strategies that favor environmentally friendly land and natural resource use.</p> <p>The Bank will work with the client through the Program Action Plan to ensure that vulnerable and marginalized groups are aware of and able to access Program benefits. It will also screen out activities that might require resettlement or relocation and work with the client to develop a compensation framework for households negatively affected by changes in land-use patterns.</p> <table border="1" data-bbox="898 1166 1919 1289"> <tr> <td data-bbox="898 1166 1209 1289">Resp: Government and Bank</td> <td data-bbox="1209 1166 1497 1289">Stage: Preparation and implementation</td> <td data-bbox="1497 1166 1785 1289">Due Date :</td> <td data-bbox="1785 1166 1919 1289">Status: Ongoing</td> </tr> </table>				Resp: Government and Bank	Stage: Preparation and implementation	Due Date :	Status: Ongoing
Resp: Government and Bank	Stage: Preparation and implementation	Due Date :	Status: Ongoing					
<p>2.4 Disbursement linked indicator risks</p>	<p>Rating: Moderate</p>							
<p>Description: Disbursement against results involves the risk that failure to meet targets disrupts the flow of financing not only to non-performing but all participating agencies.</p>	<p>Risk Management: This risk can be mitigated by defining indicators as outputs or intermediate over final outcomes, by involving technical staff in the setting of indicator targets and by allowing room for adjustment of both during mid-term review. Compliance</p>							

	with disbursement-linked indicators will be verified during implementation by an independent technical audit.		
	Resp: Government and Bank	Stage: Preparation and implementation	Due Date :
3. OVERALL RISK RATING			
The overall risk rating is moderate			

Legend: L – Low
M – Moderate
S – Substantial
H – High

Annex 8: Program Action Plan

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
<i>Environmental and social risk mitigation</i>					
Development of an outreach strategy for IPs, Quilombos and remote rural areas for family assistance program (including 'active search of vulnerable households)	No	No	By end first year of program implementation	SEDUC, STDS & GabGov	IP, Quilombola children attending crèches or receiving home-based care increasing in line with overall PforR targets
Inclusion of a specific training module (on culturally appropriate methodologies) in the teacher training program to be developed for skills development	No	No	By end first year of program implementation	SEDUC & GabGov	Module developed in collaboration with FUNAI, Quilombola Associations and Coordenadoria para a Igualdade Racial
Development of compensation framework for households negatively affected by changes in land-use patterns as consequence of water mgt. plans	No	No	By end first year of program implementation	COGERH, CONPAM, COGERH, SRH and in consultation with FUNAI	Water security plans for three strategic watersheds include adequate measures to address the impacts of potential further restrictions on natural resource use (in consultation with affected communities including IPs) and effectively document IP community support for their design.
Early screening of the footprint of the proposed civil works (in coordination with FUNAI) and screening out of sites that would require resettlement or any relocation of households (with or without legal title), including of IPs	No	No	By end first year of program implementation	PGE, SEDUC and SDTS under IPECE coordination and in consultation with FUNAI	Screening report finalized, list of sites and confirmation of no resettlement activities prepared
Design and establish a broad communication campaign on water quality	No	No	By end of second year of program implementation	CONPAM/EMACE/COGERH/CAG ECE	Communication campaign established and under execution
<i>Fiduciary risk mitigation</i>					
Plan for capacity building in detection and prosecution of fraud and corruption cases	No	No	Until end first year of program implementation	CGE	Plan developed in cooperation with relevant CGU, TCU and other public control agencies.
Training and dissemination of new accounting regulations			Continuous	CGE	

Annex 9: Technical Assistance Component Appraisal

Institutional and Implementation Arrangements:

1. The implementation arrangements for the TA component will be the same as for the technical assistance component of the Ceará SWAp II. Funds will be disbursed and spent using Bank disbursement and procurement rules. The executing agency, IPECE, has several years' familiarity with Bank fiduciary requirements and implementation of technical assistance improved substantially during the course of the SWAp II, due in part to the hiring of additional procurement staff and specialized training.¹⁰²
2. The Bank's assessment is that, subject to the implementation of an action plan, IPECE has sufficient capacity to fulfill its financial management responsibilities as defined under OP/BP10.00 and that the proposed arrangements (i.e. flow of funds, budgeting and accounting, internal controls, interim and annual reporting and external audit) as detailed below are adequate. The main constraints relate to administrative capacity. IPECE will hire two qualified financial management consultants to support sector agencies implementing technical assistance projects under the IPF/TA component, by no later than the first quarter of Project implementation.
3. The Bank's assessment is also that IPECE has sufficient capacity to execute its procurement responsibilities, subject to its recruiting two procurement specialists and setting up an IT system to manage procurement processes. There are however concerns over the capacity of some sector agencies, in particular those not involved in previous operations, to provide adequate terms of reference and other inputs for the bidding process. The Bank will assess the capacity of those agencies responsible for aggregate contracts in excess of US\$ 500,000 prior to negotiations. It will also provide training on consulting selection procedures before and during implementation.

Financial Management

4. *Flow of funds:* Under the IPF/TA component all payments will be made by SEFAZ upon instructions from IPECE and beneficiary secretariats, once payment obligations have been incurred and properly documented. Payments will be made directly from Treasury, through the issuance of an *ordem bancária*, to the service providers and contractors. The state system requires that funds be committed by source, enabling the tracking of loan disbursements to project expenditures. All payments will be made through electronic deposits to each beneficiary/consultant bank account.
5. *Budgeting and accounting:* The state's budgeting and accounting system (S2GPR) is considered adequate for the accounting of and reporting on the use of resources under the IPF/TA component. Annual budget figures for the IPF/TA component will be based on the procurement plan which will be updated regularly during implementation. All primary supporting documentation will be appropriately maintained to facilitate ex post reviews and the

¹⁰² By the end of the operation, 93 percent of the planned funds had been disbursed.

annual external audits. These documents should be maintained for a minimum period of five years by IPECE.¹⁰³

6. *Internal controls:* Reviews of the internal control environment revealed some lapses. The General Comptroller's Office (subordinated to the Governor) does not have a sufficient number of staff and the scope of its reviews is too narrow. The technical assistance component will support the strengthening of CGE, including enhancing the alignment of its methodologies with international standards and the provision of training on fraud and corruption prevention practices. As an added control over expenditures by other secretariats, IPECE will review and approve all requests for technical assistance, maintain a copy of all supporting documentation and prepare all documentation for disbursement and reporting purposes.

7. *Interim and Annual Reporting:* SEPLAG and IPECE will be responsible for consolidating and reporting all FM information under the IPF/TA component. It will submit Interim Un-audited Financial Reports (IFRs) for monitoring purposes. These will contain information by component, budget line and activity. To the extent possible their format will be in line with existing Government reporting requirements. IPECE will also prepare and submit consolidated IFRs (1-A - source and use of funds by category and 1-B – investment by components) in BRL for financial reporting purposes. Reports will be prepared on a cash accounting basis and will be submitted to the Bank no later than 60 days after the end of each semester.

8. *External audit:* External audits will be performed by the TCE, which has adequate capacity and staff to fulfill its function. The scope of its audits includes financial and operational audits – though its responsibilities under the operation will be limited to financial audit – evaluation of internal controls and compliance with laws, rules and regulations. For the IPF/TA component the TCE will be undertaking a financial audit, the terms of reference of which will be agreed between the Government and the Bank. The Bank and TCE have agreed that the Bank should be informed as and when this report is made publicly available online.

9. *Bank implementation support:* As part of overall implementation support, the Bank team will be examining documentation on financial management processes and providing continual support to the implementing agencies on financial management issues. They will pay particular attention to: (a) internal controls, (b) budgeting and financial planning arrangements; (c) the Interim Unaudited Financial Reports; (d) audit reports including financial statements and remedial actions recommended in the auditor's Management Letters; (e) disbursement management and financial flows; and (f) any incidences of corrupt practices involving Project resources.

¹⁰³ The General Conditions require the Borrower to retain all records (contracts, orders, invoices, bills, receipts, and other documents) evidencing eligible expenditures and to enable the Bank's representative to examine such records. They also require the records to be retained for at least one year following receipt by the Bank of the final audited financial statement required in accordance with the legal agreement or two years after the closing date, whichever is later. Borrowers are responsible for ensuring that document retention beyond the period required by the legal agreement complies with their government's regulations.

Disbursements

10. Disbursements under the technical assistance component will be made primarily as Advances, though Reimbursements may also be made. Applications for withdrawal, except in the case of the initial Advance, must be accompanied by Statements of Expenditure and Summary Sheets with Records. Advances will be made to a segregated US dollar-denominated designated account at a commercial bank acceptable to the Bank with a fixed ceiling of US\$ 7 million. The frequency for reporting eligible expenditures paid from the DA is quarterly. The Minimum Application Size for Reimbursements will be US\$ 500,000 equivalent. The Disbursement Deadline Date for the technical assistance component will be four months after the closing date of the operation. Expenditures incurred during this ‘grace period’ between the closing date and the Disbursement Deadline Date will not be eligible, except as otherwise agreed with the Bank.

Procurement

11. Procurement for the technical assistance component of the proposed project will be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits by World Bank Borrowers” dated January 2011 and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits by World Bank Borrowers” dated January 2011 and the provisions stipulated in the Legal Agreement.

12. *Procurement plan:* The procurement plan will specify selection methods and procedures, estimated costs and prior review requirements. It will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Plan will be incorporated into the Bank’s procurement IT system (SEPA - Sistema de Execução de Planos de Aquisições) for monitoring purposes.

13. *Selection of consulting services:* Consulting firms will be selected through Quality and Cost-Based Selection (QCBS), Quality Based Selection (QBS), Selection Based on Consultants Qualification (CQS), Least-Cost Selection (LCS), Fixed Budget Selection (FBS), Single-Source Selection and Individual Consultants (IC). Short lists of consultants for services estimated to cost less than US\$ 500,000 per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Guidelines. All contracts estimated to cost more than US\$300,000 will be subject to prior review by the Bank. The Bank’s Standard Request for Proposal and Evaluation Reports will be used for consulting contracts above US\$ 200,000. Procurement thresholds for consulting and non-consulting services are as follows:

Table 1: Procurement thresholds

Expenditure Category	Contract Value Threshold VT (US\$ thousands)	Procurement /consulting selection Method	Processes Subject to Prior Review
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Non-consulting services	≥ 5,000	ICB	All processes
	< 5,000 ≥ 100	NCB	First process and all processes above US\$ 500,000 million
	< 100	Shopping	First process
Consulting (firms)	≥ 300	QCBS/QBS/	First process for each selection method and all processes above US\$300,000
	< 300	FBS/LCS	
	< 100	CQS	
Individual consultants	< 100	Section V in the Guidelines	First process and all above US\$100,000
Direct contracting/Single Source Selection			All cases regardless of the amounts involved

14. *Procurement arrangements:* All procurement processes will be handled by IPECE which will support the secretariats in preparing bidding documents, requests for proposals and for expressions of interest, and evaluation reports. IPECE will also monitor and update the procurement plan and serve as the point of liaison with the Secretariats and the PGE. The Unit will be led by the project coordinator from the SWAp II, assisted by three IPECE staff with training and experience in project management, financial management and monitoring and consultants in procurement. Experience from previous operations has shown that it is important to minimize turnover among staff dealing with Bank procedures, given the lengthy familiarization required. The procurement responsibilities of each Secretariat and details of the Bank's procurement procedures will be defined in a set of guidelines or operating instructions.

15. Most of the Secretariats involved in the operation are already familiar with the Bank's procurement rules; the others will receive support from IPECE and training from the Bank at the start of implementation. This will cover the preparation of terms of reference, consulting budgets and use of the Bank's SEPA system.

16. *Frequency of Procurement Supervision:* In addition to the prior review supervision to be carried out from Bank offices, a yearly external procurement audit, conducted by the TCE and acceptable to the Bank, will be required to assess and verify compliance with the Bank's guidelines and the Legal Agreement.

Environment and Social¹⁰⁴

17. The Bank has undertaken an environmental assessment, as required by OP/BP 4.01. No other safeguards policies are triggered. None of the projects entails any potential large, significant or irreversible negative environmental or social impact. On the contrary, the component is intended to strengthen the capacity of state and municipal bodies responsible for mitigating these impacts.

¹⁰⁴ For more detail refer to the technical assistance component ISDS.

Fraud and Anti-Corruption

18. The IPF portion of the proposed Loan will use Bank procurement rules.

Annex 10: Implementation Support Plan

1. The Bank will provide continuous implementation support, focusing on compliance with DLI disbursement requirements and contributing to joint problem-solving with Government technical staff. For each DLI the Government will be requested to produce action plans every six months, explaining the steps already taken and those planned to ensure that targets are met. The Bank team will review these plans and suggest adjustments as necessary. In addition to formal implementation support missions, Bank specialists will provide continuous support as needed, in particular in providing advice and support in the development of terms of reference and in solving problems related to both meeting DLIs and meeting wider service delivery targets.

Task Team Skills Mix Requirements for Implementation Support

Skills needed	Number of staff weeks/year
Task team leader	10 staff weeks
Health specialist	4 staff weeks
Poverty specialist	2 staff weeks
Education specialist	4 staff weeks
Private sector devt. specialist	4 staff weeks
Public sector mgt. specialist	4 staff weeks
Environmental specialist (tech assist.)	2 staff weeks
Water resources management specialist	3 staff weeks
Water and sanitation specialist	3 staff weeks
Procurement specialist (country-based)	4 staff weeks
FM specialist (country-based)	2/4 staff weeks
Social systems specialist	2 staff weeks
Environmental systems specialist	2 staff weeks

The Government's performance in implementing the second SWAp was rated 'highly satisfactory' and the Bank does not envisage that IPECE will require any additional capacity building beyond the hiring of financial management and procurement specialists (see Annex 9). The Bank will monitor the implementation of the technical assistance component carefully and may, as during the SWAp, insist on the allocation of additional resources to managing it if required. The monitoring of DLI compliance by IPECE will be exactly as under the SWAp, via monthly meetings of a committee comprising representatives from the implementing secretariats.

