

Document of
The World Bank

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Report No: 45084-BR

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$240 MILLION
TO THE
STATE OF CEARÁ, BRAZIL
WITH THE GUARANTEE OF
THE FEDERATIVE REPUBLIC OF BRAZIL
FOR A
CEARÁ INCLUSIVE GROWTH PROJECT SWAP II
IN SUPPORT OF THE SECOND PHASE OF THE MULTI-SECTOR SOCIAL INCLUSION
DEVELOPMENT PROGRAM

August 29, 2008

Poverty Reduction and Economic Management Unit
Country Management Unit for Brazil
Latin America and Caribbean Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective August 27, 2008)

Currency Unit = Real 1.61 = US\$1

US\$1 = SDR1.322

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
ARCE	Ceará Multisector Regulatory Agency
CAGECE	Ceará Water and Sewerage Company
CGF	Secretary of Finance General Registry (businesses)
COEMA	State Council on the Environment
COGERF	Committee for Fiscal and Results-Based Management
COGERH	Ceará State Water Resources Company
COPAM	State Council for Environment Policy
CPS	Country Partnership Strategy
CREDEs	Regional Education Development Centers
DLI	Disbursement-linked Indicator
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EEP	Eligible Expenditure Programs
ESW	Economic and Sector Work
FPE	Participatory Fund for States
FRL	Fiscal Responsibility Law
GoC	Government of Ceará
ICMS	Value-Added Tax (collected by states)
IDB	Inter-American Development Bank
IPECE	Ceará Economic Research Institute
IPP	Indigenous Peoples Plan
MDG	Millennium Development Goals
NUTEC	Nucleus of Industrial Innovation Foundation
ORR	Output-Results Report (<i>Relatório Produto-Resultado</i>)
PAF	Fiscal Adjustment Program
PDE	School Development Plan
PGE	State Attorney-General Office
PIU	Project Implementation Unit
PPA	Multi-Year Budget Plan
PROGERIRH	Ceará Integrated Water Resource Management Project
RBM	Results-based Management
SAEB	Federal Basic Education Evaluation System
SECON	Secretariat for Internal Control
SEDUC	Secretary of Education
SEFAZ	Secretary of Finance

SEINFRA	Secretary of Infrastructure
SEMACE	Secretary of the Environment (<i>Superintendência Estadual do Meio Ambiente</i>)
SEPLAG	Secretary of Planning and Management
SESA	Secretary of Health
SFAA	State Fiscal Accountability Assessment
SIAP	Program Monitoring System (<i>Sistema de Acompanhamento de Programas</i>)
SIC	Integrated Accounting System (<i>Sistema Integrado de Contabilidade</i>)
SIL	Sector Investment Loan
SIRES	State System of Information on Solid Waste Management
SPAR	State Procurement Assessment Report
SPAECE	Ceará Permanent State Education Evaluation System
SPR	Secretary Performance Report (annual)
SRH	Secretary of Water Resource Management
STN	National Treasury Secretariat
SWAP	Sector Wide Approach (SIL loan modality)
TCE	State Audit Court (<i>Tribunal de Contas do Estado</i>)
TOR	Terms of Reference
UFW	Unaccounted for water
WSS	Water Supply and Sanitation
WRM	Water resource management

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Brazil
Ceará Inclusive Growth Project SWAp II

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Does the project depart from the CAS in content or other significant respects? Ref. PAD A.3	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies? Ref. PAD D.7	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Does the project include any critical risks rated “substantial” or “high”? Ref. PAD C.5	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation? Ref. PAD D.7	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Project development objective Ref. PAD B.3, Technical Annex 3</p> <p>The higher-level objective of the Ceará SWAp II project is to contribute to expanding and consolidating the social advances and institutional modernization of the State of Ceará. The project will achieve this by supporting nine key government investment programs in five sectors, selected to optimize development impact. A series of disbursement-linked indicators (14) are mapped to the five sectors—public sector management, education, health, water & sanitation, and business environment & innovation—to strengthen the incentives to achieve results.</p> <p>Specifically, the project development objectives are to</p> <ul style="list-style-type: none"> • help the Government of Ceará to improve its fiscal situation; • strengthen the state’s system of results-based management; • promote better service quality in education (particularly early-childhood literacy) and health; • improve access to water and sewerage services, and improve the efficiency of the government autarchies with responsibility for water quality and delivery; and • reduce barriers to business investment. 	
<p>Project description [<i>one-sentence summary of each component</i>] Ref. PAD B.4, Technical Annex 4</p> <p>Component 1: SWAp component disbursing against 10 pooled Eligible Expenditure Programs (EEP), with disbursement-linked performance indicators and individual EEP expenditure thresholds as conditions to release loan funds.</p> <p>Component 2: Technical assistance component of \$3.67 million to support the operation objectives in the five priority sectors.</p>	
<p>Which safeguard policies are triggered, if any? Ref. PAD D.6, Technical Annex 10</p> <p>OP/BP 4.01 – Environmental Assessment. The Project classification is Environment Category B, since no major infrastructure investments will be supported by the program. The environmental assessment concluded that the project’s main potential environmental impacts are related to the improper handling, collection and disposal of medical waste, and temporary localized impacts related to basic infrastructure investments. A Health Waste Management Strategy and an Environmental and Social Management Framework have been prepared to address these impacts. Moreover, the SWAp II loan will continue strengthening the environmental management departments in the state of Ceará.</p>	

OP/BP 4.12 – Involuntary Resettlement. The basic infrastructure services financed by the project are focused on the expansion and connection of existing households to water and sewerage networks. These investments are not expected to cause physical displacement of people. Still, a draft Resettlement Framework has been prepared by the Borrower. This framework is in line with the requirements of OP4.12. This framework specifies the policy and planning principles, institutional arrangements and design criteria that will be followed if the need for resettlement/land acquisitions should arise. The framework specifies that affected peoples will be properly informed of their choices, regardless of tenure status.

OP/BP 4.10 – Indigenous Peoples. The Project's Eligible Expenditure Programs (EEP) in health and education will include beneficiaries self-identified as indigenous peoples. Thus, a separate Indigenous People's Framework was developed. A process of consultation on this framework was organized. The preliminary information considered in the Project design builds upon the *Plan Distrital de Saude Indígena 2008/2010* and the *Secretaria de Educação 2007/2010*.

Significant, non-standard conditions, **if any**, for:

Board presentation: None

Loan/credit effectiveness:

Adoption of a satisfactory Project Operational Manual through a Decree

Covenants applicable to project implementation:

Ref. PAD C.6

A. STRATEGIC CONTEXT AND RATIONALE

1. COUNTRY AND SECTOR ISSUES

1. Ceará, one of the poorest states in Brazil, has made solid progress in improving both economic and social indicators in recent years. Between 1985 and 2006, the State's GDP (currently ranked 15th in Brazil) grew by an accumulated 95.1%, well above the Brazilian average (71.0%). From 1992 to 2005, the average years of schooling per adult in Ceará rose by 50.0%, out-performing the Northeastern growth rate (42.9%). Other social indicators, including infant mortality and life expectancy, also have shown significant improvement over the last two decades.¹

2. Notwithstanding this recent progress, the state faces significant challenges. Poverty levels are still unacceptably high in Ceará, with more than half the population (53%) living below a poverty line of ½ minimum wage, and more than a quarter (26%) below an extreme poverty line (¼ minimum wage). It is evident that sustaining social inclusion gains and obtaining a substantial reduction in current poverty levels will require more rapid economic growth. Fittingly, the present administration, inaugurated in January 2007, has placed a greater emphasis on “inclusive growth,” while maintaining a commitment to develop further the good public sector management practices adopted by its recent predecessors.

3. The Ceará Government has asked for the Bank's support to implement its Inclusive Growth Strategy. This operation is the second Sector-Wide Approach (SWAp) loan of an APL, a follow-up to the Ceará SWAp I loan. The first SWAp supported implementation of the state's development agenda, including numerous sectoral investments, from 2004 to 2007. The innovative design of the project elevated the importance of results-based management (“*Gestão por Resultados*”) and provided an important model for inter-sectoral and inter-institutional management of key programs. The current operation will preserve many of the SWAp I sectors—including education, health, and water & sanitation—as these are closely linked to the policy priorities of the new State Government. In addition, the SWAp II will expand beyond the social sectors to address issues of growth and competitiveness.

4. Policies to improve education and health have both a social inclusion and a growth dimension. Ceará's Inclusive Growth Strategy builds upon the improvements in education and health supported by the first SWAp. The Growth Strategy also maintains a focus on improving the fiscal position of the state, including steps for result-based public sector efficiency gains. The new elements of Ceará's Growth Strategy that are supported by the SWAp II include: (i) strengthening the business climate through measures such as business-related one-stop shops and streamlined business registration; and (ii) promoting innovation, particularly through expanded broadband internet access outside of the state capital, Fortaleza. The Government's growth

¹ According to IBGE, the infant mortality rate in the State of Ceará was 30.8 per 1,000 births in 2006, down from 35.1 in 2002. The Northeast region showed similar improvement, from 41.4 to 36.9 over the same period. Life expectancy in Ceará rose from 66.9 years in 2002 to 69.9 years in 2006, slightly better than the Northeast region average, which increased from 66.4 to 69.4 over the same period.

strategy aims to improve the state's human and physical capacity as a means to attract the business community to locate in Ceará, particularly to areas outside the capital region.²

5. The state's policy priorities are reflected in its Multi-Year Budget Plan (*Plano Plurianual 2008-2011* – PPA), approved by the legislature in December 2007. The PPA is a form of multi-year program budgeting, with corresponding results indicators. It aims to focus budgeting and public administration on cross-cutting outcomes rather than sector-driven inputs. This operation will support priority programs selected from the PPA, with loan disbursements linked to performance-based indicators.

6. Ceará's fiscal position is sound. Fiscal accounts have improved in part through current expenditure restraint—e.g., personnel expenditures (47% of net revenues) have been kept well below the limit imposed by the Fiscal Responsibility Law (60%). In addition, the Government has succeeded in raising revenues. The growth of revenues during 2003-2006 was 25 percent in real terms, and tax revenues—the most important revenue item—grew by 22 percent during the same period. Ceará is one of the states in Brazil with a relatively low debt/revenue ratio (0.57 in 2006, tenth best out of 27). However, significant debt service payments are projected through 2010. Debt service per year is expected to remain near R\$750 million (of which R\$250 million is interest), and the authorities are seeking to boost public investment spending to a similar level as part of the inclusive growth strategy. Enhancing economic growth is expected to lead to fiscal strengthening through relatively buoyant revenue collection.

7. The present operation will continue to support the fiscal sustainability objective of the previous SWAp. The positive fiscal results obtained by the state over the last five years have created an opportunity to redefine the fiscal indicators for the SWAp II to reflect the growth orientation of the new administration. Thus, instead of the primary surplus, the project will use a current fiscal balance indicator, which takes into account the need to preserve or even expand the level of public investment while maintaining fiscal discipline.

8. The direct fiscal measures are complemented by policies supported under the SWAp II to foster the spread and consolidation of a results-based culture through the public sector, a process that began during the SWAp I operation. Six prototype sector strategic studies, with indicators, were developed under the SWAp I. The Government subsequently expanded this initiative, producing strategic plans with indicators for all sectors as a foundation for the State development agenda and 2006 budgeting exercise. The SWAp II supports the further development of a results-based culture, including reporting against these strategic indicators in annual Secretary Performance Reports, monitoring of the SWAp II disbursement-linked indicators that align with sector performance objectives, and support for improved program reporting and evaluations for results-based management.

² The Inclusive Growth Strategy is based on a regional approach that focuses on “growth poles.” These are centers that will attract business and private sector opportunities, linking neighboring rural and urban areas like a network of capillaries to generate self-sustaining, robust economic growth in metropolitan areas outside the capital city. Thus, while the Inclusive Growth Strategy aims to decentralize economic growth, it is not a “balanced growth” approach (treating all urban areas or regions equally, regardless of economic and social conditions).

Figure 1: Primary balance & current fiscal balance (2003-2007)

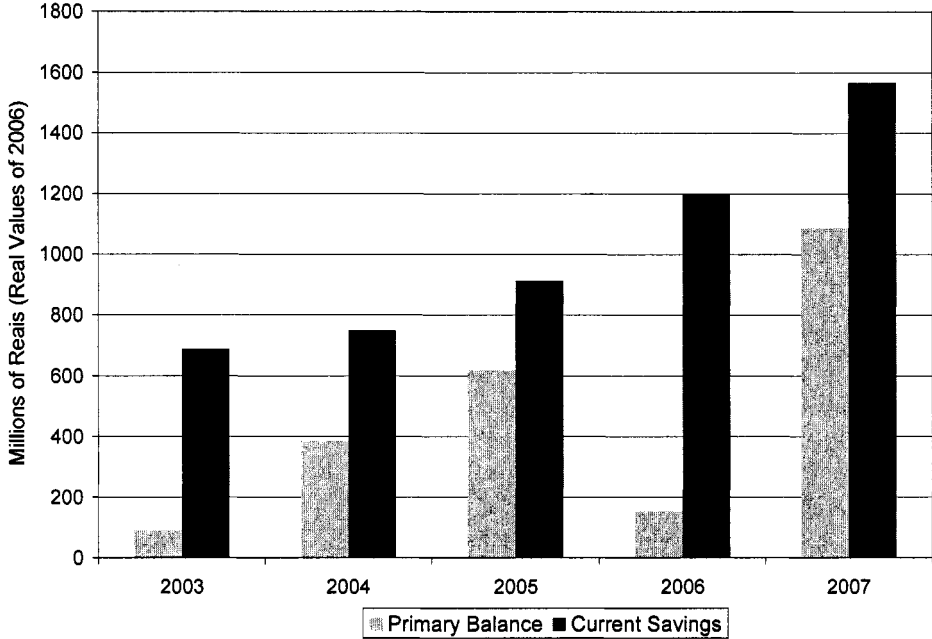
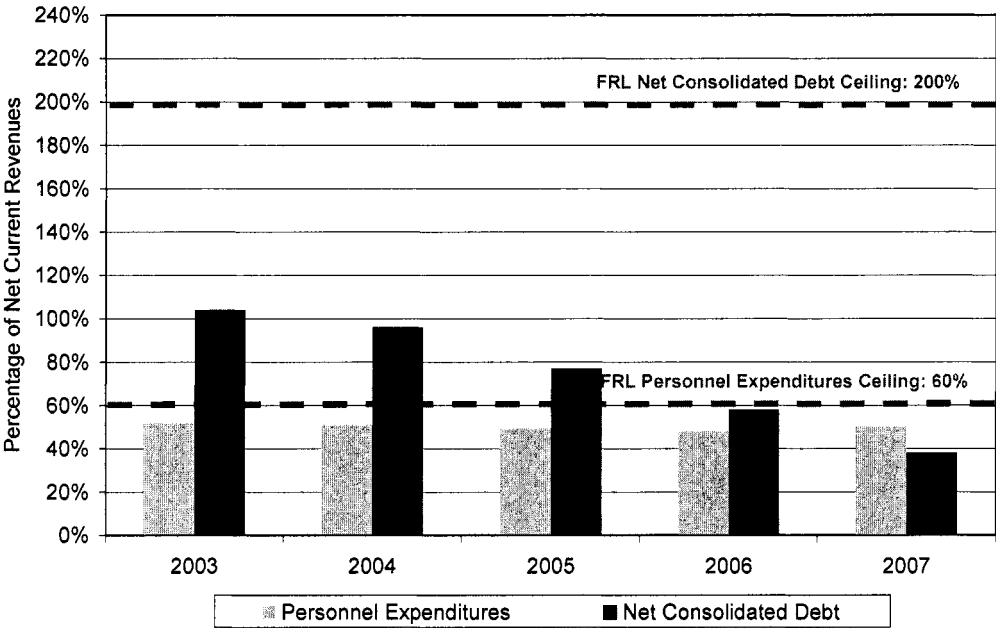


Figure 2: Expenditures, net consolidated debt & fiscal responsibility law (2003-2006)



2. RATIONALE FOR BANK INVOLVEMENT

9. The Bank is uniquely positioned to support the State of Ceará's development strategy, based upon the Bank's long partnership with the State. Ceará has for many years been one of the Bank's primary sub-national borrowers. Ceará investment loans over the last decade have included education, health, rural poverty, water resource management and urban development. As mentioned above, Ceará implemented a first-of-its-kind, results-based SWAp supporting six sectors and nine strategic government programs. Another World Bank loan is under development—the \$41m *Cidades do Ceará* Project—to promote economic growth in identified regional development poles, beginning with the Cariri region. In addition, the IFC TA Facility and FIAS are supporting a technical assistance program of administrative simplification to improve business processes in several Ceará municipalities.

10. This loan fits squarely within the new Country Partnership Strategy (CPS), which highlights the Bank's increasing role at the state level in Brazil and the importance of addressing complex development challenges in an integrated and multi-sector fashion. The Brazil CPS sets out six "paradigmatic challenges," four of which are directly addressed by the SWAp II, as summarized in Table 1 below. In addition, it should be noted that the *Ceará Inclusive Growth Project SWAp II* loan supports the achievement of five of the eight UN Millennium Development goals: achieve universal primary education; reduce child mortality; improve maternal health; combat HIV/AIDs, malaria, and other diseases; and develop a global partnership for development. The Government of Ceará, having achieved high levels of *coverage* in several of these areas, has now chosen to place greater emphasis on improving *quality*. That emphasis is reflected in Eligible Expenditure Programs supported by the SWAp II, and the corresponding disbursement-linked indicators.

3. HIGHER LEVEL OBJECTIVES TO WHICH THE PROJECT CONTRIBUTES

11. The higher level objective of the project is to expand the social advancements recently achieved by the State of Ceará through supporting the Government's program of inclusive economic growth. The project will do this by supporting investment programs critical to the Government's development agenda, programs included in the PPA 2008–2011. State programs in the education, health, and water sectors were priorities of the SWAp I operation and remain central to the SWAp II loan, as well. The current Government also has chosen to emphasize increased growth and private sector development—in particular for poorer areas outside the Fortaleza metropolitan region—and these priorities are also captured in the SWAp II design.

Table 1: Relationship between Brazil CPS “Paradigmatic Challenges” and the SWAp II

CPS Paradigmatic Challenges	Ceará SWAp Sectors and Emphasis
Fiscal & Public Sector Management	<i>Public Sector Management.</i> Expansion and consolidation of results-based management, combined with judicious fiscal and fiduciary management. Diagnostic tools for financial management (PEFA) and procurement (OECD Indicators) have been completed and an action plan is funded under the TA component.
Private Sector Management	<i>Business Environment & Innovation.</i> Installation of state-wide broadband internet network, and better economic performance through an improved business-friendly environment.
Infrastructure	<i>Water sector:</i> Integrated approach to Water resource management & Water Supply and Sanitation; institutional strengthening of the water companies (COGERH and CAGECE), increase cost recovery by payment for water by users; continuation of efforts to extend household water and sanitation connections
Human Development & Innovation	<i>Health.</i> Strengthened primary, secondary and tertiary care, with emphasis on the quality of care to accompany expanding coverage <i>Education.</i> Institutional strengthening and improved performance through annual testing programs, emphasis on early primary literacy and performance incentives

B. PROJECT DESCRIPTION

1. LENDING INSTRUMENT

12. *The loan type combines the Sector Wide Approach (SWAp) with an Adaptable Program Loan (APL).* This is the second SWAp loan of an APL. The SWAp I closed in December 2007, fully disbursing the \$150 million loan amount. Most of the triggers for APL 2 were met in full or in part (see Table 17) and the overall results achieved, as reflected in the SWAp I project indicators, were substantial. These accomplishments have laid an excellent foundation for continued progress, and provide confidence to continue the State’s partnership with the Bank. Consequently, the Bank is satisfied that the Government of Ceará has met the requirements for undertaking a second APL operation.

13. The Ceará SWAp model was sufficiently successful that it is now being replicated in Minas Gerais, the Distrito Federal, and Pernambuco. Each of these operations follows essentially the same SWAp structure, combining support to public sector management reforms with support for selected sector programs. In addition, each one links disbursements to the Borrower’s ability to meet specific performance targets over the course of the loan. The nature of the indicators,

however, may vary in accordance with the institutional development of the State/sector. For example, in Ceará, following the Government’s excellent performance improving fiscal indicators under the SWAp I, two “2nd generation” fiscal indicators have been included in the SWAp II (see below). Still, for the sector programs, many of the disbursement indicators are output measures rather than outcome targets. In contrast, the Minas Gerais SWAp relies to a greater degree on outcome measures: appropriate “stretch goals” for one of Brazil’s most developed states, and a state that already advanced considerably with results-based management through its recent “Management Shock” (*Choque de Gestão*) reform.

14. In response to the specific learning that has taken place under the Ceará SWAp I—by both the State and the World Bank—there are several differences between the first SWAp and the second, as summarized in Table 2.

Table 2: Comparing the First and Second Ceará APL Loans

APL Characteristics	SWAp I	SWAp II
Type of loan	2 SWAp operations	No change
Size of the loan	\$150 million	\$240 million
Multi-sector approach	Six sectors: PSM umbrella, education, health, water supply & sanitation (WSS), water resource management (WRM), environment	Five sectors: PSM umbrella, education, health, WSS & WRM, business environment & innovation
Eligible Expenditure Programs (EEP)	9 EEP	10 EEP (biodiversity is eliminated and 2 EEP are added from the Business Environment & Innovation sector) ³
Disbursement-linked indicators (DLI)	13 DLI	14 DLI
Other Indicators	Global, “70% rule” on disbursements, portfolio triggers	No global indicators or portfolio triggers; adds “secondary” indicators (not linked to disbursement) to broaden sector scope

15. *What are the key characteristics of the Ceará SWAp design?* The essential characteristics of the *Ceará Inclusive Growth Project SWAp II* mirror those of the first SWAp, and can be summarized as follows:

³ The SWAp I environmental sector requirements were fully met. The State has chosen to focus attention on economic growth through addition of a new sector: business environment & innovation. In this operation, technical assistance resources have been identified to continue to strengthen the State’s ability to address environmental safeguard issues (e.g., disposal of hospital waste).

- a. The loan is multi-sector. Six sectors were included in the SWAp I, and there are five in the SWAp II.
- b. The loan consists of: (i) a SWAp component disbursing against aggregated Eligible Expenditure Programs (EEP); and (ii) a technical assistance component disbursing against SOEs.
- c. Eligible Expenditure Programs are included as line items in the PPA and in the Budget Law, with proper identifying numbers in the budget.
- d. Disbursement is to the State Treasury, not to an individual budget program or Secretary responsible for the program.
- e. A disbursement ratio is agreed (30%), indicating the maximum share of EEP expenditures that may be disbursed from the SWAp component to the Treasury in each disbursement period. The maximum eligible disbursement during the period is equal to “the disbursement ratio” multiplied by “Government EEP expenditures” during the period.
- f. Disbursements are programmed to take place once every six months.
- g. The first disbursement includes a 20% retroactive amount, which will be disbursed against executed Government EEP expenditures, vetted to ensure compliance with Bank procurement and safeguards requirements.
- h. EEP fund (directly and indirectly) the SWAp II sector objectives and institutional reforms. Disbursement is against EEP expenditures, subject to satisfying indicators aimed at supporting the Government’s program and loan objectives. These include: (i) a “70% rule” that dictates each individual EEP must receive and execute at least 70% of its programmed budget in each calendar year;⁴ and (ii) individual “Disbursement-linked indicators” (DLI).
- i. The maximum disbursement amount will be reduced by 10% for each EEP that fails to meet the “70% rule.”
- j. The “value” of each DLI is calculated by dividing the maximum disbursement—after applying the “70% rule”—by the number of DLI (14).
- k. In the event a performance indicator is not achieved, a “request for reassessment” may be submitted by the Government, which must provide a justification and an Action Plan for meeting the indicator. At its discretion, the Bank will determine the amount and timing of the withheld disbursement, depending upon the explanation in the Government request and the proffered action plan.

16. Annex 7 provides the expected loan disbursement profile for the SWAp II operation.

2. PROGRAM OBJECTIVES

17. This operation is the second in a sequence of Adaptable Program Loans, supporting a long-standing partnership between the World Bank and Ceará to promote social advances for the state’s citizens as well as the institutional modernization of the state. As a follow-up to the Ceará SWAp I loan, the SWAp II offers continued support of the state’s social development agenda,

⁴ For the 2008 calendar year, 50% of each EEP budget must be executed to satisfy this rule.

including key sectoral investments in education, health, and WSS, as well as supporting the gradual fiscal strengthening of the GoC. (The APL triggers established under the SWAp I for a follow-up operation were substantially met, as detailed in Annex 1, Table 17.)

18. The innovative design of the first SWAp elevated the importance of results-based management (“*Gestão por Resultados*”), which receives still greater attention under the SWAp II in building upon those earlier accomplishments. This second operation also will expand beyond the social sectors to address issues of growth and competitiveness in the state.

3. PROJECT DEVELOPMENT OBJECTIVE AND KEY INDICATORS

19. The higher-level objective of the Ceará SWAp II project is to contribute to expand and consolidate the social advances and institutional modernization of the State of Ceará. The project will achieve this by supporting ten key government investment programs in five sectors, selected to optimize development impact. A series of disbursement-linked indicators (14) are mapped to the five sectors—public sector management, education, health, WSS/WRM, and business environment & innovation—to strengthen the incentives to achieve results.

20. Specifically, the project development objectives are to:

- Help the Government of Ceará to improve its fiscal situation;
- Strengthen the State’s system of results-based management;
- Promote better service quality in education (particularly childhood literacy) and health;
- Improve access to WSS, increase cost recovery in the water sector and improve the efficiency of the two government autarchies with responsibility for water supply and management; and
- Reduce barriers to business investment.

21. Success in meeting the project development objectives will not be evaluated merely at the close of the project. Rather, the disbursement-linked indicators (DLI) applied during SWAp II implementation are simultaneously measures of progress toward achieving these project development objectives. The set of “disbursement-linked” and “secondary” indicators are presented below in Table 3. The measurement protocols and target values for each DLI are found in Annex 3.

21. There are two types of indicator (or conditions) in the Ceará SWAp II that affect disbursements. First, there is a threshold requirement applied to the individual budget programs—termed Eligible Expenditure Programs (EEP)—supported by the SWAp. Budget execution for each EEP must reach at least 70% of its budget in each 12-month period. Second, there are disbursement-linked indicators (14 in all) assigned to each of the five sectors supported by the SWAp. Disbursement-linked indicators are the select performance indicators for the sector, and meeting these results is necessary to disburse loan proceeds, provided the EEP expenditure thresholds have been met.

22. “Secondary indicators” will be included in a Policy Letter that affirms their importance and declares the GoC’s intention to monitor and meet them. These secondary indicators will be tracked and reported systemically. They are important as they broaden and consolidate the reach of the sector programs and strengthen results-based management. However, disbursements are not affected when the government achieves—or fails to meet—these secondary indicators.

Table 3: Ceará SWAp II Performance Indicators

Sector	Performance Indicators	
	Disbursement-Linked	Secondary
Public Sector Management (A): Fiscal Performance	<ul style="list-style-type: none"> • Current fiscal balance • Tax concentration 	
Public Sector Management (B): Results-based management	<ul style="list-style-type: none"> • Annual results-based management (RBM) reports by Secretariats, validated by SEPLAG and the Committee for Fiscal and Results-Based Management (COGERF) • “Output-Results Reports” of priority PPA programs selected by COGERF 	<ul style="list-style-type: none"> • RBM information reflected in annual budget submission and in the Governor’s annual Address to the Assembly • Implementation of select procurement reform recommendations (based on OECD Indicators diagnostic) • Implementation of select financial management reform (based on PEFA diagnostic) • Crossing state pension cadastres with federal data bases to identify irregularities • Implementation of data platform for results-based management (S2GPR)
Education	<ul style="list-style-type: none"> • Annual student exams in 2nd, 5th, 9th and 12th grades • Municipalities with the program “Literacy at the Right Age” (<i>Alfabetização na Idade Certa</i>) operational 	<ul style="list-style-type: none"> • Evaluation of municipal implementation of “<i>Alfabetização na Idade Certa</i>” program (one in 2009 and one in 2011) • Literacy achievement in 2nd grade
Health	<ul style="list-style-type: none"> • Quality certification of Family Health Teams according to AMQ quality ranking system • Hospitals professionally licensed in accordance with ANVISA/ONA regulations • Hospitals with standardized cost-accounting system 	<ul style="list-style-type: none"> • Population covered by Family Health Team visits • Bi-annual reports of the “Water Group” to combat childhood diarrhea resulting in hospitalization • Systematic collection and reporting of infant weight/height

Sector	Performance Indicators	
	Disbursement-Linked	Secondary
WRM & WSS	<ul style="list-style-type: none"> • Billing for distributed bulk water (industrial, irrigation and aquaculture) • Number of urban water and sanitation connections • Reduction of water losses (“unaccounted for water”) by Ceará Water and Sewerage Company (CAGECE) 	<ul style="list-style-type: none"> • CAGECE EBITDA margin • CAGECE distributed water quality compliance ratio (by ARCE)
Business Environment & Innovation	<ul style="list-style-type: none"> • Urban population in municipal centers with access to public broadband internet service (<i>Cinturão Digital</i>) • Business registration in Secretary of Finance General Registry (CGF) completed within 72 hours 	<ul style="list-style-type: none"> • Reduction in the median number of days to issue state environmental licenses • Number of partnerships and/or service contracts between the Nucleus of Industrial Innovation Foundation (NUTEC) and private firms

4. PROJECT COMPONENTS

21. There are two main project components: (i) the SWAp component disbursing against ten pooled EEP (see Table 4), with disbursement-linked performance indicators and individual EEP expenditure thresholds as conditions to release loan funds; and (ii) a small technical assistance component (US\$ 3.67 million) to support SWAp II objectives in the five priority sectors. The TA component will disburse like a traditional operation against SOEs.

Table 4: EEP Budgets by Sector

Program Budget Number and Name	2008 (R\$ millions)	2009 (R\$ millions)	2010 (R\$ millions)	2011 (R\$ millions)	2008-2011 (R\$ millions)
Education					
041 – Basic School Standards	53.0	54.5	54.5	54.5	216.4
048 - Basic Education Quality in Rural and Urban School Zones	7.8	8.2	8.2	8.2	32.5
058 - Cooperation between States and Municipalities	625.2	647.2	647.2	647.2	2,567.3
Subtotal	686.0	709.9	709.9	709.9	2,815.8
Health					
535 - Secondary and Tertiary Health Care	158.3	134.1	162.2	92.0	546.5
536 – Primary Health Care	6.5	2.9	3.7	1.6	14.7
554 - Management of Health Work and Education	45.4	15.2	15.2	15.2	91.0
Subtotal	210.2	152.2	181.1	108.8	652.2
Water resource management & Water Supply and Sanitation					
711 – Ceará Environmental Sanitation	14.6	6.6	6.6	5.7	33.4
Business Environment & Innovation					
033 – Digital Ceará	4.5	5.8	5.8	5.8	21.9
194 – Strengthening Professional and Higher Education	47.1	48.2	48.2	48.2	191.8
196 – Technological Innovation, research and scientific development	14.8	17.7	22.8	10.1	65.5
Subtotal	66.4	71.8	76.8	64.2	279.1
SWAp II EEP TOTAL					3,780.5

Note: Budgets for 2009-2011 are projections. Actual budgets approved by the state legislature will be used for purposes of calculating compliance with the “70% rule” (described below).

22. The sector goals, EEP and disbursement mechanism are explained in detail in Annex 4. What follows is a brief description of the sectors targeted under the SWAp II and the associated performance indicators developed for the operation.

Sector 1: Public Sector Management (“Umbrella Sector”)

23. Public Sector Management (PSM) is a sector that spans all the rest. While PSM Eligible Expenditure Programs generally are not sufficiently large to justify inclusion in a SWAp, strengthening fiscal and fiduciary oversight and institutionalizing results-based management (RBM) in policy setting and public administration will have a positive impact upon the efficiency and effectiveness of the entire government, including the targeted sectors. The first SWAp initiated some preliminary, positive steps toward judicious fiscal management and RBM. In this second SWAp, fiscal indicators have been selected to reflect the emphasis on growth: instead of using the more commonly-adopted primary surplus indicator, the project will target the current fiscal balance, which takes into account the need to preserve—or even expand—the level of public investment while maintaining fiscal discipline. In a similar way, the SWAp II includes an indicator of tax concentration rather than simply tax revenue. The tax concentration measure aims to reinforce the current policy of the State to adopt a balanced level of taxation across sectors. (This contrasts with the tendency to overtax utilities such as energy, fuels and communications, as has been done elsewhere in Brazil, with negative consequences for growth as firms must bear most of the burden of increased taxation.)

24. Expanding and mainstreaming RBM is now identified as perhaps the single most important activity supported by the SWAp II. Consequently, while the broad objectives for Public Sector Management remain the same, the activities and indicators have been adjusted from the first APL to the second. During the SWAp I government secretaries initiated sectoral assessments to define strategic plans for their organizations. These plans include strategic outcomes, performance indicators and annual performance targets. Building on that experience the current project will support and monitor the preparation of annual Secretary Performance Reports (SPR) against those pre-defined performance indicators. Each line secretary is to present a coherent portrayal of its performance, both for accountability and for budget and planning purposes.

25. In addition to focused reports by line secretaries on their operations and performance, results-based management requires monitoring and evaluation of the *impacts* of public policies. Often called “spending reviews,” these analyses measure the full costs and benefits of government programs, and are a powerful instrument for the rationalization of public resource allocations to improve the efficiency and effectiveness of government expenditure. Recognizing the typical complexity and cost of a “spending review,” as well as the incipient stage of results-based management in Ceará, the SWAp II will support the development and use of Output-Results Reports (*Relatório Produto-Resultado*) as a type of “light spending review.” The Output-Results Reports (ORR) will have three essential elements: (i) a consistency analysis of the program(s) design (log frame); (ii) monitoring of outputs in accordance with the log frame; and (iii) a comparison of actual outputs to expected outputs, examining the extent to which the outputs generated promote the achievement of the results desired, and the cost per unit of the output produced.

26. To ensure that the ORR are focused on programs that are a priority concern for the Government, the selection of programs to be assessed each year will be determined (and

sanctioned) by the Committee for Fiscal and Results-Based Management, a type of “supercabinet” in support of the Governor, composed of the four most powerful state secretaries.⁵ A SWAp II “secondary indicator” will track to ensure that RBM reporting from the annual SPRs and ORRs is reflected in the Government’s annual budget proposal as well as the Governor’s annual Address to the Assembly.

Table 5: SWAp II Program Summary – Public Sector Management

<i>Priority objectives and problems targeted</i>	fiscal management; fiduciary oversight; results-based management
<i>Eligible expenditure programs</i>	None
<i>Disbursement-linked indicators</i> (See details in Annex 3.)	<u>Fiscal management (2):</u> 1. Current fiscal balance 2. Tax concentration (Herfindahl Index) <u>Results-based management (2):</u> 3. Annual results-based management reports by Secretariats 4. “Output-Results Reports” of priority PPA programs selected by COGERF
<i>Secondary Indicators</i>	1. RBM information reflected in annual budget submission and in the Governor’s annual Address to the Assembly 2. Implementation of select procurement reform recommendations (based on OECD Indicators diagnostic) 3. Implementation of select financial management reform (based on PEFA diagnostic) 4. Crossing state pension cadastres with federal data bases to identify irregularities 5. Implementation of data platform for results-based management (S2GPR)

⁵ COGERF was created by Decreto 27.524 (August 2004). The current member Secretaries are Planning and Management, *Fazenda*, *Controladoria*, and *Casa Civil*.

<p>Related Technical Assistance Activities (See details in Annex 4.)</p>	<ol style="list-style-type: none"> 1. Training and dissemination for results-based management 2. Contracts to produce three (3) “Output-Results Reports” 3. PEFA (fiduciary oversight) implementation of select priority recommendations 4. OECD Indicators (procurement) implementation of select priority recommendations 5. Development of a procurement portal within the SEPLAG/PGE website 6. Dissemination within government and to civil society of government procurement system 7. Training for public employees responsible for procurement, including “preventive audit” 8. Analysis of pension costs associated with key employment categories, particularly teachers 9. Institutional strengthening of audit and control bodies (TCE and SECON) 10. Note: A contingency fund of US\$ 200,000 is established under the TA component of the project to finance relevant TA activities that may arise during project implementation.
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Sector 2: Education

27. The SWAp I addressed the main sector challenges through support of the government’s program to: (i) implement a student testing cycle; (ii) improve literacy; (iii) upgrade expenditure efficiency and quality; and (iv) improve State/municipal cooperation in delivering primary education. Considerable progress has been made in each of these areas, sufficient for the new administration to refine these priorities and add a focus on educational performance.

Table 6: SWAp II Program Summary – Education

<p>Priority objectives and problems targeted</p>	<p>Insufficient data on student learning achievement; child literacy</p>
<p>Eligible expenditure programs</p>	<ol style="list-style-type: none"> 1. Basic School Standards; 2. Basic Education Quality in Rural and Urban School Zones 3. Cooperation between States and Municipalities
<p>Disbursement-linked indicators (See details in Annex 3.)</p>	<ol style="list-style-type: none"> 1. Annual student exams in 2nd, 5th, 9th and 12th grades 2. Municipalities with the program “Literacy at the Right Age” operational
<p>Secondary Indicators</p>	<ol style="list-style-type: none"> 1. Literacy achievement in 2nd grade
<p>Related Technical Assistance Activities (See details in Annex 4.)</p>	<ol style="list-style-type: none"> 1. Evaluation study of the <i>CE-Jovem</i> program 2. Evaluations (2) of the use of student exam results in municipal school development plans

Sector 3: Health

28. Health was also a priority sector under the first SWAp. World Bank staff, working with Ceará government counterparts, considers that healthcare coverage is now relatively high, and that the most pressing problem in the sector concerns the *quality* and efficiency of healthcare delivery. Hence, a new set of priority issues are addressed in the second operation.

Table 7: SWAp II Program Summary – Health

<i>Priority objectives and problems targeted</i>	Quality of hospital and Family Health Team care; efficiency of hospital management
<i>Eligible expenditure programs</i>	<ol style="list-style-type: none"> 1. Secondary and Tertiary Healthcare 2. Primary Healthcare 3. Management of Health Work and Education
<i>Disbursement-linked indicators</i> (See details in Annex 3.)	<ol style="list-style-type: none"> 1. Quality certification of Family Health Teams according to AMQ quality ranking system⁶ 2. Hospitals professionally licensed in accordance with ONA/ANVISA regulations⁷ 3. Hospitals with standardized cost-accounting systems
<i>Secondary Indicators</i>	<ol style="list-style-type: none"> 1. Population covered by Family Health Team visits 2. Bi-annual reports of the “Water Group” to combat childhood diarrhea resulting in hospitalization 3. Systematic collection and reporting of infant weight/height
<i>Related Technical Assistance Activities</i> (See details in Annex 4.)	<ol style="list-style-type: none"> 1. Support to implement the AMQ system (quality certification) for Family Health Teams 2. Support to install cost-accounting systems in main hospitals

Sector 4: Water resource management & Water Supply and Sanitation

29. Water resources in the very arid Ceará are fundamental to the State’s economic and social development. The programs and indicators selected for this sector are directed at strengthening the financial health of the water companies responsible for providing bulk supplies (COGERH) and WSS services (CAGECE), and sending economic signals to consumers about the true cost of water and the need to rationalize its use across competing demands. In addition, the provision of

⁶ Developed under the World Bank’s PROESF project, Avaliação para Melhoria da Qualidade de Estratégia Saúde da Família (AMQ) is a quality certification system for Family Healthcare. Similar to the accreditation systems for healthcare facilities, AMQ is based on internationally recognized standards of care classified according to the Donabedian quality assessment model specifying structures, processes and results. Over 160 quality standards are distributed among five sequential stages. AMQ contains assessment instruments and a scoring system to classify health teams by quality stage.

⁷ The “alvara” is a permit that certifies, through health surveillance, that health conditions, installations, technical and operational capacity of health services work within the standards of quality and security demanded by the existing legislation. Federal Law N° 6,437/1977 requires that health-related establishments hold health permits (“alvara sanitario”), issued by the jurisdictional health authority.

potable drinking water and improved sanitation are essential to improving quality of life and combating water-borne health and pollution problems.

Table 8: SWAp II Program Summary – WRM & WSS

<i>Priority objectives and problems targeted</i>	Financial health of the public water companies (COGERH for bulk water supply and CAGECE for WSS); improving cost recovery by increased charging across consumer groups; unmet demand for household water and sewerage connections
<i>Eligible expenditure programs</i>	1. Ceará Environmental Sanitation
<i>Disbursement-linked indicators</i> (See details in Annex 3.)	1. Billing for distributed bulk water (industrial, irrigation and aquaculture) 2. Number of urban water and sanitation connections 3. Reduction of water losses (“unaccounted for water”) by Ceará Water and Sewerage Company (CAGECE)
<i>Secondary Indicators</i> (See details in Annex 4.)	1. CAGECE EBITDA ⁸ margin 2. CAGECE distributed water quality compliance ratio (by ARCE)
<i>Related Technical Assistance Activities</i> (See details in Annex 4.)	1. Development of performance indicators guide for the sanitation sector 2. Evaluation of approaches to address poor water quality in problem areas

Sector 5: Business Environment & Innovation

30. Both the World Bank and the Government are acutely aware of the need to mobilize private sector resources and entrepreneurship in order to achieve sustainable growth. A 2006 World Bank Group report—*Doing Business in Brazil*—ranked Ceará last among 13 states in terms of business-friendly environment. The State current administration strongly endorses measures to mobilize private sector resources for economic growth, particularly in the interior. Hence, these activities support the government’s strategy to strengthen development poles: dynamic municipal clusters outside of the Fortaleza Metropolitan Region. They also will support programs designed to foster technology innovation, and research and scientific development.

Table 9: SWAp II Program Summary – Business Environment & Innovation

<i>Priority objectives and problems targeted</i>	Need to accelerate and sustain growth; improve business climate, particularly outside the capital region
<i>Eligible expenditure programs</i>	1. Digital Ceará 2. Strengthening Professional and Higher Education; 3. Technology Innovation, Research and Scientific Development

⁸ Ratio between EBITDA (earnings before interest, taxes, depreciation, and amortization) and net income.

Disbursement-linked indicators (See details in Annex 3.)	<ol style="list-style-type: none"> 1. Urban population in municipal centers with access to public broadband internet (<i>Cinturão Digital</i>) 2. Business registration in Secretary of Finance General Registry (CGF) completed within 72 hours
Secondary Indicators (See details in Annex 4.)	<ol style="list-style-type: none"> 1. Reduction in the median number of days to issue state environmental licenses 2. Number of partnerships and/or service contracts between NUTEC and private firms
Related Technical Assistance Activities (See details in Annex 4.)	<ol style="list-style-type: none"> 1. Evaluation of broadband internet use one year after installation 2. Workshop to exchange experiences in utilizing broadband internet access

Table 10 summarizes the SWAp II disbursement-linked indicators and contrasts these with the indicators used under the first SWAp.

Table 10: Relationship between SWAp I and SWAp II Objectives & Indicators

Disbursement-Linked Indicator	Comment
Public Sector Management (Fiscal) <ul style="list-style-type: none"> • Current fiscal balance • Tax Concentration Index 	These “next generation indicators” replace the SWAp I emphasis on primary surplus and debt revenue indicators.
Public Sector Management (results-based management) <ul style="list-style-type: none"> • Annual results-based management reports from Secretariats • “Output-Results Reports” of priority PPA programs 	SWAp I required sector strategies with indicators. The SWAp II goes further and requires annual RBM program performance reporting against pre-set performance targets. These reports are gradually required of all government Secretariats, not merely those targeted under the SWAp II. Moreover, “spending reviews” (<i>produto-resultado</i>) will be conducted for priority programs selected by COGERF. Both the annual Secretariat reports and “spending reviews” will inform the budget decision-making process.
Education <ul style="list-style-type: none"> • Annual student exams in 2nd, 5th, 9th and 12th grades • Municipalities with the program “Literacy at the Right Age” operational 	SWAp I supported testing. (These annual tests now cover all schools and students.) The first operation also strengthened education institutions—SEDUC and CREDES. The GoC now is focused on achieving higher literacy rates early in children’s school careers—a major determinant of subsequent academic performance.
Health <ul style="list-style-type: none"> • Quality certification of Family Health Teams • Hospitals professionally licensed • Hospitals with standardized cost-accounting systems 	The SWAp I was concerned with basic coverage of Health Units, pregnant mothers and infants. Coverage now is generally high in Ceará. (While coverage could be improved this is addressed in secondary indicators.) However, analysis of mortality and morbidity rates indicate that quality of healthcare is a serious problem. Hence, the benefits of

Disbursement-Linked Indicator	Comment
	<p>requiring certification on a <i>continual</i> basis are viewed as the best way to address chronic healthcare problems in a sustainable way. The implementation of cost-accounting systems is also regarded—along with certification—as the next major step in upgrading healthcare and managing costs. Once installed in leading hospitals it is expected that the experience will be replicated elsewhere in the system.</p>
<p>WRM and WSS</p> <ul style="list-style-type: none"> • Billing for distributed bulk water (industrial, irrigation, and aquaculture) • Number of urban water and sanitation connections • Reduction of water losses by CAGECE 	<p>Ceará water use must be paid for if use is to be rationalized. Furthermore, the bulk water and WSS companies require the income to sustain and expand their operations. A similar indicator was used in SWAp I and is further developed in the SWAp II. Similarly, focusing on water losses that affect operating margins in CAGECE is considered essential for sustaining the system. WSS connections were part of SWAp I and have a significant quality of life and healthcare impact (and were thus included in the Millennium Development Goals).</p>
<p>Business Environment & Innovation</p> <ul style="list-style-type: none"> • Urban population in municipal centers with access to public broad band internet service • Business registration in CGF completed within 72 hours 	<p>This sector was not part of the SWAp I. It is clear that sustainable growth will require increased private sector participation. A second Ceará loan, <i>Cidades do Ceará</i>, is piloting efforts to support “growth poles” in the interior. Providing internet access and creating a user-friendly new business registration process are two important initiatives to create a business-friendly environment. Others have been included as secondary indicators.</p>

5. LESSONS LEARNED AND REFLECTED IN THE PROJECT DESIGN

31. The Ceará SWAp II draws directly upon the design and implementation experience of the Ceará Multi-Sector Social Inclusion Project, the first in Brazil to use a SWAp modality to support a multi-sector program. Under the SWAp I the Bank reimbursed key Eligible Expenditure Programs in accord with results based on key sectoral indicators. Critical lessons of that experience include the following:

- a. *Indicators Selection.* The most difficult challenge associated with the SWAp model is the selection of good indicators—important, measurable, unambiguous, and reasonable. Lessons learned, especially during SWAp I implementation, suggest the following types of indicators should be avoided:
 - (i) Composite indicators, especially those that rely on sequenced events as delays may jeopardize compliance
 - (ii) Indicators that depend upon the actions of numerous entities (e.g., activities that must be carried out across many schools or municipalities), especially if management capacity is questionable

- (iii) Indicators for which the State does not have sufficient leverage in the form of funding or highly-desirable technical assistance to ensure that implementing agencies—including municipalities—will make a good faith effort to comply
 - (iv) Mandates to implement recommendations or study results that lead to subjective judgments as to whether or not performance can be deemed “satisfactory”
- b. *Client Ownership*. If the sectors/secretaries do not believe in the merit of the program, it will be more difficult to achieve sector indicators and the desired outcomes. Hence, senior officials and professionals in the line departments should play a primary role in loan design and should be fully aware of the benefits to the State, the Treasury, and to themselves (namely, support for key sectoral programs/objectives/targets and assured Eligible Expenditure disbursement).
 - c. *Bank Ownership*. For the loan to generate the best results, World Bank sector specialists need to be involved in supervision and maintain a regular dialogue with the client. The loan should be considered a vehicle for such multidisciplinary involvement. Supervision resources need to be made available to participating sectors, and the responsibilities of sectoral specialists need to be clear.
 - d. *Capacity to Disburse Technical Assistance Resources*: While the SWAp I was highly successful (e.g., strengthening financial management, encouraging sectors to identify the key results they were attempting to achieve, supporting sound sectoral implementation arrangements) the government was not able to implement much of the programmed TA activities. To a certain extent, the capacity of the state to absorb the TA component was overestimated. This lesson is reflected in the design of the TA component of this second operation: technical assistance is used to strengthen incentives for sector units with strong ownership and interest in the outcomes, and is highly selective. The total amount allocated for technical assistance (US\$ 3.67 million) is also less—in absolute terms and particularly as a share of overall project financing—than under the SWAp I.

6. ALTERNATIVES CONSIDERED AND REASONS FOR REJECTION

32. Due to changes in the size and scope of the SWAp II—in relation to operation prefigured in the SWAp I—an alternative loan instrument to this second APL would have been a stand-alone SIL/SWAp. However, this alternative was rejected as the links and continuity with the first APL operation—both the sectors and objectives—are readily apparent and clearly significant.

33. The design features that were rejected for the SWAp II include the following:

- a. *The environmental component and EEP*. It was determined that the SWAp I environmental sector requirements were fully met. Meanwhile, the State has chosen to focus attention on economic growth through addition of a new sector: Business Environment & Innovation. Still, limited TA resources will be provided in this operation to continue to strengthen the State’s ability to address environmental safeguard issues with a comprehensive, government-wide approach manner, irrespective of any project-specific investment requirements.

- b. *Global conditions.* A portfolio condition was not considered necessary given that preparation is underway for an additional financing request for the Ceará Integrated Water Resource Management Project (PROGERIRH), and given “imminent closure” of the education loan. In light of the state’s improved fiscal situation, the primary surplus condition has been replaced by an alternate fiscal indicator and tax concentration indicator. These have been included as a disbursement-linked indicators rather than as a global conditions.

36. The GoC favors the SWAp modality rather than a DPL operation, as the Government prefers the results focus embedded in the SWAp design as well as the greater engagement by Bank sector specialists during implementation, which the SWAp modality provides.

C. IMPLEMENTATION

1. PARTNERSHIP ARRANGEMENTS (IF APPLICABLE)

37. There are no formal partnership arrangements related to this operation. Concerning safeguards, the operation draws upon the safeguards framework for involuntary resettlement already developed for the *Projeto Sanear II*, a project that is partially supported by the Inter-American Development Bank (IADB). That framework and resettlement practices under the *Sanear* operation have been reviewed and deemed acceptable by the Bank.

2. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

38. The Ceará SWAp II will draw upon the successful implementation arrangements used for the first operation. The Ceará Economic Research Institute (IPECE), the research institute under the Secretary of Planning, will be the responsible implementing agency. The Project Coordinator will be the head of IPECE, who will report to the Secretary of Planning. The Coordinator is assisted by IPECE staff and 1-2 consultants who will divide their time between the SWAp and other tasks. While IPECE is a research institute, it also has responsibilities for planning and results-based management that cover all Secretaries. IPECE has proven ability to act as the implementation and coordination unit.

39. The GoC developed a very efficient means of managing and coordinating the diverse sectors over the course of the loan. Each secretary/sector is represented by a key technical staff person on a SWAp Committee to ensure close and continuing monitoring and evaluation by all sector stakeholders. The Committee meets monthly and each representative reports on progress in achieving indicators, technical assistance, and EEP so that any problems that surface can be identified and addressed promptly. Issues that require multi-sector responses can be addressed in these collaborative meetings.

40. A “situation room” was established in IPECE and all of the indicators—EEP, Disbursement-linked, others—were posted on the walls. Progress on every indicator is registered on a color-coded master chart. The Coordinator and his team are also constantly in touch with

the Secretaries, and when larger issues surface they are communicated to the Secretary of Planning and the Governor for resolution. This occurred on several occasions during the first SWAp. In addition, supervision under the new operation will include regular interaction between the line secretaries and sector specialists.

41. Project coordination responsibilities comprise the activities normally undertaken by project coordinating/implementation units including: (i) general government and Bank coordination; (ii) monitoring and evaluation of EEP, Disbursement-linked indicators, and TA to ensure compliance; (iii) reporting of results in a timely and comprehensive manner to ensure loan disbursement and preparation of any “requests for reassessment,” as needed; (iv) ensuring Bank fiduciary (financial reporting, procurement) and safeguards regulations and requirements are followed; (v) disseminating results and strengthening the Government’s reform constituency; (vi) coordinating and leading activities within the Public Sector Management Sector and ensuring they are successfully carried out; and (vii) coordinating the effort of participating secretaries, running the SWAp Committee, and identifying and resolving problems.

42. The specific responsibilities to be carried out by the participating Secretaries include: (i) implementing sector programs and meeting performance indicators; (ii) participating in the SWAp Committee and tracking and reporting on all activities for which the Secretary has assumed responsibility; (iii) collaborating with the Project Coordinator/IPECE in preparing specific TORs, processing procurement and overseeing implementation of such activities; (iv) taking the lead in municipal contacts essential to meeting loan objectives; and (v) providing sectoral expertise as needed to optimize loan impact.

43. The FMIS and reporting capability have been vetted and the Bank relies upon Ceará systems for fiduciary oversight and reports. Sector units—the direct beneficiaries of TA—are expected to prepare sector-specific Terms of Reference for technical assistance support.

3. MONITORING AND EVALUATION OF OUTCOMES/RESULTS

44. The Ceará SWAp II has ten Eligible Expenditure Programs (EEP) and 14 disbursement-linked indicators, as well as a number of “secondary” indicators that the GoC commits to monitor. The SWAp I demonstrated that management of such a loan poses no greater supervision challenge than a traditional SIL because Ceará government systems are used to monitor and report on EEP projected and actual expenditures. Furthermore, responsibility for program implementation and tracking and reporting on disbursement-linked indicators is spread over six Secretaries; and the SWAp Supervision Committee has shown itself fully capable of monitoring and evaluating progress. Since disbursements require evidence of compliance to be presented by the State to the Bank, *the burden is squarely on the Government to provide the requisite information attesting to performance in a timely and comprehensive manner.* These features simplify the monitoring and evaluation of outcomes. Indeed, the GoC now posts voluminous program monitoring data through the IPECE SWAp website.

45. The Bank will rely upon the State’s systems for monitoring and evaluation, while also contributing through the Project to strengthen these systems. Technical assistance resources are

identified to support implementation of priority reforms to financial management and procurement systems, identified through application of the PEFA and OECD Indicators diagnostic, respectively. Meanwhile, TA support is combined with strong incentives to improve the quality of government performance data, as results-based management reports by secretariats, and program “output-results reports” are included as indicators for disbursement.

46. The specific M&E tasks and SWAp *modus operandi* are explained below:

- a. The first 20% disbursement will be retroactive and will take place immediately following loan signing. The second disbursement will be made at the same time, as an advance against aggregated projected expenditures for the ten EEP. Future disbursements will be made at roughly 6-month intervals. The State will present each time its expenditure estimates, using its own systems validated by the Bank, and in an FMIS format agreed with the Bank. For the third disbursement through the penultimate disbursement, the State will also present *actual expenditure* results from the previous 6-month period to prove that expenditures in that period were indeed sufficient to justify the disbursement made against estimates. Hence, for the third through the penultimate disbursement, the Government will present the *actual disbursement* for the previous 6-month period and the *estimated disbursement* for the upcoming 6-month period—both reports being necessary to authorize a new disbursement against the 6-month projections.
- b. Authorization of each disbursement directly following the end of the calendar year—normally in April—will be contingent upon satisfying the “70% rule” (described in section B.1) for individual EEP budget expenditures, as well as Disbursement-Linked Indicators (DLI) pertaining to the prior calendar year.
- c. If the “70% rule” is not met for an EEP, then the total amount eligible for disbursement in that period will be reduced by 10% (1 of 10 EEP).⁹ That non-disbursed amount will be added to the next year’s programmed disbursement if the “70% rule” is satisfied in the subsequent year. No “roll-over” will be permitted at the time of the final disbursement in April 2012.
- d. After applying the “70% rule,” the total eligible April disbursement will be divided by the number of DLI, which yields a monetary value for each DLI. If the DLI are met for all programs, then the entire disbursement is authorized.
- e. If the Government fails to meet a DLI, then the April disbursement is reduced by the DLI value. If two DLI are not met, then the value of the two DLI is withheld. This disbursement modality provides a significant advantage over traditional adjustment-style loan tranches, where a single missed target can hold up the entire value of the disbursement.
- f. Where a DLI represents a cumulative target (e.g., percent of family health teams with AMQ quality certification or citizens in municipal centers with broadband internet access), then if the DLI is target is not met the value of that DLI disbursement is withheld until such time as the Government demonstrates it has met the numerical

⁹ For the 2008 calendar year, 50% of each EEP budget must be executed to satisfy this rule.

target. The withheld value is then added to the next scheduled disbursement (April or October).

- g. Where a DLI is not a cumulative target, but rather an annual performance task (e.g., carrying out student exams each year in 2nd, 5th, 9th, and 12th grades), then the decision whether to disburse any part of that DLI value for that year will be at the Bank's discretion. An amount withheld due to a failure to meet an annual-performance DLI may be "rolled over" to a subsequent disbursement period at the Bank's sole discretion.
- h. Reports on the Government's progress in implementing the SWAp program and meeting EEP and DLI conditions will be reviewed during supervision missions. April disbursements will be authorized based on evidence presented by the client. The State provides comprehensive documentation online that can be reviewed by Bank specialists in each sector to determine whether conditions have been adequately documented and satisfied. It is also expected that sector specialists will travel to Ceará to supervise progress and maintain continuing contact with client counterparts in their respective sectors.
- i. Monitoring of TA implementation progress will be verified by the Bank and documented in ISRs and other supervision reports (see Annex 8).

47. Despite the number of activities that must be monitored, the SWAp I demonstrated that M&E under this model is not overly burdensome. The information provided has proved satisfactory to assess implementation progress and compliance. Indeed, the fact that loan disbursement is linked to provision of satisfactory evidence of compliance greatly facilitates M&E. This is because the burden of proof resides squarely with the client who has every interest in providing timely and satisfactory evidence. (See Annex 3 for information on data protocols and providers.)

48. World Bank sector specialists will be responsible for reviewing the performance reports provided. If the credibility of these data comes into question, then an independent verification audit may be requested.

4. SUSTAINABILITY

49. The DLI are linked to key problems and government programs/EEP. Each of these programs is included in the State's PPA and the Government's results-based management framework—which is reinforced through the SWAp II operation. An overarching objective of the SWAp II is to institutionalize key sector results as well as results-based management, building on the progress achieved under the first SWAp.

50. Government commitment to these sectors—and government commitment to the SWAp instrument as a tool to help realize these development goals—is evidenced by the continuity of programs and objectives between the first and second SWAps, notwithstanding the change of government that took place in Ceará in the period between the design of these two loan operations.

5. CRITICAL RISKS AND POSSIBLE CONTROVERSIAL ASPECTS

51. The overall risk rating for the Ceará SWAp II is moderate. Risks have been discussed extensively among Bank staff and Ceará officials, taking into consideration problems that emerged during the SWAP I operation. Table 11 summarizes the key risks identified and corresponding mitigation actions.

Table 11: Key project risks and mitigation measures

<i>Risk factors</i>	<i>Description of risk</i>	<i>Risk rating^a</i>	<i>Mitigation measures</i>	<i>Residual risk rating^a</i>
I. Country and/or Sub-National Level Risks				
Macroeconomic framework: Federal Level	Inadequate response to external shocks due to slow progress on fiscal reforms, in spite of the sound country macroeconomic environment	M	Permanent monitoring of Brazil macroeconomic conditions and assessment of impacts of external shocks	L
Macroeconomic framework: State Level (1)	Relatively low level of indebtedness of the state (ratio to net revenue is 0.57), but high debt service in the short run; and expenditure rigidity would reduce fiscal space for investment and counterpart funds	M	Analysis of medium-term projections for revenue and expenditures to estimate fiscal envelope	L
Macroeconomic framework: State Level (2)	State revenue dependence on federal transfers: state's finances are vulnerable to negative shocks on federal revenue collection	M	Improvement of own revenue collection efficiency to reduce dependence included in the TA component	L
Country Engagement with World Bank	Relationship with the Bank is good and the Bank's engagement has remained stable despite government changes. Relationship with Ceará Government is strong.	L	Continuous close partnership will be sought to maintain the high level of state government engagement	L

<i>Risk factors</i>	<i>Description of risk</i>	<i>Risk rating^a</i>	<i>Mitigation measures</i>	<i>Residual risk rating^a</i>
Governance	At the Federal level overall governance is considered reasonable. Although the institutional structure is complex and roles sometimes overlap, there is a system of checks and balances in place. Oversight institutions function and there is a rich press and civil society. Governance at the state level is also adequate, with commitment to streamline government functions and to improve transparency and accountability.	M	Overall objective of loan is to strengthen public sector management, including increased transparency of state systems	L
II. Sector Governance, Policies and Institutions	Project focuses on public and private sector reform by supporting priority expenditure programs. As such, "sector governance" is equivalent to the state governance issues raised above," but the multi-sector approach implies some risk in implementation and coordination.	M	Project is designed to reinforce multi-sector synergies; work with management to assure sufficient commitment and engagement of key staff.	M
III. Operation-specific Risks				
Technical/design				
Implementation capacity and sustainability	Government has demonstrated overall implementation capacity in previous project, but this project is significantly large and covers a broader range of sectors.	M	TA will reinforce implementation capacity, especially in line ministries. Close supervision during project implementation	L

<i>Risk factors</i>	<i>Description of risk</i>	<i>Risk rating^a</i>	<i>Mitigation measures</i>	<i>Residual risk rating^a</i>
Financial management	Ceará has a good system of financial management in terms of both business processes and supporting systems. There is some risk associated with external audit.	M	A Public Expenditure Financial Accountability Assessment (PEFA) will be undertaken as part of project implementation, and recommendations implemented as part of TA activities	L
Procurement	Procurement systems are reasonably strong but priority actions to strengthen the state's procurement systems further have been identified through applying the OECD procurement diagnostic methodology	L	SWAp I helped the state to make significant progress, including Quick Gains implementation. The TA component will build further on this progress.	L
Social and environmental safeguards	The Project will involve impacts covered by safeguards for expenditure programs related to WSS, and perhaps health.	M	Agreed frameworks for addressing safeguards issues have been developed as part of project preparation. Gaps will be addressed as part of project.	L
IV. Overall Risk (including Reputational Risks) The Overall risk is rated Moderate, due to the total number of activities and coordination challenges. Reputational risk is also low given recent experiences with the state.				M
^a Rating of risks on a four-point scale – High, Substantial, Moderate, Low - according to the likelihood of occurrence and magnitude of potential adverse impact.				

6. LOAN CONDITIONS AND COVENANTS

52. There is no portfolio conditionality for this operation. As a Condition of Effectiveness, the Government must adopt through a Decree the Project Operational Manual in form and substance satisfactory to the Bank.

53. The covenants will relate to the execution of the Project in accordance with the Health Waste Management Strategy and the Environmental and Social Management Framework together with the Indigenous People's Framework. Also, the loan makes use of a performance framework explained above (and in detail in Annexes 3 & 4). The SWAp II disburses against aggregate, pooled EEP. The disbursement ratio is 30%, meaning that for every R\$1 million spent by the GoC on Eligible Expenditure Programs, the US\$ equivalent of R\$200,000 can be

disbursed from the loan. However, these disbursements are conditioned on meeting these additional performance requirements:

- At least 70% of the annual budget of each EEP actually must be spent.
- A share of the disbursement is tied to achieving the performance target for each of 14 disbursement-linked indicators. Hence, meeting a DLI in a period authorizes the disbursement of that share of the programmed disbursement (i.e., total disbursement ÷ 14), provided that the aggregate EEP expenditure is satisfactory.

52. The purpose of the “70% rule” is to ensure that each of the key EEP targeted by SWAp II benefit from Government expenditure. The purpose of the DLI is to ensure progress in meeting the critical problems identified in the sectors, and to reinforce results-based management.

D. APPRAISAL SUMMARY

1. ECONOMIC AND FINANCIAL ANALYSES

53. The GoC fiscal situation is sound, especially relative to a number of other Brazilian states. This fiscal result is the product of the prudent fiscal management adopted in recent years. The state government achieved increasing and substantial positive current savings from 2003 to 2006 that allowed it to increase public investment and to reduce strongly its indebtedness. Primary balances and net financing were also positive and increasing until 2005. In 2006, given its improved fiscal conditions, the state government promoted a strong expansion of public investments that led to a reduced primary balance (albeit, still positive) and to a small borrowing requirement.

54. The state’s Fiscal Responsibility Law (FRL) indicators improved as a consequence of the strong fiscal discipline. Net consolidated debt, used for compliance with the FRL, fell from 106 percent of net current revenue in 2003 to 58 percent of net current revenue in 2006, well below the legal ceiling for state governments of 200 percent. Personnel expenses as a share of net current revenue fell from 52 percent in 2003 to 48 percent in 2006, below the 60 percent FRL ceiling. Given the high concentration of debt service payments during the period 2003-2006 (which led to the first World Bank SWAp operation with the state), debt service payments to net current revenues have exceeded 15 percent (against the FRL ceiling of 11.5 percent of net current revenue). Given the disbursements of the aforementioned Bank lending, credit operations were higher than 5 percent of net current revenues, but far below the FRL ceiling of 16 percent.

55. In addition to the Fiscal Responsibility Law requirements, the GoC achieved the targets of the Fiscal Adjustment Program (PAF) agreed with the National Treasury Secretariat (STN). Given the good performance of the last year and the reduction of its indebtedness ratio, the STN authorized the state to contract new credit operations for the period 2007-09.

56. Ceará, under its new administration, has defined a state development agenda that prioritizes key sectors and launches institutional reforms. These priorities largely consolidate and build upon advances made under the SWAp I. Without SWAp II, funding for these efforts would

be substantially reduced and achievement of the results captured in the project indicators would be delayed.

57. The support described above for critical programs in Ceara's development agenda will provide an important growth and reform stimulus. However, despite significant recent progress, the State is still saddled with an adverse debt repayment schedule, as can be seen in the graph below. Despite the improvement brought about through the first SWAp, concentration of debt repayments—especially over the next three years—constitutes a significant impediment to increasing state investments that are needed to implement the administration's development agenda. Fortunately, Ceara's overall relatively low indebtedness level allows it to use the space permitted under the Fiscal Responsibility Law to obtain a second World Bank SWAp operation. This, in turn, will enable the GoC to implement its development agenda, pursue structural and institutional reforms, and at the same time meet its short term financial obligations.

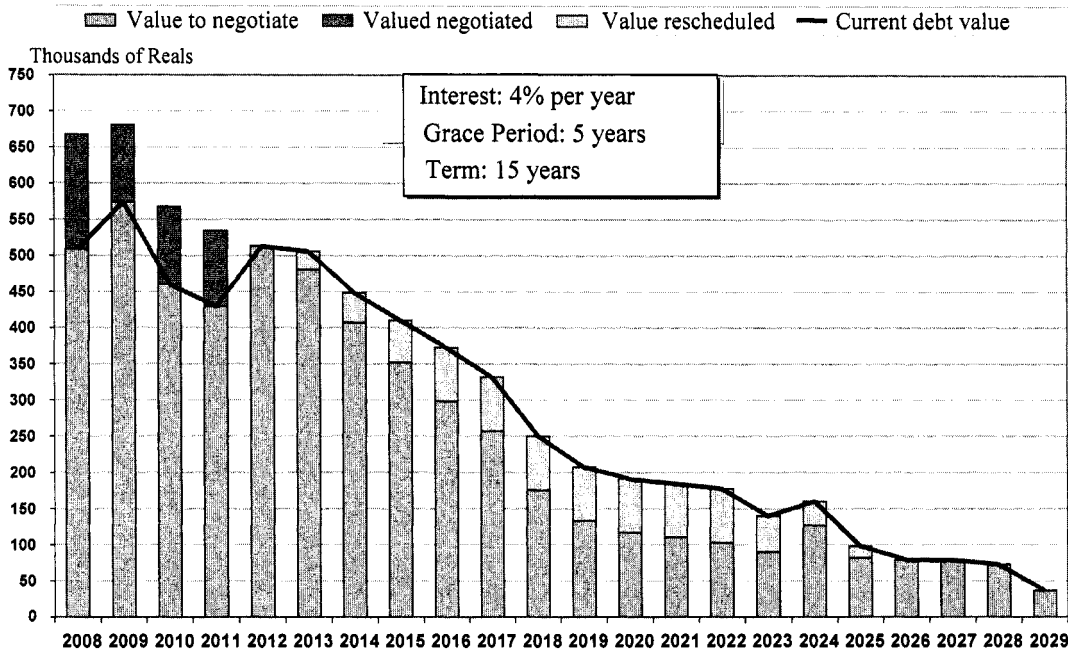
58. As shown in Figure 3 below, the World Bank funding, disbursed to the Treasury, will allow the Government to better manage its debt obligations. In order to maintain its sound fiscal position, Ceará also must maintain strict control of current expenditures and improve tax revenue generation. The high dependence of state revenues on federal transfers (42% of total revenues in 2006) underlines the importance of improving its own revenue collection capacity. Disbursement-linked indicators addressing current fiscal balance and revenue collection have consequently been included in the loan to tighten financial management. As revenue collection depends upon state economic activity, the favorable fiscal trends will also depend upon sustained growth of the state economy, which is targeted under the SWAp II through support of key infrastructure and private sector programs and reforms.

59. Sustaining social inclusion gains and obtaining a substantial reduction in current poverty levels also require more rapid economic growth and improving the quality of social policies. Poverty levels are still unacceptably high in Ceará, with more than half the population (53%) living below a poverty line of ½ minimum wage, and more than a quarter (26%) below an extreme poverty line (¼ minimum wage). The SWAp II emphasis on education, health, WSS and development, especially in the state's interior, should contribute significantly to poverty mitigation.

60. The present project, a \$240 million loan using a SWAp modality, emphasizes “inclusive growth,” supporting programs and policies that address social goals together with others that help boost economic growth in the state. In addition, the project supports Ceara's commitment to develop further the good public sector management practices that have been adopted in the state in recent years, with special emphasis on mainstreaming results-based management.

61. This is a multi-sectoral operation that supports programs and activities in different areas. Some of the GoC's priority programs supported by the Bank's SWAp operation are better evaluated by their cost-effectiveness, while others are amenable to more traditional cost-benefit analysis. While a detailed economic assessment was not undertaken, Annex 9 summarizes some of the available evidence on the impact of programs in the areas of education, health, water and sanitation and innovation.

Figure 3: Impact of the SWAp II on Ceara’s Debt Repayment Profile



2. TECHNICAL

62. No technical problems are foreseen in implementing the SWAp II. Project coordination and supervision of SWAp I was well-managed through IPECE in the Secretary of Planning and Management (SEPLAG). Regarding fiduciary oversight, there were no problems in the first operation and none are anticipated for the second. Reporting FMIS estimates and actual expenditure for EEP was handled satisfactorily. Provision of the reports and background materials required for the 4th and 5th disbursements of the SWAp I was ably managed by the GoC. Summary reports and the voluminous evidence required for each component were posted on the IPECE website.

63. Implementation of sector EEP will, of course, bring challenges. (Internal government coordination is one of them.) However, these challenges are mitigated by the following features: (i) initiatives are firmly embedded in the State’s own development agenda; (ii) many EEP and DLI are similar to those in the first operation; and (iii) great care has been exercised in vetting indicators to ensure they are well-founded.

64. The failure to disburse a larger share of the programmed TA funds has been discussed above, but this should be less of a problem in the SWAp II operation because these activities will be dispersed through the targeted sectors, providing stronger ownership to see them through.

65. The greatest challenges are associated with two new programs linked to DLI that involve municipal collaboration. In the education sector a new early-childhood literacy program (*Alfabetização na Idade Certa*) is being launched throughout Ceará's 184 municipalities. Meanwhile, in the health sector, proposed initiatives linked to DLI will certify Family Health Teams and large regional hospitals (*hospitais polo*), and implement hospital cost-accounting systems. The concern is that new programs often are beset by start-up problems, and coordination with municipal governments adds a further challenge. However, it is expected that with the backing of the Governor and Secretaries, and with the added importance that comes with incorporating these programs into the SWAp II performance framework, these challenges can be overcome.

3. FIDUCIARY

66. Building on the Bank's experience in working with the Government of Ceará, and the positive results of the first Ceará SWAp operation, the overall Financial Management Assessment conclusion is that the government's public financial management systems perform well, and as such, meet Bank requirements. The financial management risk associated with the project has been assessed as moderate. The government's financial management system will be able to provide relevant and reliable financial information, in a timely manner, to support project management in the control, planning, implementation and monitoring of the project towards the achievement of the project objectives.

67. Given the nature of the SWAp program, funds flow directly to the Treasury (see Annex 7). Thus, it has been determined that no procurement plan will be required for the SWAp program expenditures. Procurement under each EEP will continue to be done making use of local laws, procedures, systems and organizations, subject to the caveats mentioned below and reiterated in the loan agreement. The Capacity Assessment, the State Procurement Assessment Report and a series of earlier Bank loans—including the first SWAp—confirm that the GoC is capable of carrying out procurement satisfactorily for this operation. It is also worth noting that the technical assistance component is supporting a significant procurement reform to strengthen priority areas identified during the self-evaluation of the state's procurement systems through the application of the OECD procurement indicators.

68. A yearly external procurement audit, acceptable to the Bank, will be required to verify compliance with the local law of a sample of procurement processes procured from the pool of EEP funds (see Annex 8).

69. Procurement for the TA component of the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004 and revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised October 2006, as well as the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed under the TA component of the Loan, the procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between

the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually, or as required to reflect the actual project implementation needs and improvements in institutional capacity.

4. SOCIAL

70. It is expected that most project activities under the different SWAp-supported programs will have positive social impacts. The priority programs selected for inclusion in the project will continue the Government's policy of promoting social inclusion, particularly in terms of access to quality services—education, health, WSS—by marginal groups. In pursuing those overall goals, particular attention will be paid to indigenous peoples and resettlement issues, in accordance with Bank standards.

71. Ceará has an indigenous population estimated at 21,015 habitants, or less than 0.5% of the total state population (PNAD-IBGE). Nearly 95% of this population is settled in urban areas (IPECE 2006). Notwithstanding the improvement in per capita income among indigenous households over the last 10 years, nearly half of the indigenous population remains in the lowest income decile. Similarly, the State has improved access to education and health services among the indigenous population, as reflected in increased school attendance and improved access to health services. However, indigenous communities remain among the most vulnerable groups, lagging in terms of both access and quality of public service delivery.

72. The Government's programs in health and education have been shaped by the health sector's Indigenous Health Plan by District, 2008-2010 (*Plano Distrital de Saúde Indígena 2008/2010*), and reports by the Secretary of Education on indigenous issues in the sector. Both were participatory processes, and both are deemed culturally appropriate. However, to minimize and mitigate any potentially adverse social impact, a separate Indigenous People's Framework (*Marco Referencial*) has been drafted by the Borrower to guide any project investments affecting indigenous communities. The principles of the framework are as follows: (i) ensure informed participation and consultation, observing indigenous rights and cultural traditions; (ii) assign a budget to support capacity building aimed at improving access to the project activities; and (iii) monitor and evaluate indicators to track benefits/impacts for indigenous peoples. Regarding WSS activities, the identity of indigenous groups in Ceará will not exclude them from the benefits of WSS service connections.

73. Only very limited involuntary resettlement is expected to occur under the water and sanitation component. Ceará has years of experience in addressing resettlements under the *Sanear II* project and has acquired and built institutional capacity to deal with resettlement and land acquisition. The GoC's existing resettlement framework has been reviewed and deemed acceptable by the Bank. The principles that guide the framework are: (i) to minimize and mitigate potential negative social and economic impacts caused by the project; (ii) to ensure that affected peoples regardless of their tenure condition receive appropriate compensation and/or assistance that provides for the equivalent or superior replacement of assets lost and restoration of livelihoods; (iii) to ensure that affected people are informed about their options and rights, and consulted on the offered choices; (iv) to ensure that a State mechanism is in place for mediation,

conflict resolution and redress; and (v) to prepare a Resettlement Action Plan (RAP), consistent with the provisions of the Bank's policy on resettlement for each subproject that will involve resettlement. Such a plan should be provided to the Bank for approval before subprojects are accepted for Bank financing.

74. The Government has undertaken a process of consultation regarding the programs included in the SWAp II as part of the participatory process for preparing Multi-Year Budget Plan (PPA). In preparing the PPA, government consultations were held with a variety of groups including municipal governments, the private sector, academic institutions, civil society and NGOs, and citizens at large. Considerable information about the consultative forums, participants, the views expressed and resulting content of the budget plans is available at: http://www.seplag.ce.gov.br/content/aplicacao/SEAD/seplan/plano_Plurianual/gerados/2008_2011.asp

75. The GoC has carried out consultations, as well, for the environmental and social frameworks that have been prepared to address safeguards concerns in relation to resettlement and indigenous peoples. The frameworks have been posted on the web with a feedback mechanism in place. The GoC also has held targeted consultations on these frameworks with key stakeholder groups. The team leading the consultations for the Indigenous Process Framework is headed by the Director of Social Studies of IPECE and the Coordinator of Indigenous Education for SEDUC. Both IPECE and SEDUC will work in concert with FUNASA the methodology, messages, and presentation of the project to indigenous participants. Following a consultation among the Kanindé Aratuba, observed by the World Bank in April 2008, it was agreed that subsequent consultations will have two sessions: one devoted to the project presentation and consultations, and a second session where SEDUC and FUNASA can respond to participants concerning other matters of their public services delivery.

5. ENVIRONMENT

76. The proposed project will strengthen public sector policies and improve the quality of primary education, healthcare and sewerage services. For the most part, these investments will not cause any direct or irreversible impact on society or the environment.

77. The major potential environmental impact of this project is related to the improper handling, collection and disposal of hazardous waste produced by hospitals and public healthcare units in Ceará. A state-wide strategy for Health Waste Management has been prepared with support of the SWAp I. That strategy identifies necessary investments to improve waste treatment and disposal, as well a strategy to build the capacity of health and environmental agencies to develop and implement specific waste management plans, especially related to hazardous waste streams. To follow up on the study recommendations, an inter-institutional group has been formed to develop an Action Plan for proper collection and disposal of hospital waste. That Group is led by COPAM, with the participation of other key stakeholders, including the Health Secretariat. The SWAp II will support the implementation of the state-wide Action Plan, especially as it relates to the hospital certification programs directly financed by the loan and help develop a strategy for proper waste disposal.

78. The SWAp II loan will continue supporting the “*Projeto Sanear II*” to increase the number of water and sewerage connections in the state. These investments in basic infrastructure will have a positive long-term environmental impact, but might result in some localized and temporary negatives impacts. The “*Projeto Sanear II*”, partially supported by the IADB, has an environmental framework that was recently reviewed by the World Bank. This framework applied by CAGECE and other involved stakeholders was found satisfactory in addressing the Bank’s environmental safeguard and resettlement issues. This framework will continue to be applied under the SWAp II loan for all activities under the WSS EEP.

6. SAFEGUARD POLICIES

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

79. World Bank safeguards policies apply to the EEP programs as a whole, though specific focus is directed to the project activities in WSS and health, as these appear to present the greatest safeguards risks. The project specifically triggers and addresses the following Bank safeguard policies:

80. **OP/BP 4.01 – Environmental Assessment.** The Project classification is Environment Category B, since no major infrastructure investments will be supported by the program. The environmental and social assessment concluded that the project’s main potential environmental impacts are related to the improper handling, collection and disposal of medical waste, and temporary localized impacts related to basic infrastructure investments. A Health Waste Management Strategy and an Environmental and Social Management Framework have been prepared to address these impacts. In addition, the SWAp II has set aside US\$100,000 with the TA component contingency funds to define activities to strengthen the environmental management departments in the state of Ceará.

81. **OP/BP 4.10 – Indigenous Peoples.** The Project’s Eligible Expenditure Programs (EEP) will include beneficiaries self-identified as indigenous peoples. Thus, a separate Indigenous People’s Framework was developed. The preliminary information considered in the Project design builds upon the *Plan Distrital de Saude Indígena 2008/2010* and the *Secretaria de Educação 2007/2010*. In the EEP for WRM & WSS as well as Business Environment &

Innovation, indigenous peoples may be beneficiaries like any other citizen. There is nothing in their indigenous identity that will exclude them.

82. **OP/BP 4.12 – Involuntary Resettlement.** The basic infrastructure services financed by the project are focused on the expansion and connection of existing households to water and sewerage networks. These investments are not expected to cause physical displacement of people. However, in the event that activities undertaken in the project lead to a need for resettlement, it should be noted that the GoC developed a procedure for involuntary resettlement for the *Projeto Sanear II*, which has been deemed satisfactory to the Bank. This framework will apply under the SWAp II. In the event that a need for involuntary resettlement is identified, the GoC will follow these principles, entitlements and eligibility criteria, arrangements for monitoring and evaluation, and framework for participation.

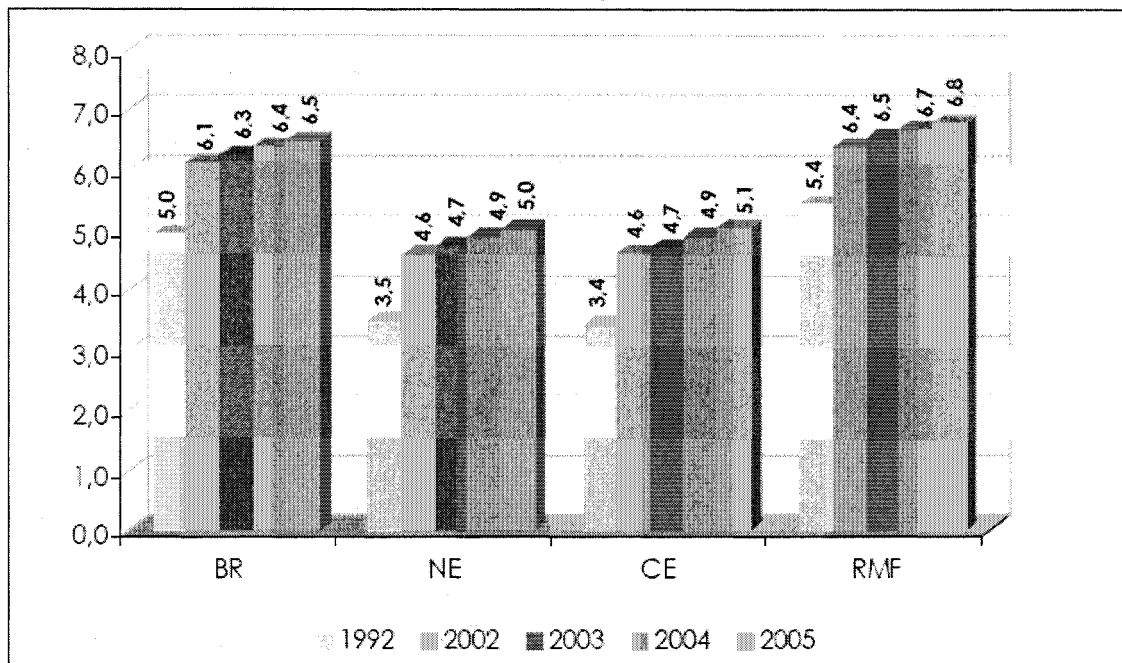
7. POLICY EXCEPTIONS AND READINESS

83. There are no policy exceptions in the proposed Project.

ANNEX 1. STATE AND SECTOR BACKGROUND

1. Ceará, one of the poorest states in Brazil, has made solid progress in improving both economic and social indicators in recent years. Between 1985 and 2006, the state's GDP (currently ranked 15th in Brazil) grew by an accumulated 95.1%, well above the Brazilian average (71.0%). Between 1992 and 2005, the average number of years of schooling per adult in Ceará rose by 50.0%, reaching 5.1 compared to the initial 3.4 years in the beginning of the period, outperforming Northeast's growth rate (42.9%) (see Figure 4). Other social indicators, including infant mortality and life expectancy, also have shown significant improvement over the last two decades.¹⁰

Figure 4: Average Years of Education among Adults, 1992-2005



Note: BR=Brazil; NE=Northeast Brazil; CE=Ceará; RMF=Metropolitan Region of Fortaleza
Source: IBGE/PNAD

2. Notwithstanding this recent progress, the State faces significant challenges. Poverty levels are still unacceptably high in Ceará, as documented above. It is evident that sustaining social inclusion gains and obtaining a substantial reduction in current poverty levels will require more rapid economic growth. Fittingly, the present administration, inaugurated in January 2007, has placed a greater emphasis on “inclusive growth,” while maintaining a commitment to develop further the good public sector management practices adopted by its recent predecessors.

¹⁰ According to IBGE, the infant mortality rate in the State of Ceará was 30.8 per 1,000 births in 2006, down from 35.1 in 2002. The Northeast region showed similar improvement, from 41.4 to 36.9 over the same period. Life expectancy in Ceará rose from 66.9 years in 2002 to 69.9 years in 2006, slightly better than the Northeast region average, which increased from 66.4 to 69.4 over the same period.

FISCAL ANALYSIS OF THE CEARÁ STATE GOVERNMENT, 2003-2007

3. As a result of prudent fiscal management from 2003 to 2007, the Ceará fiscal situation is very healthy. The state government has achieved increasing and substantial positive current savings that have permitted the state to increase public investment and to reduce significantly its indebtedness. Primary balances and net financing were also positive and increasing until 2005. In 2006, given its improved fiscal conditions, the state government promoted a strong expansion of public investment that led to a reduced primary balance (albeit, still positive) and to a small borrowing requirement. In 2007, the new state administration adopted a very tight fiscal stance that increased the operating and primary balances and accelerated the decline in Ceará indebtedness.

4. Ceará's good fiscal performance has resulted from the strong performance of state revenue and the control of current expenses, generating increased operating balances and enhanced fiscal space to recover its investment expenditures. The state's Fiscal Responsibility Law (FRL) indicators improved as a consequence of the strong fiscal discipline. Net consolidated debt, used for compliance with the FRL, fell from 106 percent of net current revenue in 2003 to 41 percent of net current revenue in 2007, well below the legal ceiling for state governments of 200 percent. Meanwhile, personnel expenses as a share of net current revenue fell from 52 percent in 2003 to 50 percent in 2007, below the 60 percent FRL ceiling. Given the high concentration of debt service payments during the period 2003-2006 (which led to the first World Bank SWAp operation with the state), debt service payments to net current revenues have exceeded 15 percent (against the FRL ceiling of 11.5 percent of net current revenue). However, the period of high concentration of debt service flows has ended, and in 2007 this expenditure item fell to 10 percent. Given the disbursements of the aforementioned Bank lending, credit operations were higher than 5 percent of net current revenues, but far below the FRL ceiling of 16 percent.

5. In addition to the Fiscal Responsibility Law requirements, the Ceará government achieved the targets of the Fiscal Adjustment Program (PAF) agreed with the National Treasury Secretariat (STN). Given the good performance of the last year and the reduction of its indebtedness ratio, the STN authorized the state to contract new credit operations for the period 2007-09.

6. To maintain its sound fiscal position, Ceará will need to maintain the high performance of its own revenue collection and of the federal transfers to the state. As revenue collection depends on state economic activity, and transfers depend on national economic prospects, the favorable fiscal trends will depend on the sustained growth of the state and national economies. The strong dependence of state revenues on federal transfers suggests the need for further improvements in the state's own revenue collection capacity. On the expenditure side, to maintain positive fiscal balances while enhancing the state's fiscal space for investment, Ceará will need to maintain the strict control on personnel expenditures that could otherwise undermine Ceará's financial situation.

7. The fiscal analysis presented here is divided into three sections. The first describes the evolution of fiscal balances and fiscal revenues and expenditures for the period 2003-07. The second analyzes the evolution and composition of the State debt. The third section recounts the evolution of the main Fiscal Responsibility Law indicators in Ceará, and compliance with the legal ceilings and targets of the PAF agreement with the STN.

A. CEARÁ STATE GOVERNMENT FINANCES, 2003-2007

A.1 FISCAL BALANCES

8. The Ceará state government has increased its current fiscal balance surpluses from 14 percent of net current revenues in 2003 to 25 percent in 2007 (see Figure 5). From 2003 to 2005 the State carried out a strong fiscal adjustment: primary balances were positive and robust and borrowing requirements declined sharply (see Table 12). The strong adjustment in 2003 to 2005 allowed the GoC to recover its capacity for investment expenditures, which explains the reduction of the primary balance and the increased borrowing requirements in 2006. Since 2005 Ceará is generating positive total balances, despite the increase of debt amortization payments. The recovery of credit operations (the World Bank SWAp I loan was the most relevant lending operation during the period) and the sale of assets in 2006 (including the state Bank) allowed the State to pay down its debt while recovering its investment capacity. After the fiscal expansion of 2006, in 2007, the new state administration maintained a very sound fiscal policy which resulted in robust fiscal balances.

Figure 5: Ceará Fiscal Balances, 2003-2007

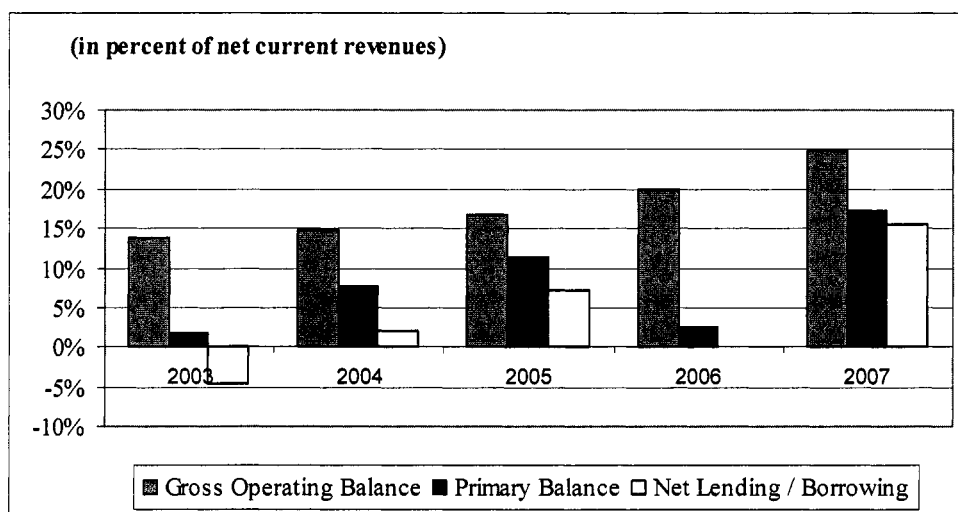


Table 12: Ceará Government - Fiscal Balances, 2003-2007

	Millions of 2006 Reais (*)				
	2003	2004	2005	2006	2007
I. REVENUE	5,789	6,009	6,413	7,212	8,996
Taxes	3,168	3,332	3,345	3,853	3,990
Social Contributions	5	2	2	3	620
Transfers	2,266	2,365	2,812	3,049	4,039
Other Revenues	350	310	254	307	347
of which: interest received	44	22	45	75	101
II. EXPENDITURES	5,103	5,261	5,500	6,016	7,429
Compensation of Employees	1,859	1,888	1,946	2,490	3,485
Goods and Services	772	944	1,057	1,179	1,345
Interest Payments (paid)	358	305	266	229	213
Transfers to Municipalities	1,413	1,448	1,506	1,726	1,904
Pensions	700	675	726	392	482
III. CURRENT FISCAL BALANCE (I - II)	687	748	913	1,196	1,567
IV. TRANSACT. IN NON FINANCIAL ASSETS - INVESTMENT	912	647	516	1,197	592
V. NET LENDING / BORROWING (III-IV)	(225)	101	397	(1)	975
VI. PRIMARY BALANCE (V + Interest Payments (net))	90	385	618	153	1,087
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES	(29)	(163)	(169)	35	(183)
New Loans	321	266	276	577	218
Loan Amortizations net	(461)	(430)	(447)	(941)	(401)
Asset sales	112	1	2	399	-
TOTAL BALANCE	(254)	(62)	228	33	792
<i>Memo Items:</i>					
<i>Net Current Revenue</i>	<i>4,938</i>	<i>5,054</i>	<i>5,471</i>	<i>6,033</i>	<i>6,278</i>
<i>Current fiscal balance / NCR</i>	<i>13.9%</i>	<i>14.8%</i>	<i>16.7%</i>	<i>19.8%</i>	<i>25.0%</i>
<i>Primary /NCR</i>	<i>1.8%</i>	<i>7.6%</i>	<i>11.3%</i>	<i>2.5%</i>	<i>17.3%</i>
<i>Net Lending /NCR</i>	<i>-4.6%</i>	<i>2.0%</i>	<i>7.3%</i>	<i>0.0%</i>	<i>15.5%</i>

(*) Deflated by the Consumer Price Index IPCA

A.2 EVOLUTION OF FISCAL REVENUES, 2003-2007

9. The revenue performance of Ceará has been critical for maintaining the state's prudent fiscal stance. The accumulated growth of state revenues during 2003-2007 achieved 55 percent

in real terms (see Table 13). It is important to remark that in 2007, state revenues experienced an impressive growth led by the strong increase in federal transfers.¹¹ Tax revenues, the most important revenue item, grew 22 percent during the same period. The strong revenue growth was helped by a recovery in the level of economic activity, but it is also attributable, in part, to improvements in tax collection efficiency. Ceará adopted programs to enhance the efficiency of the state revenue service, with investment in infrastructure, software, logistics, and modernization of administrative process. These efforts have been successful, as the tax revenue collection figures show.

Table 13: Ceará State Government - Revenue Structure, 2003-2007

	R\$ millions of 2006 (*)				
	2003	2004	2005	2006	2007
Revenue	5.789	6.009	6.413	7.212	8.996
I. Tax Revenue	3.168	3.332	3.345	3.853	3.990
State VAT (ICMS)	3.032	3.194	3.195	3.674	3.701
Vehicle Property Tax	123	129	140	160	186
Other	13	8	10	19	103
II. Social Security Contributions	5	2	2	3	620
III. Other Current Revenues	350	310	254	307	347
Non Financial Asset Revenues	1	1	1	1	0
Interest	44	22	45	75	101
Miscellaneous Revenues	306	288	208	231	246
IV. Transfers	2.266	2.365	2.812	3.049	4.039
Memo items:					
Deductions	852	955	942	1.179	2.718
Net Current Revenue	4.938	5.054	5.471	6.033	6.278

(*) Deflated by the Consumer Price Index IPCA

10. Current transfers from the federal government also grew robustly (70%) from 2003-2007. The State Participation Fund (FPE – *Fundo de Participação Estadual*) grew by 45 percent, while the transfer corresponding to the Income Tax of state public servants had an accumulated growth of 50 percent. Finally, other federal transfers grew by 160 percent. Most of the increase resulted from the CIDE transfer created in 2004¹². Meanwhile, Social Security contributions and other

¹¹ The inclusion of the social security fund of state employees in the state accounts also contributed to the increase in state revenues in 2007. On the other side of the balance sheet, social security benefits and pensions paid by the fund were also included in the state expenditure accounts.

¹² CIDE (*Contribuição de Intervenção no Domínio Econômico*) is an economic contribution charged on commercialization and importation of oil and its derivatives, natural gas and its derivatives, and alcohol. It was created in 2001 (Constitutional Amendment No. 33, 2001) and the revenue has been shared with states and municipalities since 2004.

current revenues—which include interest income, rents, service charges, and other miscellaneous sources—grew by 170 percent during this period (see footnote 11).

11. Overall, given the better performance of federal transfers when compared to the growth in own tax revenues and other current revenues, the state's financial dependence on transferred resources has increased. In 2003, federal transfers represented 39 percent of state revenue while in 2006 they reached 45 percent (see Table 13). In summary, the composition of current revenues continues to pose an important fiscal risk: reductions in intergovernmental transfers would have a sizeable negative impact on Ceará's fiscal situation. The further enhancement of own tax collection efficiency would play an important role in reducing the financial dependence on federal transfers, and the associated fiscal risk.

A.3 EVOLUTION OF EXPENDITURES, 2003-2007

12. Ceará's sound fiscal performance was also based on the control of state expenditures. From 2003 to 2007, total expenditures increased by 45 percent at constant prices. Personnel expenditures (the most important expenditure category) represent 35 percent of total state total expenses, and had a real increase of 87 percent over this period (see Figure 6). Personnel expenditure includes wages and salaries for active personnel, social contributions, and pensions to retired personnel. Wages and salaries increased by 21 percent while social contributions and pensions grew by 120 percent.¹³ The control of active personnel expenditures allowed the state to reduce the Fiscal Responsibility Law indicator of personnel expenditure on net current expenditures from 52 percent in 2003 to 50 percent in 2007, thus meeting the Fiscal Responsibility Law requirement for this item.

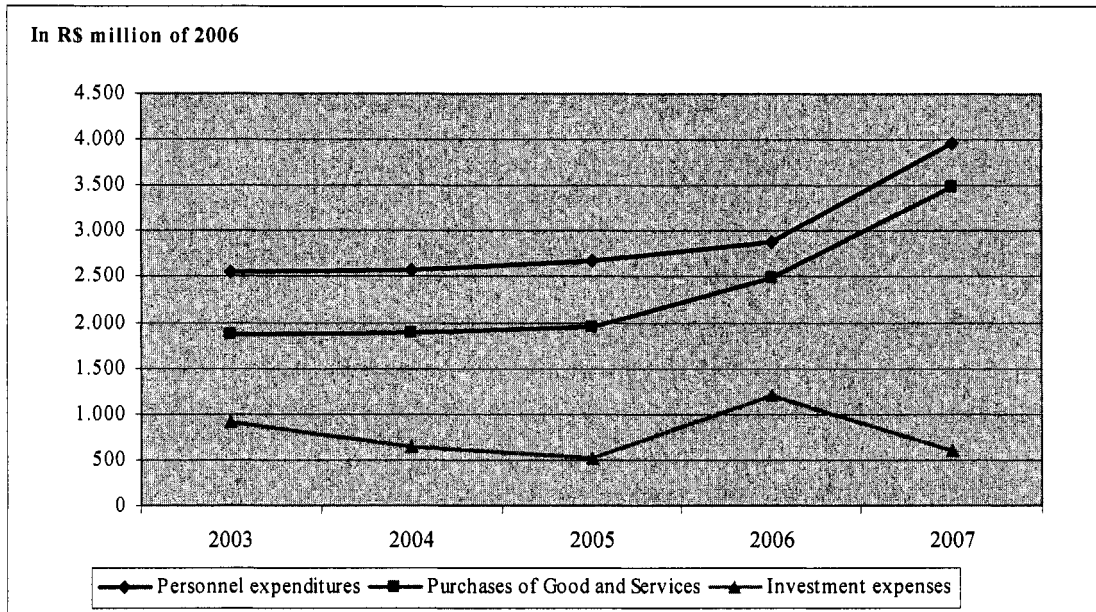
13. The second most important component of current expenditures corresponds to operating expenses, which include purchases of goods and services, as well as operations and maintenance. In contrast to personnel expenses, the growth of these expenditures was significant (74 percent at constant prices since 2003) and needs closer attention given their growth trend.

14. Constitutional transfers to municipalities increased by 21 percent from 2003 to 2006. The transfers to municipalities are determined by the Constitution in such a way that any tax revenue increase translates into equivalent increases in transfers to municipal governments. Therefore, the increase on transfers to municipalities reflects the good performance of state tax revenue. Interest payments on the state debt have been reduced in constant prices by 36 percent.

15. On the capital expenditure side, after a sharp decrease in investment expenditure in 2004 and 2005, the GoC strongly increased its investment expenditure in 2006. That year, investment expenses reached R\$ 1.2 billion, equal to 20 percent of the state's net current revenue.

¹³ Again, it is important to not that the large increase in social contributions and pensions resulted from the inclusion of the social security fund of state employees in the state accounts.

Figure 6: Ceará's Composition of Expenditures, 2003-2007



16. In summary, the evolution of the different expenditure categories shows a very positive evolution of the level and composition of Ceará's expenditures (see Table 14). The strict control of current expenditures and the strong revenue increase allowed the state to increase the space for investment expenditures. The share of investment in total expenditure increased from less than 10 percent in 2004/05 to 17 percent in 2006. Over time, the increase in public investment should allow the state to overcome infrastructure bottlenecks that have constrained its economic growth, and thus improve the state's debt sustainability.

Table 14: Ceará State Government - Expenditure Structure, 2003-2007

	Millions of 2006 Reais(*)				
	2003	2004	2005	2006	2007
Total Expenditure	6.015	5.908	6.016	7.213	8.021
Current Expenditure	5.103	5.261	5.500	6.016	7.429
Personnel Expenditures	2.559	2.564	2.672	2.882	3.485
Wages and Salaries	1,722	1,761	1,806	1,968	2.091
Social Contributions and pensions	837	803	866	914	1.394
Interest Payments	358	305	266	229	213
Transfers	1,413	1,448	1,506	1,726	1.904
Goods and Services	772	944	1.057	1.179	1.345
Pensions	700	675	726	392	482
Transactions in Non Financial Assets - Investment	912	647	516	1,197	592
Net Acquisition of Non-Financial Assets	533	549	420	1,051	569
Other Investment in Assets	379	98	96	146	23
<i>Memo Items:</i>					
<i>Net Current Revenue</i>	<i>4,938</i>	<i>5,054</i>	<i>5,471</i>	<i>6,033</i>	<i>6,278</i>
<i>Personnel Expenditure (FRL)</i>	<i>2,559</i>	<i>2,564</i>	<i>2,672</i>	<i>2,882</i>	<i>3.258</i>
<i>Personnel Expenditure / Net Current Revenue</i>	<i>52%</i>	<i>51%</i>	<i>49%</i>	<i>48%</i>	<i>50%</i>
<i>Fiscal Responsibility Law Ceiling: 60%</i>					
<i>Debt Service (Interest Payments + Debt Amortization)</i>	<i>819</i>	<i>735</i>	<i>713</i>	<i>1.170</i>	<i>615</i>
<i>Debt Services / Net Current Revenue</i>	<i>17%</i>	<i>15%</i>	<i>13%</i>	<i>19%</i>	<i>10%</i>
<i>Fiscal Responsibility Law Ceiling: 11,5%</i>					

(*) Deflated by the Consumer Price Index IPCA

B. EVOLUTION OF CONSOLIDATED DEBT, 2003-2007

17. From 2003 to 2007 the GoC was able to reduce its indebtedness. As a result of tight fiscal policy during the period, Ceará's consolidated debt decreased by 35 percent at constant prices, while the net consolidated debt—used for compliance of the Fiscal Responsibility Law—decreased by more than 50 percent during this period¹⁴ (see Table 15). As net current revenue grew by 22 percent from 2003 to 2006, net consolidated debt fell from 104 percent of net current revenue in 2003 to 41 percent in 2007, well below the ceiling of 200 percent established by the Fiscal Responsibility Law. The fall of net consolidated debt and the increase of net current revenue resulted in a strong expansion of the state's indebtedness capacity.

¹⁴ It is important to stand out that during this period the federal government, through the National Monetary Council, imposed controls for public sector credit supply, which restricted the space for new credit operations with government owned banks, the most important source of public sector credit supply.

18. As for the composition of state debt, while domestic debt decreased by 32 percent, external debt fell by 21 percent from 2003 to 2006. The reduction in domestic debt was brought about primarily by a sharp decline in the state's debt with the Federal Government. This decline had two main causes. First, the index used to correct the debt stock, the General Price Index (IGP), exhibited a modest increase since 2002, which limited the correction of the state debt stock. Second, and more significant, the state began to pay down its debt with the National Treasury Secretariat (STN).¹⁵

Table 15: Ceará State Government - Consolidated Debt, 2003 – 2007

	(*) Millions of 2006 Reais				
	2003	2004	2005	2006	2007
Consolidated Debt	5,217	4,915	4,381	3,747	3,555
Domestic	3,358	3,142	2,904	2,282	n.a
Federal Government	3,271	3,026	2,531	2,072	n.a
National Treasury	2,779	2,570	2,164	1,663	n.a
Federal Banks	491	456	367	409	n.a
Other debts	88	116	373	210	362
Financial obligations recognized by the courts (<i>precatórios</i>)	88	116	150	177	187
Other	0	0	223	33	175
External	1,859	1,773	1,477	1,465	n.a
Deductions	-76	49	158	264	965
Financial Assets	93	204	330	439	1244
Floating Debt (-)	169	155	172	175	279
Net Consolidated Debt	4.383	4.464	4.094	3.483	2,590
<i>Memo Items:</i>					
<i>Net Current Revenue</i>	<i>4,938</i>	<i>5,054</i>	<i>5,471</i>	<i>6,033</i>	<i>6,278</i>
<i>Net Consolidated Debt / Net Current Revenue</i>	<i>104</i>	<i>96</i>	<i>77</i>	<i>58</i>	<i>41</i>
<i>Fiscal Responsibility Law ceiling: 200%</i>					
(*) Deflated by the Consumer Price Index IPCA					

19. Debt with other federal financial institutions also fell (17 percent), while unpaid government financial obligations recognized by the courts (the so-called *precatórios*) moved in the opposite direction, increasing by 40 percent. Exchange rate appreciation and a few new external credit operations were responsible for the 21 percent fall of state external debt.

20. The Government has been able to accumulate assets and maintain floating debt at low levels, thus contributing to a significant reduction of state indebtedness.

¹⁵ Disaggregated information for debt figures in 2007 is not available.

C. COMPLIANCE WITH THE FISCAL RESPONSIBILITY LAW

21. From 2003 to 2007 the GoC met most of the key Fiscal Responsibility Law indicator requirements (see Table 16). The good fiscal performance described in the previous sections, and the large increase of net current revenue, led to a generalized improvement. The ratio of personnel expenditures to net current revenue—which under the Fiscal Responsibility Law should be below 60 percent—declined from 52 percent in 2003 to 50 percent in 2007. Good revenue performance and favorable debt dynamics led to a drop in the indebtedness indicator from 106 percent to 41 percent, indicating ample borrowing capacity.

22. Credit operations as a proportion of net current revenue were well below the legally-imposed limit of 16 percent. The only FRL limit that Ceará failed to comply with is the ratio of debt service payments to net current revenue (which varied around 15 percent during this period). However, the period of debt payment concentration has ended, and in 2007 Ceará debt service flows represented 10 percent of net current revenues, already below the FRL limit. The positive implication of the high debt service is that the state has accelerated its repayments, as most of the debt service corresponds to amortization.

Table 16: Ceará State Government - Fiscal Responsibility Law limits, 2003-2006

	2003	2004	2005	2006	2007
Net Current Revenue	4,938	5,054	5,471	6,033	6,278
Credit Operations	321	266	276	577	218
% Net Current Revenue	6.5%	5.3%	5.0%	9.6%	3.4%
Net consolidated Debt	4,383	4,464	4,094	3,483	2,404
% Net Current Revenue	104%	96%	77%	58%	
Debt Service	819	802	735	1,170	6.15
% Net Current Revenue	17%	16%	13%	19%	10%
Personnel Expenditures	2,559	2,564	2,672	2,882	3258
% Net Current Revenue	52%	51%	49%	48%	50%

(*) Deflated by the Consumer Price Index IPCA

23. In addition to its FRL performance, the State has been able to meet fiscal targets defined in the rolling three-year Fiscal Adjustment Programs (PAFs) negotiated with the National Treasury Secretariat (which are part of the debt renegotiation contract signed in 1997).¹⁶ In sum, the fiscal accounts of Ceará are on a sustainable path, indicating a substantial capacity for debt repayment.

16 The FAP agreed with 25 state governments under the Debt Restructuring Program was an additional tool used by the Federal Government to reinforce fiscal discipline for subnational governments. The achievement of the targets facilitates new credit operations by the states.

24. Notwithstanding this progress, the State is still saddled with an adverse debt repayment schedule, as can be seen in the graph below. The concentration of debt repayments—especially over the next three years—constitutes a significant impediment to increasing state investments necessary to implement the administration’s development agenda. Ceara’s overall relatively low indebtedness level allows it to use the space permitted under the Fiscal Responsibility Law to access credit. This, in turn, will enable the GoC to implement its development agenda, pursue structural and institutional reforms, and at the same time meet its short-term financial obligations (see Figure 3 above).

GOVERNMENT OF CEARÁ PERFORMANCE UNDER SWAP I

25. The following Table 17 summarizes GoC performance as measured against the APL #2 triggers included in the SWAp I.

Table 17: Government of Ceará performance against APL triggers

Sector	APL #2 Triggers	Comments
Public Sector Management	1. Maintain debt/net current revenue ratio at 1.5 or lower	Results registered in December of each year: 2003=1.06, 2004=1.08, 2005=0.87, 2006=0.62
	2. Begin operations of the Fiscal and Results-Based Management Committee (COGERF), charged with short- and medium-term fiscal and financial planning and management	COGERF was established by decree in 2004 (<i>Diário Oficial do Estado</i> (DOE), 09/08/2004). The Committee has met regularly, producing official <i>actas</i> or Deliberations that are duly sent to the relevant secretaries.
	3. Implement centralized, results-based performance management cycle for key Secretaries	Sector results indicators are being monitored by SIAP (<i>Sistema de Acompanhamento de Programas</i>). Under the SWAp II, performance reports will be submitted by each Secretary.
	4. Improve External Audit (TCE) compliance with legal deadlines for issuing judgments on public administrators’ accounts (<i>contas de gestão</i>) and reduce the backlog	The indicator for the reduction of the backlog (no. of <i>contas vencidas</i>) has been reduced to 25 percent.
Education	5. Resolve outstanding State/ municipal coordination problems concerning fiscal and regulatory issues deriving from school decentralization	SEDUC established a <i>Coordenadoria de Articulação com os Municípios</i> . “Shared Management Agreements” have been created to oversee ceding of buildings and employees between the State and various municipalities, based in specific legislation (<i>Regime de Colaboração</i>). All 184 Ceará municipalities have signed a Protocol of Intention to participate in the <i>Regime de Colaboração</i> . In 2007 SEDUC continued this collaborative practice, creating a Unit for Municipal Coordination and Collaboration (<i>Coordenadoria de Cooperação com os Municípios</i>) and signing additional agreements to cede infrastructure and employees to municipalities, as well as to share responsibility for school transport.

Sector	APL #2 Triggers	Comments
	6. Improve state expenditure efficiency through semi-annual expenditure reviews, system training and reporting	To systematically monitor public expenditure in education at the school, regional, and central levels, SEDUC developed the SADRE system (<i>Sistema de Acompanhamento do Desenvolvimento da Rotina Escolar</i>). Teams from SEDUC, CREDEs and schools were trained in the new system in 2005 and 2006; all schools now register their students in SADRE. Expenditure goals were set for 2005, by category and administrative unit (e.g., water, electricity, telephone). SEDUC plans to send monthly reports at the level of individual schools, beginning in 2008.
Health	7. Implement performance contracts between the Secretary of Health's regional bodies (CERES) and 30 regional hospitals in 2005 and 2006	As of June 2007, 32 regional hospitals had signed a <i>Termo de Compromisso</i> with SESA.
	8. Implement Performance contracts between SESA and municipalities (49 in 2005; and 64 in 2006)	122 <i>Termos de Compromisso</i> were signed in 2006.
	9. Implement Regional Health Regulatory Centers (<i>Células Regionais de Saúde</i>) with M&E and audit functions in 3 micro-regions in 2005, plus 6 in 2006	Three Centers were established in 2005 (Fortaleza, Juazeiro do Norte, and Sobral). One more was established in 2006 (Baturité). The remaining ones are still under development. As of June 2007 personnel selection procedures still had to be completed to fill the need for certain professional categories required for the proper operation of the Centers.
Social Inclusion and Culture	10. Rehabilitation of a multi-site historic and cultural corridor in the center of Fortaleza	Not done.
Water resource management (WRM)	11. Create new Water Basin Committees (2 in 2005, and a third in 2006)	One created in 2005 (Acarau) and two in 2006 (Coreau and Litoral)
	12. Water Basin Committees officially included in the State Water Resources Council (CONERH)	A provision to include Water Basin Committees in CONERH is contained in a draft law that was sent to the legislative assembly.
Water Supply and Sanitation (WSS)	13. ARCE to develop a reformed regulatory accounting system to be implemented by CAGECE	Technical assistance support was contracted to develop a regulatory accounting framework for the sector in Ceará, based on existing norms. The final report was delivered in December 2007.
	14. Implement recommendations of a tariff and subsidy study	A study of tariffs and subsidies was initiated in 2007, with contributions from ARCE, SEINFRA and IPECE. The conclusion of the study (and recommendations) are expected in 2008.
	15. Submit a new WSS law to the State Legislative Assembly.	A draft law was prepared by SEINFRA in 2006 and sent to the <i>Procuradoria Geral do Estado</i> for final drafting. However, this was overtaken by events when a Federal Sanitation Law (Lei 11.445/2007) was approved in January

Sector	APL #2 Triggers	Comments
		2007. That law is still awaiting regulation by decree. ARCE revised the draft law and sent it to the <i>Secretaria das Cidades</i> in November 2007.
Environment	16. Implement coastal management in the East Coast and Metropolitan regions	The state's 573 Km coastline (covering 33 municipalities) was divided into 4 sectors: Costa Leste (S-1), Fortaleza e Região Metropolitana (S-2), Costa Oeste (S-3) e Costa Extremo Oeste (S-4). Completed activities include: i) Macro-zoning and Socio-environmental Diagnostic of S-1 and S-3; ii) Macro-zoning of coastline; iii) production of maps; iii) preliminary management plans for S-1 and S-3; iv) cooperation agreements signed with mayors; and v) implementation of ORLA Project (Of the 20 municipalities with <i>orla</i> , 3 have developed plans. These are Fortaleza, Icapui, and Beberibe. Five more are expected to be completed in 2008, and 12 in 2009.)
	17. A reformed environmental law submitted to the Legislative Assembly	Law nº 13.796 was published on June 30, 2006, instituting a State Policy for Coastal Management and a State Plan for Coastal Management. The implementing decree for this law was under discussion in 2007 through various public forums.

ANNEX 2. MAJOR RELATED PROJECTS FINANCED BY THE BANK AND/OR OTHER AGENCIES

Projects Financed by the World Bank

Project name	Project number	Amount (mil. USD)	OED/IP/DO Ratings	Sector issue	Status
BR - Ceará Basic Education Quality Improvement	P059566	90	IP-U DO-U	Education	Active
BR - Ceará Multi-sector Social Includ Dev	P082142	149.8	IP-S DO-S	Public Sector Management	Active
BR - Ceará Rural Poverty	P038884	70	IP-S DO-HS	Agriculture and Rural Development	Closed (06/30/2001)
BR - Ceará Rural Poverty Reduction Project	P050875	37.5	IP-S DO-S	Agriculture and Rural Development	Active
BR - Ceará Urban Development and Water resource management	P006436	140	OED-N/A	Public administration, water, sanitation, and flood protection	Closed (12/31/2003)
BR - Ceará Water Pilot (SIM)	P046052	9.6	OED-S	Agriculture and Rural Development	Closed (N/A)
BR - Ceará WTR MGT PROGERIRH SIM	P006449	136	IP-MS DO-S	Environment	Active
BR - Bahia Devt. (Health)	P054119	30.0	IP-MS DO-MS	Health, Nutrition and Population	Active
BR - Bahia Municipal Development	P006562	100.0	IP-S DO-S	Urban Development	Active
BR - Bahia Water Resources	P035728	51.0	IP-HS DO-S	Water	Closed (09/30/2005)
BR - Bolsa Familia APL 1	P087713	572.2	IP-S DO-S	Social Protection	Active
BR - Disease Surveillance and Control (VIGISUS) APL 2	P043874	100.0	IP-S DO-S	Health, Nutrition and Population	Closed (06/30/2004)
BR - Salvador Urban Transp.	P048869	150.0	IP-U DO-S	Urban Development	Closed (12/31/2007)
BR - Sustainable Communities (Amapa)	P076924	4.9	IP-MU DO-MU	Environment	Active
BR - Tocantins Sustainable Regional Development	P060573	60.0	IP-MS DO-MS	Transport	Active
BR - 2nd APL Bahia Dev. Education Project	P070827	60.0	IP-S DO-S	Education	Closed (06/30/2007)

Projects Financed by other Agencies

Project Name	Amount (USD mil.)	Financier	Sector/issue	Status
Ceará Sanitation Program (BR-0324)	166.7	IDB	WSS	Approved Nov. 26,2003
Second Roads Program for the State of Ceará (1019/OC-BR)	230.0	IDB	Transport	Approved July 2, 1997
Increase access to contraceptive methods and integrated family planning services in order to improve women's reproductive health (512-SO02)	4.6	USAID	Health	Closed
Reduced Rates of HIV in Two Geographic Regions (512-SO02)	2.6	USAID	Health	Closed
Environmentally and socio-economically sustainable alternatives for sound land use adopted beyond target areas (512-SO03)	5.0	USAID	Environment	Closed
Biomass Integrated Gasification / Gas Turbine Project	8.1	UNDP	Environment	Closed
Biomass Power Generation: Sugar Cane Bagasse and Trash	6.5	UNDP	Environment	Closed
PROARES - Support to Social Reforms for Children and Teenagers Program	42.0	IADB	Social development	Active
CEARÁ II - State of Ceará Social Integration Highway Program	115.0	IADB	Transport	Active
State of Ceará Road Recovery Program	69.0	IADB	Transport	Closed
State of Ceará Road Recovery Program	20.7	IADB	Transport	Closed
Basic Infrastructure Project - Fortaleza Sanitation	159.3	IADB	Basic infrastructure	Closed
Basic Infrastructure Project - Fortaleza Sanitation	39.9	IADB	Basic infrastructure	Closed
Ceará Wind Energy Mill Project	45.3	JBIC	Wind energy	N/A
Ceará Wind Energy Mill Project	6.8	JBIC	Wind energy	Active
Costs of Basic Sanitation Work for CAGECE	15.0	KFW	Sanitation	Active
Ceará Basic Sanitation Program	8.7	KFW	Sanitation	N/A
Improvement of Public Universities Facilities	16.3	MLW	Higher education	Active

ANNEX 3. RESULTS FRAMEWORK AND MONITORING

PDO	Outcome Indicators	Use of Outcome Information
<ul style="list-style-type: none"> • Help the Government of Ceará to improve its fiscal situation • Strengthen results-based management • Promote better service quality in education (particularly early-childhood literacy) and health • Improve access to water and sewerage services, and improve the efficiency of the government autarchies with responsibility for water quality and delivery • Reduce barriers to business investment 	<ul style="list-style-type: none"> • Current fiscal balance • Tax concentration • Use of information from “Output-Results Reports” and annual Secretary Performance Reports in the budget process • Literacy rates for school children in 2nd grade • Number of Family Health Teams with improved quality rating • Number of professionally-licensed hospitals • Hospitals with efficiency cost reductions documented through standardized cost-accounting systems • Water company financial capacity for sector investments • WSS connections • Business environment perceptions and (possible) increase in private investment 	<ul style="list-style-type: none"> • Orient fiscal surpluses to productive investment • Improve oversight of the efficiency and effectiveness of public spending • Evaluate the effectiveness of early-childhood literacy programs, and make changes as necessary • Develop quality measures for healthcare provision, as a means for social accountability and identifying resource allocation needs • Ensure that the water companies are financially sound and able to invest in expanding service infrastructure • Promote Ceará as a competitive environment for greater private sector investment—particularly outside the state capital

Intermediate Indicators for Each Component	Results Indicators for Each Component*	Use of Results Monitoring
Sector 1: Public Sector Management		
Fiscal position of the state	1. Current fiscal balance 2. Tax concentration index	Revise fiscal management, if necessary
Results-based management mainstreamed in budget process	1. Annual results-based management reports by Secretariats, validated by SEPLAG and COGERF 2. "Output-Results Reports" of priority PPA programs	Inform decision-making regarding main GoC programs and Secretaries' performance & budgeting
Sector 2: Education		
Quality of education	1. Implementation of multi-grade, annual state-wide student testing 2. Literacy rates of children in second grade	Inform learning programs and identify needs for grade level interventions
Sector 3: Health		
Quality and efficiency of healthcare service providers	1. Quality certification of Family Health Teams 2. Number of hospitals with ANVISA/ONA certification 3. Number of hospitals with standardized cost-accounting systems	Benchmark healthcare performance and allocate resources
Sector 4: Water resource management & Water Supply and Sanitation		
Access to water and sanitation services	1. Number of WSS connections	Lags in WSS coverage must be rectified
Financial performance of water companies	1. Billing rate for distributed bulk water 2. Share of "unaccounted for water" (UFW) in CAGECE	Financial indicators provide evidence of fiscal health and potential improvement for water companies
Sector 5: Business Environment & Innovation		
Firms evaluating positively the ease of doing business in the state	1. Time required to register a business (CGF) 2. Number of citizens living in municipalities with access to broadband internet	Year 2-3 surveys will give indicate perceptions of the investment climate and relative ease of doing business in the state, plus the need to incorporate additional reforms to spur greater private investment

* Note: Baseline values and method of calculation are shown in the Results Monitoring matrix below.

ARRANGEMENTS FOR RESULTS MONITORING

Disbursement indicators	Description / Calculation Protocol	Baseline	Target Values				Data Source/ Deadline (Deadline for submission to UGP)
			2008	2009	2010	2011	
Sector 1: Public Sector Management (Fiscal)							
Current fiscal balance	$= \frac{\text{Current Revenues}}{\text{Expenditures}} \text{ minus Current}$	R\$1.296 M	R\$1.074 M	R\$1.146 M	R\$1.219 M	R\$1.293 M	SEFAZ (April)
Tax Concentration Index (Herfindahl Index)	$\sum_i \left(\frac{ICMS_i}{ICMS_T} \right)^2$ (NB: fuels, energy and communications taxes combined in a single sector)	0.312	< 0.35	< 0.35	< 0.35	< 0.35	SEFAZ (April)
Sector 1: Public Sector Management (results-based management)							
Secretariats with annual results-based management performance reports	Number of annual reports presented to SEPLAG by March 31, validated by SEPLAG/COGERF and posted on the Web <i>The characteristics of these Sectoral Performance Reports are detailed in Box 1 below.</i>	0	5	8	11	15	SEPLAG (April)
“Output-Result” Reports (ORR) of priority PPA programs selected by COGERF	Number of ORR presented each year by SEPLAG/IPECE, validated by COGERF and posted on the Web <i>The characteristics of these Output-Result Reports are detailed in Box 2 below.</i>	0	1	3	5	7	SEPLAG/IPECE (April)

Disbursement indicators	Description / Calculation Protocol	Baseline	Target Values				Data Source/ (Deadline for submission to UGP)
			2008	2009	2010	2011	
Sector 2: Education							
State exams of student learning in 2nd, 5th, 9th & 12 th grades	External exam results processed and publicly reported at the level of individual schools <i>Results are published on SEDUC website and disseminated physically to the schools, along with a report of best practices prepared by SEDUC.</i>	Four exams applied in 2 nd , 5 th , 9 th & 12 grades	Four exams applied in at least 90% of schools; results disseminated	Four exams applied in at least 90% of schools; results disseminated	Four exams applied in at least 90% of schools; results disseminated	Four exams applied in at least 90% of schools; results disseminated	SEDUC (April)
Municipalities with the child literacy program (<i>Alfabetização na Idade Certa</i>) operational	An "operational program" is defined as: (a) municipal program manager appointed; (b) didactic materials delivered to municipal schools; and (c) municipality has a system in place to evaluate the program impact, including the results of the 2 nd grade exam referenced above; compliance with "c" is required to receive state funding.	--	>70% of munic. with (a) & (b)	>70% of munic. with (a) & (b); >40% of munic. with operational program funding	>75% of munic. with (a) & (b); >50% of munic. with operational program	>80% of munic. with (a) & (b); >60% of munic. with operational program	SEDUC (April)

Disbursement indicators	Description / Calculation Protocol	Baseline	Target Values				Data Source/ Deadline (Deadline for submission to UGP)
			2008	2009	2010	2011	
Sector 3: Health							
Number of PSF/AB teams classified in the AMQ quality ranking system, plus evidence of quality improvement in these teams	<p>Number of AMQ-classified PSF Teams as a percent of total number of PSF Teams.</p> <p>The Quality Improvement Evaluation (<i>Avaliação para Melhoria da Qualidade</i> – AMQ) examines: 1) management and local healthcare coordination; and 2) Family Health Teams. The targets for this indicator are based on the latter. Family Health Teams can be classified in one of 5 quality categories:</p> <ul style="list-style-type: none"> E – Elementary Quality D – Quality in Development C – Quality Consolidated B – Good Quality A – Advanced Quality <p>The State oversees the application of this national evaluation instrument, while municipalities are responsible for providing the required data.</p> <p><i>Evidence of “improvement” is defined as an increase of at least one level from one evaluation period to the next.</i></p> <p><i>According to the AMQ program, PSF teams should be assessed at least every 18 months, and this may consist of a self-assessment. However, the assessments counted here must be overseen by a third party (SESA).</i></p>	--	>15% of PSAF/AB teams classified	>20% of PSAF/AB teams classified	>25% of PSAF/AB teams classified; >25% of the teams previously classified improve their AMQ ranking	>30% of PSAF/AB teams classified; >30% of the teams previously classified improve their AMQ ranking	AMQ National System of Licensing (April)

Disbursement indicators	Description / Calculation Protocol	Baseline	Target Values				Data Source/ (Deadline for submission to UGP)
			2008	2009	2010	2011	
Number of main hospitals (<i>hospitais polo</i>) licensed according to ANVISA norms	Hospitals licensed in accordance with Federal Law N° 6.437/1977, which mandates that all healthcare facilities operate with an "Alvará Sanitário." Also, in 2001 at least one hospital ONA certified. <i>The ONA is a national accreditation body. The ONA certification has 3 levels. It is valid for 2 years.</i>	6	8	10	12	SESA (April)	
Number of main hospitals (<i>hospitais polo</i>) with annual standardized cost accounting	Hospitals submitting annual cost reports to SESA. <i>Cost reporting system must report, at a minimum, to the level of hospital department (cost center), and preferably to the level of procedure type.</i>	2	5	15	15	SESA (February)	
Sector 4: Water resource management & Water Supply and Sanitation							
Percent of invoicing for Gross Water distributed	$= \frac{VF_{IN} + VF_{IRRIG} + VF_{AQ}}{VD_{IN} + VD_{IRRIG} + VD_{AQ}}$, where: VF=volume billed; VD=volume distributed; IN=industrial users; IRRIG=irrigation users over 47,000 m3/month; and AQ=aquaculture, excluding fish & shrimp production in man-made pens	12.11%	15%	18%	27%	37%	SRH (April)
Number of urban water and sewage connections	= Actual billed connections on Dec. 31 of Year X minus Actual billed connections on Dec. 31 of Year X-1 plus any viable connections where service discontinued during Year X due to lack of payment	water 51,348	water 144,062	water 179,879	water 197,790	CAGECE Enterprise Information System (April)	
		sewage 22,370	sewage 56,200	sewage 76,540	sewage 86,711		

Disbursement indicators	Description / Calculation Protocol	Baseline	Target Values				Data Source/ Deadline (Deadline for submission to UGP)
			2008	2009	2010	2011	
Water losses ("unaccounted for water")	$Ianf_{annual} = \frac{VPC_{annual} - VFAT_{annual}}{VPC_{annual}}$, where: VPC=commercial produced volume; VFAT=invoiced volume	29.7%	28.2%	28.5%	28.7%	28.2%	CAGECE (April)
Sector 5: Business Environment & Innovation							
Urban population in municipalities with access to public broadband internet service	Total urban population living in municipal centers with access to public broadband internet service (<i>Cinturão Digital</i>) See <i>municipal populations and programmed extension of broadband access</i> in Box 3.	0	1,833,600	3,033,000	3,311,300	4,365,700	IBGE for population; ETICE for broadband connectivity (February)
CGF business registration within 72 hours	The share of registrations processed in less than 72 hours, <i>calculated from the time at which all required documentation received by SEFAZ</i>	19%	21%	24%	29%	35%	SEFAZ (April)

Below are three boxes with additional details relating to three indicators in the results monitoring matrix.

Box 1: Guidelines for preparation of Secretary Performance Reports (SPR)

During the SWAp I, government secretaries initiated sectoral assessments to define strategic plans for their organization, including strategic outcomes, performance indicators and annual performance targets. Building upon that experience the SWAp II will support and monitor the preparation of annual performance reports against those pre-defined performance indicators. Each line secretary is to present a concise portrayal of its performance, both for accountability and for planning purposes. While these reports should not be constrained by multiple requirements, they should satisfy six principles:

1- Focus on results, not products

The conceptual centerpiece of the SPR is the *Strategic Outcome(s)* of the Secretariat, that is, the critical differences that the Secretariat is able and committed to achieving through its programs to bring long-term benefits to Ceara's citizens. It is appropriate to identify and report against output/product and efficiency indicators, but not absent the context of the results these activities aim to achieve.

2- Put performance in context

The SPR should briefly describe the context in which the Secretariat produces its results. This may include a general description of other Secretaries or agencies, other levels of government, and private sector actors—businesses, NGOs—that play a part in achieving strategic results in this area. Moreover, often the final outcome desired (e.g., improved life expectancy) is well beyond the control of a single Secretariat. Performance frequently has to be measured against intermediate results or outputs that are logically linked to the desired outcome. The SPR should draw these links. Finally, the report should also identify the principal risks associated with the delivery of its agreed results targets, as effectively managing risk is an integral part of the Secretariat's performance.

3- Link resources to results

Costs, and not just accomplishments, should be reported in detail. The SPR should include measures of productivity whenever possible. Changes in planned resource allocations are often reasonable and to be expected. It is important to acknowledge these.

4- Be concise

The SPR should help citizens as well as policy makers to debate government priorities and performance, as well as the allocation of resources. To be readily understood by its readers, the report should be direct, and not exhaustive. (For additional detail, as appropriate, readers can be referred to other materials or resources.)

5- Be credible

Whenever possible, the SPR should present data that can be independently corroborated in order to support performance claims. The report should be transparent about areas where results can not be clearly and unambiguously demonstrated.

6- Highlight lessons learned

A key goal of the SPR is to contribute to improvements in government programs and productivity. For this reason, these reports will include a section with "lessons learned" and recommendations as a product of the SPR analysis. This should include recommendations for changes, if any, in performance indicators for the upcoming year.

Box 2: Guidelines for preparation of “Output-Results Reports”

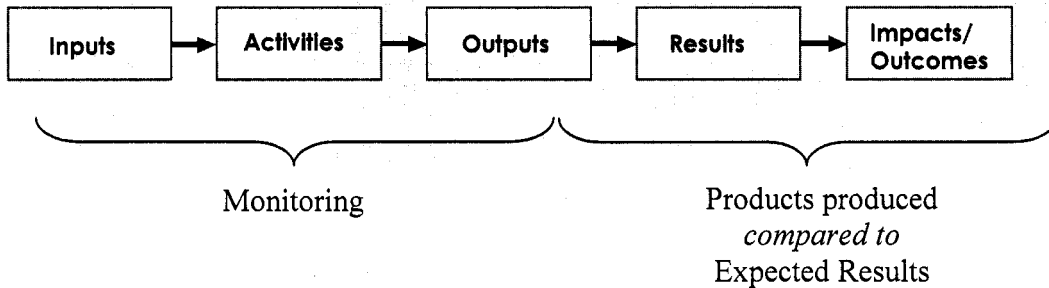
Results-based management requires monitoring and evaluation of the impacts of public policies, including government projects and programs. “Spending reviews” (the term used in several OECD countries) measure the full costs and benefits of government programs and constitute a powerful instrument to rationalize the allocation of public resources, thereby improving the efficiency and effectiveness of Government expenditure with the ultimate goal of improving the living conditions of the population.

A comprehensive impact evaluation of a government program is very difficult to produce. It generally demands large amounts of data covering a considerable length of time in order to measure societal changes in a target population and reliably attribute these changes—even if only partially—to the implementation of specific public policies or programs.

As evaluations of this kind are methodologically complex, usually take considerable time to produce, and are often very expensive, the Output-Results Report (*Relatório Produto-Resultado*) aims to fill a space between an annual report such as the SPR and a full-fledged impact analysis. The Output-Results Report (ORR) has three essential elements:

1. Consistency analysis of the program(s) design (log frame)
2. Monitoring of outputs in accordance with the log frame.
3. Comparison of actual outputs to expected outputs, examining the extent to which the outputs generated promote the achievement of the results desired, and the cost per unit of the output produced.

The logical public sector “production sequence” that structures the ORR is depicted below.



Box 3: Urban Population by Municipality & Expected Year of Broadband Internet Access

2008	
Município	População
Aquiraz	64.963
Caucaia	284.098
Eusébio	39.697
Fortaleza	845.922
Guaiúba	19.722
Itaitinga	31.518
Maranguape	75.109
Pacatuba	56.799
Maracanaú	195.992
Paracuru	20.757
São Gonçalo do Amarante	25.091
Beberibe	26.480
Cascavel	54.496
Horizonte	40.935
Pacajús	42.912
Pindoretama	9.142
Total	1.833.633

2009	
Município	População
Alcântaras	3.352
Forquilha	14.125
Groaíras	6.303
Massapê	23.915
Meruoca	6.911
Sobral	157.155
Frecheirinha	7.927
Graça	6.927
Ibiapina	9.873
Mucambo	9.376
Pacujá	4.003
São Benedito	25.192
Tianguá	46.084
Ubajara	14.986
Viçosa do Ceará	17.415
Fortaleza	845.922
Total	1.199.466

2010	
Município	População
Camocim	45.501
Granja	27.492
Acaraú	30.465
Bela Cruz	13.241
Cruz	9.795
Itarema	11.514
Marco	14.009
Amontada	13.994
Itapajé	33.733
Itapipoca	58.689
Tururu	6.481
Uruburetama	13.297
Total	278.211

2011	
Município	População
Aracati	44.880
Barbalha	35.375
Canindé	46.564
Crateús	53.169
Guaramiranga	2.890
Iguatu	69.198
Jaguaribe	23.901
Limoeiro do Norte	31.813
Mombaça	17.836
Morada Nova	39.316
Quixadá	53.425
Quixeramobim	34.126
Russas	41.434
Tauá	29.753
Aracoiaba	13.481
Aratuba	2.635
Baturité	24.181
Caridade	10.402
Cariús	8.932
Choró	3.945
Crato	93.996
Fortim	13.108
Ibaretama	4.373
Itaiçaba	4.014
Jaguaribara	4.028
Jaguaruana	20.162
Juazeiro do Norte	229.799
Missão Velha	14.146
Mulungu	4.227
Pacoti	4.275
Palhano	4.802
Palmácia	4.928
Pereiro	5.879
Piquet Carneiro	6.508
Quixelô	5.340
Quixeré	12.196
Redenção	14.316
São João do Jaguaribe	2.910
Tabuleiro do Norte	18.191
Total	1.054.454

Note: The population of the state capital, Fortaleza, is divided between years 2008 and 2009.

ANNEX 4. DETAILED PROJECT DESCRIPTION

1. The Ceará SWAP II has two components: a SWAp component of \$235.4 million and a Technical Assistance component of US\$3.67 million. The SWAp component is further subdivided into five sectors: Public Sector Management, Education, Health, Water & Sanitation, and Business Environment & Innovation.

2. Except for Business Environment & Innovation, each of these sectors was included in the SWAp I. However, the interventions have evolved and with them the disbursement-linked indicators. Similar to the first loan, Bank specialists visited Ceará to diagnose and design sector components together with State counterparts. Hence, there has been total collaboration in project design from the selection of participating sectors to the choice of indicators and identification of the technical assistance agenda.

A. THE SWAP COMPONENT

Sector 1: Public Sector Management (“Umbrella Sector”)

3. Public Sector Management (PSM) is a “sector” whose reach spans all the others. Eligible Expenditure Programs (EEP) related to PSM seldom are sufficiently large to justify inclusion in a SWAp, but strengthening fiscal and fiduciary oversight and instilling results-based management are activities that impact the entire government. Mainstreaming RBM is perhaps the single most important undertaking addressed in SWAp II.

4. On the fiscal side, as a result of a prudent fiscal management in recent years, Ceará’s fiscal situation is very healthy and the state has created the necessary fiscal space for needed investment expenditures (see Annex 1).

5. Given this good performance and the reduction of the state’s indebtedness ratio, the STN authorized the state to contract new credit operations for the period 2007-2009. To maintain its sound fiscal position, Ceará will need to maintain the high performance of its own revenue collection and of the federal transfers to the state. The strong dependence of state revenues on federal transfers suggests the need for further improvements in its own revenue collection capacity.

6. With regard to Results-based management (RBM), during the SWAp I the GoC developed an initial set of sector strategic plans, with accompanying indicators. However, these instruments have not yet been integrated into the culture and practice of public management and resource allocation process in Ceará. The SWAp II supports the further development of RBM through mandated annual reporting by Secretariats against pre-determined performance targets and select “spending reviews” of key programs. The aim is to introduce critical data into the policy making process for resource allocations, thereby generating improvements in the accountability and productivity of government expenditure.

7. The fiscal indicators have been chosen to reflect the growth orientation of the new administration. Instead of using the primary surplus, the project will use as a performance

indicator the current fiscal balance, which is defined as non-financial current revenues less non-financial current expenditures. Since this indicator does not include expenditures on investment, it avoids the “easy” way for government to generate favorable fiscal results, namely through investment compression. It thus takes into account the need to preserve or even expand the level of public investment while maintaining fiscal discipline. It is important to note that the use of this indicator is only possible because of the past and current positive fiscal stance of the State.

8. The second fiscal indicator is the Herfindahl Index of tax concentration. This addresses the issue of sectoral concentration of revenues. In the efforts to collect more revenues, states in Brazil often have focused their attention, not surprisingly, on sectors with higher concentrations of large firms. In many states, the proportion of taxes collected in utilities sector—energy, communication and fuel—has been increasing, with potential negative impacts on economic efficiency. The selected indicator measures the participation of different core sectors in overall tax revenue, and the target restricts tax concentration beyond the state’s revenue profile in 2007.

9. There are two RBM disbursement-linked indicators. The DLI will demand systematic annual reporting (within government and to the public) by Secretariats with respect to their resources and outputs/results achieved, and each of these against their previously agreed performance targets. In addition, as a critical input into the budget process, a second DLI will track the completion of more sophisticated reviews of the outcomes achieved by key government programs.

Sector 2: Education

10. The SWAp I operation performed satisfactorily and substantially met or exceeded the elements in the education sector program framework including DLI, triggers and additional indicators eventually incorporated into the sector’s results-based management exercise. The SWAp I addressed the main sector challenges comprising a broad spectrum of interventions:

- Implementation of a testing cycle and improving literacy
- Upgrading institutions, expenditure efficiency and quality
- Improving State/municipal cooperation
- Successful implementation of the Bank’s education loan

11. Considerable progress was made in each of these areas, sufficient for the new administration to consider a new set of priorities. For testing, the GoC has now committed to extending the coverage of annual exams to rural and small schools that were not reached by the earlier testing schemes. In addition, SEDUC is committed to reporting these testing results at the level of individual schools so the data can be used to inform school development plans to address the weaknesses identified.

12. The new GoC and SEDUC administrators have manifested a desire to focus, as well, on two high-impact issues:

- Children in the early primary school years (grades 1-4) are still not achieving satisfactory literacy levels which prejudices their subsequent academic life; and,

- Youth conclude middle school and are unable to enter Universities or find jobs owing to their academic deficiencies plus other, exogenous factors.

13. To address early primary school literacy, SEDUC is proposing to launch a program for “Literacy at the Right Age” (*Alfabetizacao na Idade Certa*). The program will include: (i) special pedagogical material; (ii) teacher training; (iii) special *salas de reforço* (special subject-matter rooms); (iv) annual external evaluations of all students in the second year of primary school to establish a program baseline and measure progress; (v) prizes for students and teachers for good performance; and (vi) pedagogical interventions to address evaluation findings.

14. The program will also receive assistance from UNDIME (an organization for municipal education secretaries) and UNICEF which will support literacy agents and consultants to strengthen municipal program capacity. In addition, pre-school education will also be addressed through expanding coverage and development of a pedagogic curriculum for day care centers. All 184 municipalities are participating in these activities, which will be centrally managed by SEDUC.

15. The object of this program is to expand literacy among children in the second grade (6-8 years of age). Literacy rates are not included as indicators as there is no baseline and the program is to be launched in 2007-08. However, process indicators measuring program implementation will be used, including the appointment of municipal “directors” to run the program and evaluation of program effectiveness.

16. Regarding the second major concern, namely, improving middle-school education to prepare students for university or jobs, the task is even more difficult. The Government’s signature program, *CE-Jovem*, proposes to address the problem through computer training, English, science and math training and after school study opportunities. This program has not been launched, as yet, and its acceptance and impact are uncertain. Consequently, the program design will be evaluated with loan funding.

Sector 3: Health

17. Health is one of the original SWAp I priority sectors. Bank staff working with Ceará counterparts determined that the quality of healthcare is, at this point, a more critical concern than coverage (which has improved considerably).

18. Although health indicators in Ceará are below national averages, the state compares well to others in the northeast. In 2004, Ceará had the lowest infant mortality rate (29.4 per 1,000 births) among Northeastern states (NE average: 33.9). Infant mortality related to diarrhea and respiratory infections, as well as the incidence of most infectious diseases (measles, mumps, tetanus, leprosy, and tuberculosis), continue to decline. The incidence of HIV/AIDS is leveling off as it is throughout Brazil. Dengue remains endemic in Ceará, as it is elsewhere in the Northeast, North, and Southeast regions of Brazil.

19. More worrisome are indicators related to neo-natal mortality and maternal mortality. As infant mortality from childhood diseases decline, neo-natal mortality comes to the fore. This is especially the case in Ceará where over 90 percent of births occur in hospitals. Currently, two-

thirds of infant mortality cases occur at the neo-natal stage of life (first 28 days). Of equal concern are the continued high rates of maternal mortality (116 per 100,000 births in 2005) which has remained stable over the last 10 years and significantly above national averages (75 per 100,000 births). High rates of neo-natal and maternal mortality suggest deficient pre-natal risk classification, lack of coordination between levels of care, and poor quality in hospital birthing, neo-natal and maternal units.

20. Ceará has been a pioneer in finding alternative and innovative solutions to health system problems. It was one of the first states to apply a results-based management approach at the service delivery level, signing performance contracts with municipalities, regions, and providers. The state also created a home-grown quality assessment and improvement program for primary care (PROQUALI). It has promoted the extension of family health, resulting in one of the highest population coverage rates in Brazil. Family health population coverage was 65 percent in 2006 compared to the national average of 46 percent.

21. Turning to hospitals, Ceará has identified and strengthened regional hospitals (*hospitais polo*) to lessen transfers to, and overcrowding in, Fortaleza hospitals while implementing a federal program to rationalize the care provided in small hospitals throughout the state. Ceará also launched a very innovative PPP arrangement in a recently-constructed hospital whereby a non-profit organization was contracted to manage the facility.

22. The State has announced a massive investment program to address infrastructure and HR needs, particularly for hospital and specialty care.¹⁷ Further, the Federal Government is planning to increase transfers to municipalities to strengthen primary healthcare. Interestingly, about one-third of the identified problems relate to shortcomings in managerial and quality processes. Examples include: deficient hospital governance and management, low quality and “resolutive” capacity of primary care, poorly organized and managed primary care systems, weak or informal referral systems, weak commitment of health workers, and poorly trained health professionals, and the irregularity of state transfers to municipalities and hospitals.

23. In light of the sector issues, results of citizen consultations, and the proposed investment program, SESA authorities and Bank’s health specialist sought to identify the gaps that: (i) were not being addressed by current and planned programs; and (ii) once addressed, would complement or enhance the performance of these programs. One gap that quickly came to the fore was quality of care—especially in terms of improving processes, raising standards, and measuring results.

¹⁷ On October 9, 2006 the Governor of Ceará rolled out a major health financing initiative co-funded by the State, Federal Government and Inter-American Development Bank. The program, included in the Government’s MAPP (*Monitoramento de Ações e Projetos Prioritários do Governo do Ceará*), consists of R\$776 million in investment and recurrent financing, mainly for hospitals. The programs will be implemented between 2007 and 2009. The Governor acknowledged that equipment and infrastructure alone do not result in more or better care. Absent from the presentation (or program) was any discussion of improving the efficiency of resource use, strengthening processes related to quality of care, or linking financing to results. However, the Governor challenged the Health Secretary to improve “management and organization” of health services to complement and support the physical investments and results based management was emphasized.

24. *Quality of care.* Despite the development of a program to improve the quality of care at the primary level, quality is often viewed in terms of upgrading equipment and infrastructure and hiring additional professionals. Little attention is paid to other elements such as patient safety, processes, and results. Processes involve the mechanisms and procedures used to deliver care. Poor processes can result in errors and delays in diagnoses and treatment, failure to follow appropriate protocols, problems in the selection and administration of treatments, errors in dosage or use of drugs and in the administration of prescribed drugs. Pioneering research in Brazilian hospitals¹⁸ found that improvements in structures (e.g., plant, material resources, human resource number and specialization) without robust implementation of processes (e.g., application treatment guidelines) can increase the risk of negative outcomes (e.g., avoidable mortality). Information on the application of robust and standardized process is unavailable in Ceará. However, the high rates of neonatal and maternal mortality—which mostly occur in hospital—suggest significant quality process problems. High hospital admission rates for childhood diarrhea suggest shortcomings in the implementation of treatment and referral protocols at the primary care level. Moreover, as is the case throughout Brazil, Ceará suffers from lax regulatory enforcement of quality standards: only two publicly financed hospitals are licensed. None are accredited despite the existence of three hospital accreditation systems in Brazil. Although licensure and accreditation do not guarantee good quality, these processes force hospitals to examine their competencies, assessing and comparing the care they provide against standards. Experience in Brazil demonstrates that hospitals that seek accreditation enter into a systematic process to standardize care processes, measure results, and development continuous quality improvement programs.

25. *Information environment.* A key impediment to effective results-based management is a weak informational environment. Comparative analysis of contractors (e.g., hospitals) is rare due to the limits of the information systems. For example, there is no consolidated database on hospital statistics, production, patient transfers, quality indicators, etc. This constrains SESA's capacity to verify results, provide feedback to providers and municipalities, and negotiate and strengthen subsequent contracts. Also, information on costs—an important input into budgeting and financial management—is generally absent. Consequently, there is a “disconnect” between technical performance and financial performance: contracts are not monitored or analyzed in terms of their overall cost-efficiency or the cost-effectiveness of treatments and interventions. For example, there is no way of determining if a high performer is achieving results affordably. Further, without information on costs it is impossible to develop robust provider payment mechanisms, such as DRGs (Diagnostic Related Groups) which have proven effective in containing hospital costs.

26. The assessment of the Ceará health sector concluded that SWAp II should support interventions along the following lines:

- Advance the Government's results-based framework by making a stronger effort to influence “sectoral business,” supporting downstream results-based management that can influence behaviors at the point of service delivery
- Focus on improving the quality of care—the forgotten component in municipal and federal programs

¹⁸ Rattner, Daphne (2001).

26. The proposed SWAp II indicators do not repeat indicators “*pactuados*” between SESA and other levels of government (federal and municipal) because most of those are outcome or end-result indicators (e.g., mortality, disease incidence, service volume, population coverage, etc.). The SESA is already committed to achieve these indicators.¹⁹ Rather, the SWAp II indicators seek to identify intermediate measures that contribute to achieving a desired outcome or end result. For instance, given that nearly all births occur in hospitals, improving the overall quality of care through licensing or certifying hospitals can contribute to reduced maternal and infant mortality.

SWAp II disbursement-linked indicators for health

- **Family health/basic care quality certification.** This indicator aims to accompany the implementation the Federal Health Ministry’s AMQ quality certification system for family healthcare.²⁰ Recent MOH directives have delegated to the states responsibility for quality monitoring and improvement of family health/basic care. SESA has embraced AMQ to complement and enhance PROQUALI. It already has initiated the assessment process of teams in a number of municipalities. This indicator has two dimensions. The first involves assessment and classification of family health teams into one of five quality stages or levels per the AMQ quality classification scheme. The second consists of teams improving quality through achieving a higher stage of quality over time.
- **Hospital licensing/certification.** Licensure is a process by which a governmental authority grants permission to a healthcare organization to operate. Licensure regulations usually aim to ensure that an organization meets minimum standards to protect public health and patient safety. In Brazil, although robust legislation exists, licensure is rarely enforced. Many hospitals operate without the basic structural and human resource conditions to ensure patient safety. The indicator seeks to stimulate the expansion of hospital licensing by the state.²¹
- **Standardized cost-accounting systems for hospitals.** Without information on costs, it is difficult to achieve robust financial, budgetary, and quality management. Moreover, cost information provides the basis for improving hospital efficiency, which is an essential objective of any performance contract. SESA has initiated a process of installing cost-accounting systems, but mainly in new hospitals. This indicator aims to stimulate expansion to nearly all state-financed hospitals in Ceará.

¹⁹ Federal “*pactos*” specify indicators that will be linked to future levels of financing starting in 2008.

²⁰ Developed under the World Bank’s PROESF project, *Avaliação para Melhoria da Qualidade de Estratégia Saúde da Família* (AMQ) is a quality certification system for Family Healthcare, similar to facility accreditation systems, specifying standards for healthcare structures, processes and results. More than 160 quality standards are distributed across five sequential stages. AMQ includes assessment instruments and a scoring system to classify health teams by quality stage.

²¹ Licensure is also considered the first step in a quality-enhancing accreditation process. Brazil’s National Accreditation Organization (ONA) accredits hospitals based on a three-step process. The first step is licensure.

Sector 4: Water Resource Management & Water Supply and Sanitation

40. Ninety-three percent of Ceará's territory is semi-arid without any perennial rivers. Most of its territory is underlain by crystalline rock, thus minimizing the availability of groundwater storage and natural retention of surface flows. Moreover, the deterioration in the quality of both surface and underground water around major urban, industrial and agricultural centers has exacerbated this natural shortage of water supplies. Urbanization reached 76.3% in 2006 and is increasing rapidly. The other characteristic of the state's urban network is dispersion: 117 out of 184 municipalities in the state have a total population of below 30,000, with urbanization ratio under 50%. These facts have increased demand for water and sewerage services in the state, not only in large but also on small municipalities. Consequently, water resources and their management are critical to Ceará's development. Although a number of measures have been taken over the past decade, there are still challenges to be overcome and strong actions needed to ensure the most efficient use of water resources and their adequate management by the state. The provision of potable drinking water and resolution of sewerage problems are essential to improving quality of life and combating water-borne health and pollution problems.

Water resource management

41. In order to address the issues mentioned above, Bank-financed operations have been supporting the state's WRM agenda, starting with the Urban Development and Water resource management Project (PROURB), followed by the Ceará Water Pilot Project (PROGERIRH Pilot), the Ceará Integrated Water Resource Management Project (PROGERIRH) currently under implementation, and the WRM disbursement-linked indicators of SWAP I. This WRM program has helped support the development of the institutional and managerial capacity of the state, stressing improved bulk water charging by COGERH, sustainable cost recovery and the implementation and management of water resources infrastructure to ensure the rational integration of strategic water reserves.

42. The Bank is preparing with the GoC an Additional Financing operation to supplement the original PROGERIRH project so as to fund anticipated water storage and distribution projects to provide water to rural communities and impoverished areas, while strengthening the institutional framework for participatory WRM within the State. The State Government has also made good progress in completing a major portion of the *Eixão*.

Water Supply & Sanitation

43. Urban sewerage coverage of just 30.4% is far below national average. Even if septic tanks are considered an adequate solution, urban coverage increases to only 51.2%. That low level of sanitation coverage is already affecting the quality of water in rivers, reservoirs and aquifers, threatening the quality of water sources. Access to safe water and adequate sanitation is even worse in rural areas. Piped water reaches only 25.9% of the rural dwellings, and just 7% of the rural population has septic tanks.

44. The State Water Resources Company (CAGECE) is in charge of water supply to 149 municipalities in the State, including all municipalities in the Metropolitan Region, holding about 80% of the market in the state. The remaining 20% is provided by municipal water bodies.

CAGECE is one of the best performing SWC in the northeast region, and its low coverage rates are due mostly to economic difficulties of the state and the high poverty rate.

45. The CAGECE tariff model (structure and prices) was set in the 1970s, and is similar in all 149 municipalities that it serves. Since 2002 ARCE is responsible for economic and technical regulation of CAGECE. ARCE is a multi-sector state regulatory agency linked but not subordinated to the State General Attorney Office (PGE). ARCE supports the state government as it is in charge of CAGECE’s tariff revision and adjustment²², directly enforces CAGECE’s agreed service standards, and acts on behalf of consumers by providing an ombudsman service. Starting in 2005, CAGECE is also regulated by a Fortaleza municipal regulatory agency, ARFOR, which was set up under the new concession contract signed with the Municipality.

46. In regard to rural WSS, the State has developed and is implementing a successful management model called SISAR (Integrated Rural Sanitation System) based on simplified technologies, and community participation, with operation and simple maintenance at local level and technical assistance and more complex maintenance at the regional level. Since 1996 the State has implemented over 470 systems under SISAR, servicing over 240,000 inhabitants in localities with population ranging from 250 to 1,250.

47. Pollution monitoring in rivers, reservoirs and aquifers is under the jurisdiction of the Water Resources Secretariat (SRH), and costal management and beach quality monitoring are the responsibility of the State Secretary of the Environment (SEMACE). Potable water quality is supposed to be monitored by the health sector, but in practice ARCE is assuming this role in regard to CAGECE.

Table 18: WSS institutional framework in Ceará

Issue	Urban	Rural
Policy and planning	Secretariat of Cities	Secretariat of Cities
Implementing investments	CAGECE	Secretariat of Agrarian Development
Regulation	ARCE	Health Secretariat
Service Provision	CAGECE	SISAR / Communities

48. The quality and reliability of services are uneven in the state. While water supply in the Metropolitan Region has very good quality and reliable supply (over 99% of the analyzed samples up to Sep. 2007 accomplish with the Distributed Water Quality Index – DWQI – over excellent range), there are several constraints in about 50 small out of 220 supply systems in the predominant semi-arid areas (over 25% of the analyzed samples up to Sep. 2007 do not reach good results for the DWQI).

²² Since 2001 the State has approved CACEGE annual tariff revisions in full accordance with ARCE studies and recommendations.

State sector objectives and strategy

49. The State is embarking upon an aggressive strategy for the delivery of WSS to urban and rural areas aiming at achieving universal coverage as soon as possible. The 2008-2011 multi-year plan (PPA) sent to the State Parliament set the following objectives: (i) universal access to water supply to urban population and to rural localities over 250 inhabitants; and (ii) 90% coverage of sanitation services in Fortaleza, 60% in urban areas and 50% in rural localities with population over 250. To reach these objectives the state must increase investment in the sector, using state budgetary funds, CAGECE internal cash generation from tariffs, and funds from national programs as well as credit operations. The PPA foresees total expenditures of about R\$840 million for the period 2008-2011, including all sources of funds. CAGECE's share (generated from tariffs) is anticipated to be R\$ 79.4 million, or 9.4% of the total.

50. Considering the scarcity of water resources in the state, reducing water losses is at the core of CAGECE's corporative strategy, with the same level of priority given to economic efficiency.

SWAp II disbursement-linked indicators for WRM and WSS

51. The DLI target three main axes:

- Increased cost recovery
- WSS access
- Water company efficiency

52. In addition, CAGECE has elaborated protocols, baselines and targets in collaboration with Bank specialists, and will be responsible for providing data during implementation. The indicator baselines and targets correspond to those in CAGECE's multi-year strategic business plan 2008-2011, approved by CAGECE's Management Board in November 2007.²³

53. The secondary indicators focus on the profitability of CAGECE and the issue of water quality. Table 19 presents these secondary indicators and targets.

Table 19: Secondary Indicator & Targets for WRM and WSS

Secondary Indicator	Description / Calculation Protocol	Baseline	Preliminary Targets				Data Source
		2007	2008	2009	2010	2011	
CAGECE EBITDA margin	Ratio between EBITDA (profit before interest payment, taxes, depreciation, and amortization) and net income	31.21	27.81	28.50	29.00	29.50	CAGECE Commercial System

Secondary Indicator	Description / Calculation Protocol	Baseline	Preliminary Targets				Data Source
		2007	2008	2009	2010	2011	
CAGECE Distributed Water Quality	ARCE: IRVF = Water Quality Compliance Ratio ²⁴ IRVF = 1 - (NCWQ/IWQ * 100)	37.5%	50%	60%	70%	80%	ARCE

Sector 5: Business Environment & Innovation

54. Both the World Bank and GoC are acutely aware of the need to mobilize private sector resources and entrepreneurship in order to achieve sustainable growth. A 2006 World Bank Group report—*Doing Business in Brazil*—ranked Ceará last among 13 states in terms of business-friendly environment. The Governor strongly endorses measures to mobilize private sector resources, especially in the interior. The Bank held a workshop with business and government leaders to identify problems and develop recommendations, leading to several planned initiatives to promote increases in:

- Job creation outside Fortaleza
- Private sector innovation (firms introducing new products and processes)
- Formally registered firms

Sector background

55. During the electoral campaign the present Governor and Vice-Governor of Ceará indicated their intention to use Science, Technology and Innovation as tools to promote the integrated and sustainable development of the state.²⁵ To achieve this objective their “Government Plan” emphasizes initiatives to increase the level of “digital inclusion” in the state. The Plan proposes to “democratize” access to information and communication technologies (ICTs) as “a vector for social and economic development.”

56. The Government’s increasing emphasis on STI can be traced to previous State administrations. Indeed, between 2000 and 2004 the State’s Science and Technology (S&T) expenditures increased from 0.19% to 0.71% of total State revenues.²⁶ In absolute terms, total government S&T expenditures grew from R\$108.4 million to R\$223.7 million. By 2004, S&T

²⁴ NCWQ=Number of ARCE inspections reporting non-compliance with water quality standards; IWQ=Total Number of ARCE inspections on water quality. ARCE inspects CAGECE’s water supply systems in a regular basis (about 60 systems a year). Consequently, all water systems are inspected every three years. It should be noted that some water standards inspected by ARCE are not accounted in the CAGECE’s IQAD.

²⁵ See “Guidelines for the Government Plan 2007-2010.”

²⁶ Ministry of Science and Technology. See: <http://www.mct.gov.br/html/template/frameSet.php?urlFrame=http://200.130.9.7/estat/ascavpp/estados/abertura.htm&objMct=Indicadores>.

expenditures by Government of Ceará were among the highest in Brazil as a share of State revenues, trailing only Parana, Sao Paulo, and Bahia.

57. According to *Doing Business 2007* Brazil has one of the most laborious business registration processes in the LAC region, with extremely complex procedures that require multiple applications to different entities, resulting in a confusing, time-consuming, and expensive process. Both *Doing Business in Brazil* and IFC's *Municipal Scorecard 2007* have shown that Northeastern Brazil has some of the most bureaucratic business processes in the country. In fact, Ceará was the worst performer on the ease of doing business in Brazil.²⁷

58. During 2006 FIAS and the IFC LAC Facility carried out a number of projects to help the country better understand the extent of the problems in regulatory administration, and to develop solutions. FIAS led an effort to expand *Doing Business* to 13 states across Brazil, and this report has heightened interest in improving administrative procedures in states and municipalities throughout the country. Meanwhile the IFC LAC Facility has also been rolling out its *Municipal Scorecard*,²⁸ a benchmarking tool that provides comparative data on the quality and efficiency of municipal regulation of private sector activities in five LAC countries (Brazil, Bolivia, Honduras, Nicaragua, and Peru). It is currently being implemented in 25 Brazilian cities.

59. The IFC Facility has recently approved a project that would involve the implementation of a Municipal Simplification Program in northeastern states and municipalities, including Ceará and Fortaleza, respectively. The project is modeled on the successful implementation of a similar project in São Paulo, where an ongoing reform program focuses on improving processes for obtaining municipal Operating Licenses and construction permits. The new project will provide targeted technical assistance to assist municipal governments in implementing reforms to improve their regulatory and administrative processes (and thereby improve their rankings in the above-mentioned benchmarking exercises). In addition to Fortaleza, the following municipalities in Ceará have already requested IFC technical assistance for business regulation simplification: Crato, Juazeiro do Norte, and Sobral.

The Government's program

60. In order to strengthen the State's innovation system and increase the level of "digital inclusion," the GoC already has taken several significant actions aimed at improving policy coordination, improving the supply of technical and technological training in various regions of the state, and improving the supply of technological services available for private companies in order to promote private sector innovation and technology adoption.

²⁷ *Doing Business* uses a methodology based on a standardized case of a hypothetical firm to generate indicators that are internationally comparable. *Doing Business* focuses on what laws and regulations say; it assumes that the company has perfect information and does not waste time completing procedures. In practice, completing a procedure may take longer if information is not available or the firm does not follow up promptly. The information is collected from lawyers, accountants and government officials who regularly administer regulatory requirements.

²⁸ The *Municipal Scorecard* project focuses solely on municipal level processes related to Operating Licenses and Construction Permits. It collects data directly through interviews with business owners who have recently gone through the process and government officials in the respective municipalities.

61. In 1999 the GoC created the Center for Technological Education (CENTEC), as a private non-profit organization funded primarily through contracts with the State. CENTEC has developed a network of educational institutions that includes four technological colleges (located in Juazeiro do Norte, Limoeiro do Norte, Quixeramobim, and Sobral) and thirty-seven technical and technological vocational training centers (4 “CVTECs” and 33 “CVTs”). These colleges and training centers are aimed at improving the skills of the labor force, encompassing both basic skills to complement workers’ formal schooling, and specialized skills in areas where there is proven potential for regional economic development. At the end of 2006, CENTEC had almost 34,000 students enrolled in basic courses, about 2,000 in technology courses, and more than 700 in technical courses.

62. The laboratory infrastructure that has been made available at CENTEC’s technological colleges and training centers also makes it possible to perform applied R&D and technology transfer activities that can contribute to diffusing new technologies among SMEs, especially in the less developed regions of the state. For example, CENTEC has established nine Digital Centers (CDCs) where individuals and local firms can have access to the internet through computer laboratories and courses adapted to local needs. Moreover, a World Bank project currently under preparation—“Cities of Ceará”—plans to use CENTEC’s centers in the Cariri region as the basis for providing training and technical assistance to SMEs. These services will be aimed at increasing regional employment and exports in selected sectors—e.g., leather products and tourism. CENTEC also has an enterprise incubator with a presence in six cities. It is part of a network of incubators of technology-based enterprises coordinated by the State Secretariat of S&T. By the end of 2006 this network had hosted 76 companies, and 40 of these were hosted by CENTEC.

63. The GoC is also investing in new laboratory infrastructure for improving the supply of technological services, including in the areas of metrology and certification. In particular, the government is investing about R\$ 20 million in the creation of the Institute of Research Development and Innovation (IPDI), in the establishment of the Northeast Industrial Automation and Software Research Institute (CenPra), the Center of Alternative Energies (Cenea) and in the modernization of the Foundation Nucleus of Industrial Innovation (NUTEC).

64. Complementing the above initiatives, and in the context of the priority given by the GoC to increasing the state’s level of “digital inclusion”, a large project is being pursued to increase broadband access outside of Fortaleza. This so-called “digital belt” project is being led by the State’s Information technology Company (ETICE). Its total cost is estimated at R\$ 55 M. The project would allow 184 municipalities covering 87% of the state territory to gain access to the internet, compared to only 7 municipalities that currently have access to those services. The cost of the infrastructure to be built under the project would be divided between the municipal, state and Federal Governments. When profitable, the private sector would explore the network by offering various types of telecommunication services – e.g. phone, broadband internet, video conference, etc. In other areas these services will be partially or fully subsidized by the state.

65. The project will take advantage of an existing network linking the northern and northeastern parts of the state—through the cities of Sobral, Fortaleza, Quixada and Russas—via optic fibers deployed using the infra-structure of electricity transmission lines. This backbone

network would be expanded to the western and southern regions of the state using optic fibers deployed either below ground or linked to transmission lines when these are available. Other municipalities would then be linked to this backbone network using the wireless WIMAX technology. The resulting “digital belt” would be linked to a “digital ring” that is being deployed in Fortaleza under the federal CIGAFOR program of the Ministry of Science and Technology, linking the main educational and research institutions, as well as the main public institutions in the capital city, with emphasis on the areas of health, education and public safety.

66. The GoC expects to use the expanded access to the internet and other telecommunication services across the state to promote increases in private sector productivity, by means of improving the quality of education and worker training and through expected effects on the development of electronic commerce. The project is also expected to increase public sector efficiency, especially in the following areas: *education*, with the implementation of distance learning programs and the automation of various administrative processes (e.g. academic, financial, human resources, etc.); and *health*, with the increased use of ICTs in hospitals and health centers both for improving the quality of health services and for administrative purposes. In addition, the “digital belt” project is expected to increase the efficiency of the public sector in the areas of planning, budget monitoring, project management, accounting, financial management, human resources, logistics and procurement.

67. The GoC has given a large importance to the simplification of administrative procedures for the registration of businesses and the payment of taxes. Thus, the Government has greatly reduced the time needed to issue inscriptions in the Secretariat of Finance’s General Registry (CGF). Until recently, it took between one and two months to obtain this inscription, which in many cases is reportedly being granted in less than 72 hours. Moreover, the Government is collaborating with some of the main municipalities in the state to business-related one-stop-shops to reduce the time and cost needed to complete transactions between businesses and the state government. These efforts are expected to be supported by IFC under the project described project.

68. Complimenting the DLI for this sector, two “secondary” indicators will be tracked throughout project implementation:

- Reduction in the number of days to emit environmental licenses
- Number of partnerships and/or service contracts between NUTEC and private firms (2007=0; 2008=74; 2009=84; 2010=100; 2011=110)

B. TECHNICAL ASSISTANCE SUPPORTING ACTIVITIES

69. A total of US\$ 3.67 million is designated for technical assistance activities. The selection criteria entailed identifying TA activities that would directly support fulfillment of the projects DLI. These are categorized below by sector, with a brief description of each.

Sector 1: Public Sector Management

B.1 SUPPORT FOR MAINSTREAMING RESULTS-BASED MANAGEMENT (US\$ 350,000)

70. This set of activities will support the implementation and expansion RBM through training for senior staff and administrators in SEPLAG and sector departments as they assume responsibility for producing Annual Performance Reports. This training will include examples of international good practice, the characteristics of sound performance indicators, and methodologies for monitoring and evaluation.

B.2 “OUTPUT-RESULTS REPORTS” (3) (US\$ 60,000)

71. Over the course of project implementation, the GoC has committed to produce a total of 16 “Output-Results Reports” (ORR). In order to learn from private sector approaches to evaluation, and to have reports from a non-government provider to benchmark the quality of internally-produced evaluations, the project will support contracting with private providers to produce three ORRs.

B.3 PEFA (FIDUCIARY OVERSIGHT), FUNDING TO IMPLEMENT SELECTED RECOMMENDATIONS (US\$ 300,000)

72. The Financial Management Unit of the Bank will carry out a PEFA assessment in Ceará. Based upon the results of that assessment, a set of priority steps from the PEFA recommendations will be agreed for improving the state’s financial management practices and systems. These TA resources have been set aside to support those reform priorities.

B.4 OECD INDICATORS (PROCUREMENT), FUNDING TO IMPLEMENT RECOMMENDATIONS (US\$ 200,000)

73. During project preparation the World Bank organized a workshop with the GoC in October 2007 to carry out a participatory procurement capacity assessment with professional staff responsible for procurement in various government Secretaries. One of the priority goals defined in the Action Plan produced at the close of that assessment is integrate financial/accounting/budgeting/ procurement systems through S2GPR. Technical assistance under the SWAp II will be provided in support of that goal, which will improve not only procurement practices, but will put in place an information architecture that will improve data access for RBM.

B.5 DEVELOPMENT OF A PROCUREMENT PORTAL WITHIN THE SEPLAG/PGE WEBSITE (US\$ 60,000)

74. The Web portal will consolidate all information on Ceará government purchasing.

B.6 DISSEMINATION WITHIN GOVERNMENT AND TO CIVIL SOCIETY OF GOVERNMENT PROCUREMENT SYSTEM (US\$ 30,000)

75. For the new procurement system to operate fully, an informational campaign is necessary to educate business enterprises (potential suppliers) and the public about the merits and operation of the new system.

B.7 TRAINING FOR PUBLIC EMPLOYEES RESPONSIBLE FOR PROCUREMENT (US\$ 260,000)

76. Targeted employees will be trained in the principles and procedures of the reformed procurement system, as well as preventive audit techniques.

B.8 STUDY OF THE PENSION COSTS ASSOCIATED WITH KEY EMPLOYEE CATEGORIES, PARTICULARLY TEACHERS, AND REVIEW OF ACCURACY OF DATA IN PENSIONERS DATABASE (RECADASTRAMENTO) (US\$ 100,000)

77. In Rio Grande do Sul, the World Bank carried out a study of the increased costs to the state's pension system brought about by teachers choosing to increase their number of work hours or transfer to a "hardship" post within months of their retirement, which has the effect of substantially increasing their monthly pension payment for the life of their pension. The potential policy implications, when supported by quantitative data, proved compelling in the case of Rio Grande do Sul. GoC authorities will contract a specialist to carry out the same analysis for Ceará.

B.9 INSTITUTIONAL STRENGTHENING OF AUDIT AND CONTROL BODIES (US\$ 300,000)

78. These TA resources will target two organizations: SECON and the TCE (State Audit Court). SECON is the Secretariat for Internal Control, a government body responsible for carrying out regular internal audits of each government secretariat. SECON's reports are delivered to the TCE, an autonomous body that plays a crucial role in vetting public accounts and providing external accountability. The audit court will not perform its independent audit of a secretariat without a report issued by SECON.

Sector 2: Education

B.10 EVALUATION OF CE-JOVEM PROGRAM (US\$ 100,000)

79. This program aims to better prepare secondary students for university or the labor market with a focus on English, computer technology, and science and math training, including after-school study opportunities. The program has not been launched yet and its acceptance and impact are uncertain. Consequently, technical assistance funding is included to evaluate the program.

B.11 EVALUATIONS (2) OF THE USE OF STUDENT EXAM RESULTS IN MUNICIPAL SCHOOL DEVELOPMENT PLANS (US\$ 40,000)

80. It is critical that the student testing results serve not only to foster greater accountability, but that they also serve as valuable tools for improving the quality of education in the schools. The GoC, by carrying out comprehensive exams in grades 2 and 5, will provide school-level data that can and should be used by educators in municipal schools to address in their school development plans the specific shortcomings of their students, as revealed in the exam results. These TA resources will support two studies to examine the use of these test results and identify good practices.

Sector 3: Health

B.12 QUALITY OF CARE OF PSF/BASIC CARE SERVICES (US\$ 500,000)

81. This set of activities seeks to support the implementation and expansion of the AMQ quality program among Family Health Teams throughout the State. Financing is for consulting services to support SESA and the microregions with AMQ implementation, including training of trainers, and information technology for monitoring.

B.13 INSTALLATION OF STANDARDIZED COST-ACCOUNTING SYSTEMS IN HOSPITALS (US\$ 600,000)

82. This package of activities will support the introduction of cost-accounting systems in the main regional hospitals (*hospitais polo*) that receive state financing. TA funding will support consultant services, training, and information technology for these cost-accounting systems.

Sector 4: Water resource management and Water Supply & Sanitation

B.14 PRODUCE A PERFORMANCE INDICATORS GUIDE FOR THE SANITATION SECTOR (US\$ 70,000)

83. The purpose of this guide is to develop indicators that can be used a performance benchmarks for improved management, oversight and accountability.

B.15 EVALUATION OF APPROACHES TO ADDRESS POOR WATER QUALITY IN PROBLEM AREAS (US\$ 100,000)

84. Different regions of the state present different challenges with regard to treating water to ensure its quality and safety. This TA activity will produce an evaluation of the relative merits of different approaches to address the poor water quality in problem areas.

Sector 5: Business Environment & Innovation

B.16 EVALUATION OF BROADBAND INTERNET USE TWO YEARS AFTER INSTALLATION (US\$ 100,000)

85. The GoC expects to use the expanded access to the internet and other telecommunication services across the state to promote increases in private sector productivity. This includes anticipated improvements in the quality of education, worker training, and the growth of electronic commerce. The project is also expected to increase public sector efficiency, especially in the following areas: *Education*, with the implementation of distance learning programs and the automation of various administrative processes (e.g. academic, financial, human resources, etc.); *Health*, with the increased use of ICTs in hospitals and health centers both for improving the quality of health services and for administrative purposes; *Public Safety*, by facilitating the exchange of information on-line across civil and military police precincts. The project will fund a study to measure these effects as rigorously as possible.

B.17 WORKSHOP TO EXCHANGE EXPERIENCES ON USES OF BROADBAND INTERNET ACCESS (US\$ 40,000)

86. Some fruitful uses of broadband access will prove not to have been anticipated in advance, but instead reflect the creativity and entrepreneurship of new users. The project aims to spur horizontal learning between government administrators, businesses and NGOs by funding a workshop to bring these actors together to share their experiences, including obstacles to realizing even greater benefit from broadband access. A publication of “proceedings” from the workshop will be prepared and disseminated.

87. Note: The IFC recently approved a project to support implementation of a Municipal Simplification Program in northeastern states and municipalities, including Ceará and Fortaleza, respectively. The project is modeled on the successful implementation of a similar project in São Paulo, where an ongoing reform program focuses on improving processes for obtaining municipal Operating Licenses and construction permits. The new project will provide targeted technical assistance to assist municipal governments in implementing reforms to improve their regulatory and administrative processes. In addition to Fortaleza, the following municipalities in Ceará have already requested IFC technical assistance for business regulation simplification: Crato, Juazeiro do Norte, and Sobral.

88. A regional development World Bank project currently under preparation—“Cities of Ceará”—plans to use CENTEC’s centers in the Cariri region as the basis for providing training and technical assistance to SMEs.

Other TA

B.18 STRENGTHEN INTEGRATION OF INDIGENOUS ISSUES AND PERSPECTIVES IN PUBLIC POLICY (BASED UPON THE INITIAL GOC INDIGENOUS FRAMEWORK) (US\$ 40,000)

89. Improve government institutional capacity to address the views and concerns of indigenous peoples when they are beneficiaries or impacted by services in health and education. This capacity building will be directed to staff in the state Secretaries of Health and Education with regard to their assigned roles (i.e., these TA activities will not address not Federal competencies or FUNAI).

B.19 IMPROVE INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING FOR STATE INSTITUTIONS RESPONSIBLE FOR ENVIRONMENTAL MANAGEMENT (US\$ 40,000)

90. This activity will specifically support strengthening SEMACE, COEMA, COPAM, and policy integration between the three organizations.

B.20 SUPPORT TO IPECE FOR 2 PROJECT MANAGEMENT STAFF (US\$ 180,000)

91. Two support staff will be paid with technical assistance funds to support the core IPECE team implementing the project; and a small amount (US\$ 15,000) is set aside for office equipment.

B.21 CONTINGENCY FUND (US\$ 200,000)

92. A contingency fund of US\$ 200,000 is established to fund related TA activities that may arise. In the final year of the project, any unallocated TA contingency funds will be transferred to the SWAp component.

C. SUMMARY

93. Table 20 displays, for each sector supported by the SWAp II, the Eligible Expenditure Programs (with their PPA budget codes), the DLI and secondary indicators, and their associated technical assistance activities. Table 21 presents the budgeted amounts for each of the EEP.

Table 20: SWAp II Priority Programs, Indicators, EEP & TA

Priority Objectives and Problems Targeted	Indicators		Eligible Expenditure Programs (line items in the PPA)	Supporting TA
	Primary (Disbursement-Linked)	Secondary		
Public Sector - Fiduciary and Results-based management <ul style="list-style-type: none"> • Fiscal management • Procurement management • Mainstream results-based management 	<ul style="list-style-type: none"> • Current fiscal balance • Tax Concentration Index (Herfindahl Index) • Annual performance reports by Secretaries, validated by SEPLAG and COGERF • “Output-Results Reports” on priority PPA programs selected by COGERF 	<ul style="list-style-type: none"> • RBM information reflected in annual budget submission and in the Governor’s annual Address to the Assembly • Implementation of procurement reform recommendations (based on OECD Indicators diagnostic) • Implementation financial management reform (based on PEFA diagnostic) • Crossing pension cadastres with federal data bases to identify irregularities • Implementation of S2GPR (government RBM data base platform and systems integration) 	(Public sector umbrella programs do not have EEPs)	<ul style="list-style-type: none"> • Training and dissemination of results-based management • Contracting for three ORRs • PEFA: funding to implement selected recommendations • OECD Indicators (procurement): funding to implement recommendations • Procurement portal, dissemination of procurement system, and training for procurement personnel • Study of pension costs for key public employee groups • Institutional strengthening of audit and control bodies

Priority Objectives and Problems Targeted	Indicators		Supporting TA
	Primary (Disbursement-Linked)	Secondary	
Education Sector			
<ul style="list-style-type: none"> • Provide improved education results for planning and reform achievement • Achieve early-primary-school literacy 	<ul style="list-style-type: none"> • Annual State evaluations of student learning in 2nd, 5th, 9th and 12th grades • Municipalities with program "Literacy at the Right Age" operational 	<ul style="list-style-type: none"> • Evaluation of municipal implementation of "Literacy at the Right Age" program (one in 2009 and one in 2011) • Literacy achievement in 2nd grade 	<ul style="list-style-type: none"> • Evaluation study of the <i>CE-Jovem</i> program • Evaluations (2) of the use of student exam results in municipal school development plans
	<ul style="list-style-type: none"> • 041 Basic School Standards 20549 Manutenção e funcionamento das unidades do Ensino Fundamental • 048 Basic Education Quality in Rural and Urban School Zones 10669 Melhoria da aprendizagem dos alunos do Ensino Fundamental 10671 Melhoria da aprendizagem dos alunos do Ensino Médio 10675 Expansão do atendimento e melhoria da qualidade da Educação de Jovens e Adultos 10684 Apoio às ações para correção do fluxo e ampliação da jornada escolar • 058 Cooperation between States and Municipalities 10705 Política de cooperação entre Estado/municípios - Alfabetização na Idade Certa (crianças de 6 e 7 anos) 20420 Participação dos municípios na distribuição dos recursos do FUNDEB 20756 Transporte escolar para alunos do ensino médio 		

Priority Objectives and Problems Targeted	Indicators		Eligible Expenditure Programs (line items in the PPA)	Supporting TA
	Primary (Disbursement-Linked)	Secondary		
Health Sector				
<ul style="list-style-type: none"> • Upgrade quality of hospital and Family Health Team care • Improve hospital efficiency and cost effectiveness 	<ul style="list-style-type: none"> • Quality certification of Family Health Teams according to AMQ quality ranking system • Hospitals professionally licensed in accordance with ANVISA/ONA • Hospitals with standardized cost-accounting system 	<ul style="list-style-type: none"> • Population covered by Family Health Team visits • Bi-annual reports of the "Water Group" to combat childhood diarrhea resulting in hospitalization • Systematic collection and reporting of infant weight/height 	<ul style="list-style-type: none"> • 535 Secondary and Tertiary Healthcare 20143 Fortalecimento e ampliação da rede hospitalar de assistência secundária e terciária 20146 Funcionamento e melhoria das unidades próprias da SESA 20978 Contrato de gestão com o ISGH para gerir o Hospital Waldemar de Alcântara • 536 Primary Healthcare 10839 Reforço à estruturação física e tecnológica da atenção primária à saúde 20149 Expansão da atenção à saúde bucal na estratégia saúde da família - Sorriso da Família 20416 Melhoria da atenção à saúde da criança 20554 Projeto de expansão de equipes de saúde da família - PROESF - 2ª etapa: monitoramento e avaliação • 554 Management of Health Work and Education 20200 Manutenção do Programa Agente Comunitário de Saúde 	<ul style="list-style-type: none"> • Support to implement the AMQ system (quality certification) for Family Health Teams • Support to install cost-accounting systems in main hospitals (<i>hospitais polo</i>)

Priority Objectives and Problems Targeted	Indicators		Eligible Expenditure Programs (line items in the PPA)	Supporting TA
	Primary (Disbursement-Linked)	Secondary		
Water resource management & Water Supply and Sanitation				
<ul style="list-style-type: none"> • Improve financial health of the public water and sanitation companies (CAGECE and COGERH) including reduction in uncharged water • Meet demand for household water and sewerage connections 	<ul style="list-style-type: none"> • Billing for distributed bulk water (industrial, aquaculture, and irrigation) • Number of urban water and sewerage connections • Reduction in water losses ("unaccounted for water") by CAGECE 	<ul style="list-style-type: none"> • CAGECE EBITDA margin • CAGECE distributed water quality compliance ratio (by ARCE) 	<ul style="list-style-type: none"> • 711 Ceará Environmental Sanitation 10054 Estruturação de abastecimento de água em localidades urbanas • 10055 Estruturação de esgotamento sanitário em localidades urbanas • 10056 Estruturação de abastecimento de água em localidades rurais 	<ul style="list-style-type: none"> • Develop Performance Indicators Guide for the sanitation sector • Evaluation of approaches to address poor water quality in problem areas
Business Environment & Innovation				
<ul style="list-style-type: none"> • Accelerate sustainable growth through greater private sector participation by improving the business climate and particularly outside Fortaleza 	<ul style="list-style-type: none"> • Urban population in municipal centers with access to broadband internet service • Business registration in CGF completed within 72 hours 	<ul style="list-style-type: none"> • Reduction in the median number of days to issue state environmental licenses • Number of partnerships and/or service contracts between NUTECH and private firms 	<ul style="list-style-type: none"> • 033 Digital Ceará 50023 Implantação de rede de inclusão digital • 70022 Implantação da rede de tele-saúde • 194 – Strengthening Professional and Higher Education 10732 Melhoria da infra-estrutura da FUNECE • 20307 Desenvolvimento da educação profissional, da pesquisa e da extensão tecnológica em regime de co-gestão • 20330 Apoio ao desenvolvimento da educação superior e/ou da educação profissional • 20802 Fomento ao ensino, à pesquisa e à extensão - FUNCAP • 196 Technology Innovation, Research 	<ul style="list-style-type: none"> • Evaluation of broadband internet use one year after installation • Workshop to exchange experiences in utilizing broadband internet access

Priority Objectives and Problems Targeted	Indicators		Supporting TA
	Primary (Disbursement-Linked)	Secondary	
			<p>Eligible Expenditure Programs (line items in the PPA)</p> <p>and Scientific Development</p> <p>20350 Melhoria da infra-estrutura para o desenvolvimento científico e tecnológico</p> <p>20379 Elevação da competitividade das empresas cearenses através da inovação tecnológica</p> <p>20804 Apoio à melhoria da infra-estrutura para o desenvolvimento científico e tecnológico – FUNCAP</p> <p>20807 Fomento à realização de pesquisas e inovações tecnológicas – FUNCAP</p> <p>20808 Fomento à disseminação de informações em ciência, tecnologia e inovação – FUNCAP</p> <p>20817 Apoio à elevação da competitividade das empresas cearenses através da inovação tecnológica – FUNCAP</p> <p>20822 Melhoria da infra-estrutura para o desenvolvimento científico e tecnológico – NUTEC</p> <p>20839 Fomento à realização de pesquisas e inovações tecnológicas</p>

Table 21: EEP Budgets by Sector

Program Budget Number and Name	2008 (R\$ millions)	2009 (R\$ millions)	2010 (R\$ millions)	2011 (R\$ millions)	2008-2011 (R\$ millions)
Education					
041 – Basic School Standards	53.0	54.5	54.5	54.5	216.4
048 - Basic Education Quality in Rural and Urban School Zones	7.8	8.2	8.2	8.2	32.5
058 - Cooperation between States and Municipalities	625.2	647.2	647.2	647.2	2,567.3
Subtotal	686.0	709.9	709.9	709.9	2,815.8
Health					
535 - Secondary and Tertiary Health Care	158.3	134.1	162.2	92.0	546.5
536 – Primary Health Care	6.5	2.9	3.7	1.6	14.7
554 - Management of Health Work and Education	45.4	15.2	15.2	15.2	91.0
Subtotal	210.2	152.2	181.1	108.8	652.2
Water resource management & Water Supply and Sanitation					
711 – Ceará Environmental Sanitation	14.6	6.6	6.6	5.7	33.4
Business Environment & Innovation					
033 – Digital Ceará	4.5	5.8	5.8	5.8	21.9
194 – Strengthening Professional and Higher Education	47.1	48.2	48.2	48.2	191.8
196 – Technological Innovation, research and scientific development	14.8	17.7	22.8	10.1	65.5
Subtotal	66.4	71.8	76.8	64.2	279.1
SWAp II EEP TOTAL					3,780.5

Note: Budgets for 2009-2011 are projections. Actual budgets approved by the state legislature will be used for purposes of calculating compliance with the “70% rule.”

ANNEX 5. PROJECT COSTS

Brazil Ceará SWAp II

Project Cost By Component and/or Activity	Local US\$	Foreign* US\$	Total US\$
Disbursement against Eligible Expenditure Program (EEP) Expenditures	235,730,000		235,730,000
Technical Assistance Component	3,670,000		3,670,000
Project Implementation Unit	0		0
Total Baseline Cost	239,400,000		239,400,000
Total Project Cost	239,400,000		239,400,000
Front-end Fee	600,000		600,000
Total Financing Required	240,000,000		240,000,000

ANNEX 6. IMPLEMENTATION ARRANGEMENTS

1. The loan engages with six Secretariats, including an umbrella “sector” of Public Sector Modernization with activities that cut across a number of agencies located in different Secretaries. Project coordination responsibilities will be carried out by IPECE in the Secretary of Planning and Management (SEPLAG). This unit led the SWAp I development and implementation, and continues as the primary interlocutor for SWAp II project preparation. No separate project implementation unit is contemplated. Rather, the IPECE will assume loan coordination and implementation responsibilities as part of its ongoing responsibilities. It is satisfactorily staffed to coordinate the project and will continue to rely upon other units for assistance with procurement, financial monitoring and reporting activities. The Project Coordinator is the Director of IPECE.
2. Specifically, IPECE’s project coordination duties will comprise the following:
 - a. Ensuring general coordination with the Bank, the various Secretaries and Government stakeholders, and timely implementation of all loan activities so as to ensure compliance with loan conditionality (Eligible Expenditure Programs and DLI);
 - b. Monitoring, evaluating and reporting of loan activities in a timely manner as required by the Bank and State including the presentation of financial and performance reports (and, if necessary, “requests for reassessment”) as required by the Bank for disbursement;
 - c. Ensuring that financial reports are prepared and presented in accordance with Bank fiduciary oversight requirements and in a timely manner, including the presentation of State FMIS reports needed for disbursement against projected Eligible Expenditure Program (EEP) expenditures, those required to show actual EEP expenditures, and audit reports;
 - d. Ensuring that procurement is carried out following Bank rules for the loan’s SWAp and technical assistance components, including the preparation of procurement plans for the latter. Of particular importance will be the role of project coordinators in assisting in the preparation of TORs, procurement, contracting and implementation of public sector management studies in areas such as the operationalization of recommendations resulting from the PEFA and OECD procurement diagnostics. While TORs and procurement for major sector studies outside of SEPLAG will be primarily managed by the relevant secretaries, the project coordinator will assist in these efforts, provide assistance as needed, and monitor to ensure that they are carried out in a timely and responsible manner;
 - e. Ensuring satisfactory processing, implementation and completion of activities under the Public Sector Management sector of the loan;
 - f. Establishing and chairing a SWAp Supervision Committee that will hold regular supervision meetings involving stakeholders to track and monitor results and ensure that any necessary corrective measures are taken in order to comply with loan fiduciary requirements and to ensure that everything necessary is done to achieve the SWAps conditions;

- g. Hosting and facilitating Bank supervision missions and working with the Bank to optimize the operation's results and impact;
 - h. Disseminating results in such a manner as to strengthen reform constituencies and ensure the carrying out of reforms deriving from SWAp studies and recommendations.
3. Note that, as indicated in (f) above, a SWAp Supervision Committee will be reconstituted to supervise loan implementation. The Committee will meet at least once a month to report on progress, especially relating to EEP expenditures, indicators and TA activities. IPECE/SEPLAG will chair the Committee. Its membership will include the representatives from the line secretaries and agencies responsible for indicators and EEP compliance or technical assistance (and any other important stakeholders). Under the SWAp I, this Committee structure assured exchange of information between different sectors, regular progress updates, and early identification of problems.
4. Ceará has for at least a decade been one of the Bank's main clients. It is currently implementing a Bank education loan and preparing an Additional Financing request for the PROGERIRH (WRM) loan. Consequently, there is sufficient capacity and experience to ensure that fiduciary oversight—procurement and financial management and reporting—are carried out in accordance with Bank requirements. Each participating secretary will be primarily responsible for implementing its sector commitments, meeting its performance indicators and related tasks.
5. Following the SWAp I model, the specific responsibilities to be carried out by participating line secretaries include the following:
- a. Implement EEPs (and other programs) in a timely and efficient manner so as to ensure compliance with EEP disbursement requirements and achievement of disbursement-linked and secondary indicators;
 - b. Participate in SWAp Supervision Committee activities and collaborate closely with the IPECE to report interim and final results and to identify and resolve any problems that may arise such as impediments to program implementation (e.g., delayed budget release, slow procurement processing, etc.);
 - c. Develop TORs for specific studies and manage procurement and contracting;
 - d. Oversee study implementation as well as follow-on activities to ensure appropriate implementation of such recommendations;
 - e. Take the lead in any and all sector interactions with municipalities as required to implement the loan and achieve its objectives;
 - f. Provide sector expertise as appropriate to ensure optimization of results and their subsequent dissemination to build support for reforms and ensure the sustainability of institutional strengthening, including inter-agency and state-municipal relations.
6. The responsibilities of Project Coordinator and line secretaries are well understood by now given the experience of SWAp I, and it is anticipated that implementation arrangements for SWAp II will run smoothly, given this experience.

ANNEX 7. FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS

1. A financial management assessment of the State of Ceará was carried out as part of the preparation of the Ceará SWAP II “Inclusive Growth” program. The assessment was completed in accordance with OP/BP 10.02, and relied on the principles of the Financial Management Practice Manual (November 2005). The assessment, which built on the preparatory work completed for the Ceará Multi-sector Social Inclusion Development program (SWAP I operation), as well as the 2004 Ceará State Financial Accountability Assessment, was based on field work led by Bank staff, including a review of the state’s public financial management system. The 2004 report on the state’s public financial management system can be found in the project files.
2. All financial management aspects of this project will utilize the state of Ceará’s public financial management system, possibly including the State Court of Accounts (TCE), to meet the Bank’s requirement for external audit.
3. **Program Implementation.** The program will be implemented using the State’s public financial management systems. While the coordination of the program is managed by the Secretary of Planning and Management (SEPLAG/IPECE), the financial management of the program will be under the responsibility of the Secretary of Finance (SEFAZ)²⁹. The design of this program is such that the day-to-day financial management operations, including budget execution and transaction processing, will be carried out by budget and administrative divisions in the line secretaries (e.g., health, education). State and Bank advances will be pooled as the Bank will disburse to the State Treasury.
4. **Program Expenditures Component.** This component finances about \$235 million of program expenditures, meaning that the Bank will periodically disburse a percentage of Eligible Expenditure Program (EEP) expenditures. The EEP are part of the State’s own budget and investment program. The expenditure mechanism satisfies Bank policy, in particular OP 6.0’s three pillars: (a) expenditures are productive, (b) they contribute to solutions within a fiscally sustainable framework, and (c) acceptable oversight arrangements are in place. Specifically, in relation to cost sharing the State has demonstrated ownership and commitment for these programs. The State’s ownership and commitment are seen in the prioritization of these expenditures in the Multi-year Budget (PPA).
5. Loan disbursements will include a retroactive disbursement against actual EEP expenditures paid by the State before loan signing. This will be followed by six 6-month advances against projected EEP expenditures and a final disbursement (reimbursement) against actual EEP expenditures. Annual disbursements are capped to assure that adequate incentives are in place to complete the program of loan activities and benchmarks.

²⁹ The level of responsibility of SEFAZ is for the overall management and functioning of the state’s budget, accounting system (SIC), and also includes preparation of budget/financial, treasury and disbursement reports for program and Bank management.

6. **Modules of the FM System.** SEFAZ is responsible for managing the State's financial management systems—the budget (SIAP) and accounting (SIC) systems. The budget execution system is uploaded with information from the planning process. It maintains all programs and investments, as well as approved budget allocations. The *Sistema Integrado de Contabilidade* (SIC) is a robust information system designed to comply with the state's fiscal and budgetary laws. SIC has a budget execution module that allows it to track the State's program expenditures against budgeted amounts.³⁰ It is centralized at the Secretary of Finance and extends to all executing agencies responsible for state budget execution.

7. SIC identifies the programs (EEP) that will be supported by the Bank through accounting codes where sources and uses of funds will be recorded. Financial statements will be produced on a regular and timely basis from this information. The State PFM review evaluated the robustness of SIC and concluded that it can provide financial information for the purpose of supporting the Bank project. Adequate internal control mechanisms and procedures are also in place.

8. **Banking arrangements.** The borrower will use the State's single treasury account as a Designated Account (DA) for Component 1 of the project (DA-1). Disbursements to DA-1 will therefore be made in Reais and pooled with other funds. Disbursements will consist of a retroactive reimbursement (retro financing), six advances and a final reimbursement.

9. The State Treasury will disburse these budget resources to the EEP and other budgeted programs as usual, except that particular care will be taken to ensure that disbursements to EEP are timely and sufficient to ensure conditions of disbursement are met.

10. Bank disbursements for Component 2 (TA) will be made to a segregated Designated Account (DA-2) for loan proceeds only. The Bank will disburse advances directly to this account in Reais (R\$).

11. **Accounting and Financial Reporting.** The State's accounting procedures and policies will be followed and will serve as the basis for preparation of project Financial Statements. These accounting policies and procedures reflect the Fiscal and Budgetary Law. The State has consistently applied these public accounting policies and procedures which are acceptable to the World Bank (the cash-basis of accounting is used).

12. The State's accounting system will record the source and use of Bank resources disbursed under Component 1 (EEPs) as *fonte* (source) 40 for external or foreign funding/financing sources. As in Ceara SWAp I, loan resources will not be recorded in the EEPs identified in the Loan Agreement. In other words, EEPs will not show the Bank loan as a source of financing. The State's commitment in the loan agreement is: (i) to achieve the performance targets; and (ii) to finance the EEPs at a level of at least 70% of the budget forecast. Loan proceeds consequently will finance other activities. These uses will be identified by *fonte* 40.

³⁰ SIC is populated with the data from the budget system (SIAP) once the budget is approved by the Legislative Assembly.

13. Some standard financial reports are also produced directly by the SIC system. The GoC relies on the accounting framework norms dictated by the Federal Internal Control Agency (*Secretaria Federal de Controle*, SFC) and the Federal Accounting Council (*Conselho Federal de Contabilidade*, CFC). The regular production of accounting records and financial statements,³¹ as well as the performance of routine reconciliations, has facilitated the preparation of State financial statements.

14. All financial management reports³² containing EEP program expenditures will be prepared by SEFAZ. Preparation of quarterly financial reports by the Secretary of Finance is part of the normal routine required under the Fiscal Responsibility Law. These reports show program expenditures in each quarter compared to the budget and will be used for the documentation of eligible expenditures. The reports will also show achievement of primary surplus, portfolio targets and disbursement-linked indicators. An appropriate format for the required reports³³ has been agreed and the ability of the Secretary of Finance to generate them has been verified. They will also be used by the Bank and the State to calculate the end of year disbursement.

15. The format of customized SOEs (EEP spending reports) will essentially follow the format of existing government reporting, to the extent possible. A description of the reports is indicated below.

SOE 1A – Report on the Sources and Uses of Funds (by EEP), cumulative (project-to-date; year-to-date) and for the period, showing budgeted amounts versus actual expenditures, including a variance analysis.

SOE 1B – Forecast of Sources and Uses of Funds (by EEP) for the period, showing budgeted amounts.

16. **Oversight and Control Framework.** The State's control framework for oversight of budget and financial data is robust. Ceará has implemented a new internal control system, which is headed by the Secretariat for Internal Control (SECON). SECON carries out regular internal audits of each government secretariat, and its reports are given to the State Audit Court (TCE). The audit court will not perform its independent audit of a secretariat without a report issued by SECON.³⁴

17. SECON's scope of work is not limited to internal or compliance audits. SECON regularly reviews the State's compliance with the targets set forth in the Fiscal Responsibility Law (FRL). It also leads analytical reviews of state expenditures to look for areas for increased efficiency in public spending. SECON is the agency that oversees the implementation of the Procurement

³¹ Including reports required under Articles 54 and 55 of the FRL.

³² These financial reports meet the requirement for the production of Interim Financial Reports (IFR), as is required under all Bank-financed operations.

³³ The project financial reports will follow the same format as what had been produced under the first Ceará SWAP operation (P082142).

³⁴ SECON audit reports issue a certificate that attests to the audited secretary's compliance with budget rules and laws, and that considers that all expenditures are "legal".

Quick Gains initiative—which piloted a new process to leverage government bulk purchasing in order to reduce per unit costs of goods and services.

18. **External Audits.** It is a Constitutional requirement that the State Court of Accounts (*Tribunal de Contas do Estado*, TCE-CE) verify the Governor’s accounts every year and submit a report to the Legislative Assembly for approval. The TCE-CE audit report is submitted to the Legislative Assembly by June 15 of each year.

19. The Bank normally requires the borrower to submit a copy of the audit report on the project no later than six months after the end of each fiscal year, or June 30. However, since the Legislative Assembly has not approved the TCE-CE audit report in a timely fashion, and therefore the state audit report is usually not made public for at least 6 months after the report is delivered in June, the TCE-CE and the Bank reached an agreement during the Ceara SWAp I (August 2007) on audit Terms of Reference through which the annual TCE-CE audit report would be made available to the Bank:

- a. Part A:
 - i. Annual Audit Report on the State’s accounts delivered to the Bank by June 30 of the following year.
 - ii. Audit Report on the executing agencies and the nine EEPs included under the loan by December 31 of the second year following the year subject to audit.
- b. Part B: The Audit Report on the TA Component to be delivered to the Bank by June 30 of the following year

20. The State has delivered the Part A audit reports to the Bank required to date under the Ceara SWAp I. Disbursements under the Part B TA Component are included in the accounts subject to the Part A Annual Audit Report of the State, and Part B expenditures have therefore been deemed to have been audited under the Part A audit requirement.. Actual TA disbursements under SWAp I were much lower than originally planned and have been immaterial to the financial statements of the project.

21. The External Audit risk rating is “high,” as shown in Table 23 at the end of this annex. As a mitigation measure to counter the audit delays and backlogs, the TCE-CE has implemented a program to upgrade its internal quality assurance process (ISO 9001). The TCE-CE has nearly eliminated its backlog of audit work. (While the annual state audit is current, the audit of individual state secretaries still lags.) Notwithstanding this, the use of country systems, including the use of the state auditor to audit the project accounts, remains a Bank priority. Consequently, the Bank will seek to identify and implement mitigating measures that might permit the TCE-CE to perform the audit, at least for year one of the present loan. Alternative audit arrangements would be agreed if the year one audit were not delivered to the Bank as per the loan agreement. Such mitigating measures might include audit TOR consistent with the loan agreement requirements, State prioritization of the audit of project EEPs, training and agreement on audit techniques and increase Bank FM supervision.

22. Audit reports received to date have been delivered late and failed to fully address the eligibility of expenditure objective. There were several contributing factors: 1) Audit TOR were agreed to late between the Bank and the Executive Branch but were not formally agreed to by the TCE, 2) planned training to the TCE was not provided and 3) Bank FM supervision could have been more effective. These SWAp I failures provide strong lessons learned for SWAp II and underpin the mitigating measures described above.

23. **Technical Assistance Component.** Up to US\$ 3.67 million of the Ceará SWAp II will be dedicated for technical assistance expenditures, including studies and expert consultant assistance for public sector modernization, including government audit. These funds will be disbursed and accounted for using Bank procurement and disbursement rules.

24. **Disbursements and Flow of Funds Arrangements.** Disbursements will be semi-annual for the EEP component and as-needed for the TA component, subject to Bank minimum disbursement amount practices. Disbursement will be based on customized Statement of Expenditure (a.k.a. EEP Spending Report) for the SWAp component and Statements of Expenditure (SOEs) for the TA component. The reports will show program expenditures incurred in the programs described by project documents (PAD) and calculation of amounts to be disbursed by the Bank.

25. In accordance with normal Bank procedures, disbursements will be for eligible expenditures incurred or to be incurred under the program. Disbursements will also be subject to disbursement conditions as described below:

26. **Disbursement Schedule** (see Table 22). The SWAp II framework for funding priority expenditures, including indicators, is similar to the first loan. The defining characteristics follow:

- There will be one retroactive disbursement against EEP eligible expenditures of up to 30% of the loan.
- Disbursements two through seven will be advanced against six-month projections of EEP expenditures. The use of these advances will be reported in the subsequent period.
- Secretariats' annual budgets will be included in the Loan Agreement and a "70% rule" will be applied to disbursements three, five, seven and eight, requiring that at least 70% of each EEP budget is spent by the GoC during the preceding calendar year.³⁵ (The total disbursement amount will be reduced by 10% for each EEP that does not disburse at least 70% of its budget in the preceding year.)
- In addition, disbursements five, seven and eight are contingent upon the GoC meeting the performance conditions set by disbursement-linked indicators (14 indicators across five sectors).
- In the case that one or more DLI is not fully met, the legal agreement will spell out how the undisbursed amount can be rolled over to future disbursement requests.

23. It is important to note that for disbursement purposes, the Project will use Customized SOEs that provide summary information on expenditures paid using project financing. However, the annual audit of the Project will review detailed supporting documentation of eligible

³⁵ For the 2008 calendar year, 50% of each EEP budget must be executed to satisfy this rule.

expenditures. Therefore, it is important that SEPLAG monitor the overall resources – Bank and Government’s – project performance from a financial management point of view. Thus, SEPLAG should routinely monitor:

- planned/budgeted figures;
- amounts transferred to municipalities;
- actual expenditures reported by municipalities;
- reallocation of unspent balances; and
- reconciliation between amounts transferred, actual expenditures reported by municipalities, and eligible expenditures.

24. Taking into account that the Bank will finance only a small share of a large “pool” of eligible expenditures, the auditor will need to review documents and other evidence showing that expenditures in the budget line items supported by the loan are eligible, and express an opinion on: (i) the annual financial statements; and (ii) that eligible expenditures cover the amount of Bank financing. Bank financing will not be recorded in the EEPs, and therefore will not appear in the Statement of Sources and Uses. Consequently, the audit will not be able to directly link Bank financing to the eligible expenditures.

25. **Retroactive Disbursement.** The project includes a retroactive disbursement of approximately US\$ 47 million to take place immediately after Loan effectiveness for eligible expenditures paid in the 12 months prior to loan signing.

26. **Disbursement-linked indicators and performance targets.** The loan will disburse against aggregate EEP expenditures. In addition to the incurrence of eligible expenditures, the State and the Bank have agreed that the State’s performance must meet or exceed periodic performance targets for the Bank to disburse loan proceeds. These performance targets are herein referred to as disbursement-linked indicators (DLIs). The value of each DLI is calculated as the total disbursement amount for the period—after applying the 70% rule—divided by the number of disbursement-linked indicators (14).

Table 22: Ceará SWAp II Disbursement Schedule (assuming loan effectiveness in 09/08)

Disbursement		Disbursement Type	Estimated Amount \$m	Reporting Requirements
Number	Date			
1	October/08	Retroactive	47.0	<ul style="list-style-type: none"> Up to 20% of paid eligible expenditures in 12 months prior to signing.
2	October/08	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Disbursement against 6 months of projected EEP expenditures ^{1/}
3	April/09	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Report previous six month actual expenditures ^{2/} Comply with the “70% rule” during the previous calendar year ^{4/}
4	October/09	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Report previous six month actual expenditures ^{2/}
5	April/10	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Report previous 6 month actual expenditures ^{2/} Comply with CY09 disbursement-linked indicators (DLI) ^{3/} Comply with the “70% rule” during the previous calendar year ^{4/}
6	October/10	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Report previous 6 month actual expenditures ^{2/}
7	April/11	Advance vs. 6-month projected EEP expenditures ^{1/}	27.0	<ul style="list-style-type: none"> Report previous 6 month actual expenditures ^{2/} Comply with CY10 disbursement-linked indicators (DLI) ^{3/} Comply with the “70% rule” during the previous calendar year ^{4/}
8	April/12	Vs. Actual EEP expenditures for the previous 6 months	27.0	<ul style="list-style-type: none"> Report previous 12 month actual expenditures ^{2/} Comply with CY11 disbursement-linked indicators (DLI) ^{3/} Comply with the “70% rule” during the previous calendar year ^{4/}
TA	TA Component	Traditional disbursement modality using SOEs	3.7	Note: Any unused resources from the TA contingency fund will be reallocated to the 8 th disbursement and prorated across the DLI indicators.

^{1/} Subject to a maximum disbursement equal to the disbursement ratio (30%) multiplied by the aggregate estimated Eligible Expenditure Program (EEP) expenditures for the next six months.

^{2/} Actual expenditures for the previous six-month period must be sufficient to justify the previous disbursement, which was made as an advance against a projection of the prior six months of budget execution.

^{3/} SWAp disbursements are always against pooled EEP; however, meeting the agreed DLI performance targets are conditions of disbursement (as explained above).

^{4/} The “70% rule” means that during the previous 12-month period the GoC must have executed at least 70% of the budgeted amount for each EEP. The total amount eligible for disbursement in the period will be reduced by 10% for each EEP where the “70% rule” is not satisfied. For the third withdrawal, in relation to the 2008 calendar year, the disbursement for each EEP must be at least 50% of the budgeted amount.

27. **Indicators.** The determination of whether indicators are satisfactory for the purposes of disbursement will be made on the basis of EEP reports to be presented to the Bank with necessary documentation verifying that they have been satisfied. The Bank will, at its convenience and with the full assistance of the State, verify the findings presented in these reports. Should there be any discrepancy found such that the satisfaction of the indicator is not validated then the Bank will, at its discretion, determine whether none or partial compensation is justified.

28. **Program Risk Assessment.** The Risk Assessment Matrix (Table 23 below) presents the items of potential risk for the program from a Financial Management standpoint. Even though most of the individual dimensions of risk have been rated as low, the residual (or overall) Financial Management risk associated with the project is rated as **moderate** due to the complexity of this investment program.

Table 23: Financial Management Risk Assessment & Mitigation

Risk	H	S	M	L	Identified Risks & Mitigation Measures
Inherent Risks:					
Country specific				X	Brazil's system provides reliable information. Adequate systems exist to manage and track the receipt and use of funds and there is a high level of fiscal transparency, both of which would support any program of adjustment lending. The risk to both Bank and country funds is low.
Sub-national (state) level				X	Good performance with respect to FRL requirements and indicator related to public financial management and fiscal transparency
Overall Inherent Risk				X	
Control Risks:					
Implementing Agency				X	IPECE (SEPLAN) and SEFAZ have highly qualified technical staff to manage the operation and to provide guidance and oversight to all implementing line secretariats.
Accounting				X	Strong accounting function and monitoring of monthly balances of government accounts
Financial Reporting				X	Regular financial reporting
Flow of Funds				X	Good treasury management
Internal Audit				X	
External Audit	X				Continued (slight) backlog in audit of state secretaries. Legislative Assembly does not approve TCE-CE audit reports in a timely manner. Late delivery of audit reports under SWAp I and weaknesses in audit approach to test eligibility. Mitigating measures would include revised audit TOR, training, agreement on audit techniques and increased Bank supervision..
Overall Control Risk			X		Due to complexity and size of the operation

H-High S-Substantial M-Moderate L-Low

29. **Financial Management supervision during implementation.** During the first year of implementation, two or more FM supervisions would be carried out. FM supervision should focus on preparation of financial reports, the government's tracking of Bank financing (fonte 40), government monitoring of transfers to municipalities and municipalities' documentation of the use of transfers, compliance with audit requirements and implementation of mitigation measures to reduce audit risk. This will be complemented by desk reviews of the Interim Financial Reports and the annual State audit. Thereafter, the supervision intensity may be reduced, if merited.

ANNEX 8. PROCUREMENT ARRANGEMENTS

A. General

1. This operation is a US\$ 240 million loan and addresses multiple sectors. It comprises a US\$ 235.7 million SWAp component and a US\$ 3.67 million Technical Assistance Component. The SWAp II framework for funding priority expenditures, including indicators, will be similar to the first loan. The defining characteristics follow.

- There will be two components—SWAp and TA. The SWAp portion will disburse against the aggregate of 10 GoC Eligible Expenditure Program (EEP) expenditures. The TA component will disburse against SOEs.
- Each EEP will have been budgeted and formally approved by the GoC, appearing with a budget code and in the PPA. As in the first loan, State financial systems will be used to track and report EEP budget estimates and actual expenditures for purposes of Bank financial management.
- A disbursement ratio of 30% will form the upper limit for the amount to be disbursed during any given period against aggregate EEP expenditures. Disbursements are expected to be less than the amount allowed by the disbursement ratio.
- Disbursements will include a 20% retroactive outlay followed by a total of 8 disbursements that will likely take place at six month intervals against estimated EEP expenditures. In addition, the US\$ 3.67 million TA component will be disbursed over the life of the project.
- Secretariats' estimated annual budgets will be included in the Loan Agreement and a "70% rule" will be enforced requiring at least 70% of each actual EEP budget (as approved by the legislature) to be spent by the GOP in order to activate loan disbursement.³⁶
- SWAp resources will go to the State Treasury and not to individual EEPs.
- SWAp disbursement estimates and actual expenditure data will be provided by GoC systems reports.

2. Given the nature of SWAp program, funds flow to the Treasury and there is no SWAp program incrementality. Thus, it has been determined that no procurement plan will be required for the SWAp program expenditures, except for goods and works above the prior review thresholds and consulting services with firms above US\$100,000. Procurement under each of the EEP may be done making use of the procurement methods as defined in the local procurement law but subject to the caveats below and reiterated in the loan agreement. The Capacity Assessment, the State Procurement Assessment Report and a series of Bank loans—including the first SWAp—confirm that the GoC is capable of carrying out procurement satisfactorily for this operation. It is also worth noting that the technical assistance component is supporting a significant State procurement reform addressing key areas identified during the self evaluation of the state procurement systems through the application of the OECD procurement indicators.

³⁶ For the 2008 calendar year, 50% of each EEP budget must be executed to satisfy this rule.

3. Procurement for the TA component of the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004 and revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised October 2006, as well as the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed under the TA component of the Loan, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually, or as required to reflect the actual project implementation needs and improvements in institutional capacity.

4. **Procurement of Works:** Works procured under this project may include schools construction and rehabilitation. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National SBD agreed with or satisfactory to the Bank for all NCB. Under the SWAp component, up to the NCB threshold of US \$15,000,000, works may be procured in accordance with the following procurement methods and the respective thresholds as provided for under law 8.666 that will be accepted are: "*convite*"; "*tomada de preços*" and "*concorrência*". All contracts estimated to cost more than US\$10,000,000 equivalent per contract will be subject to prior review by the Bank.

5. **Procurement of Goods:** Goods procured under this project may include computer equipment and peripherals, office equipment and furniture. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank for all NCB. Under the SWAp component, up to the NCB threshold of US \$5,000,000, goods may be procured in accordance with the following procurement methods and the respective thresholds as provided for under law 8.666 that will be accepted are: "*convite*"; "*tomada de preços*" and "*concorrência*". Procurement of goods may also be carried out in accordance with the method known as "*pregão eletrônico*", as provided in Brazil's Pregão Law No. 10,520, of July 17, 2002, under "COMPRASNET", the procurement portal of the Federal Government, or any other e-procurement system approved by the Bank, for contracts estimated to cost less than \$5,000,000. All contracts estimated to cost more than US\$1,000,000 equivalent per contract will be subject to prior review by the Bank.

6. **Procurement of non-consulting services:** Non-consulting services to be procured under the project include: printing services, small technical services, logistics for training events and workshops. Under the SWAp component, up to the NCB threshold of US \$5,000,000, non-consulting services may be procured in accordance with the following procurement methods and their respective thresholds as provided for under law 8.666: "*convite*"; "*tomada de preços*" and "*concorrência*". Procurement of non-consulting services may also be carried out in accordance with the method known as "*pregão eletrônico*", as provided in the Brazil's Pregão Law No. 10,520, of July 17, 2002, under "COMPRASNET", the procurement portal of the Federal Government, or any other e-procurement system approved by the Bank, for contracts estimated to cost less than \$5,000,000. All contracts estimated to cost more than US\$1,000,000 equivalent per contract will be subject to prior review by the Bank.

7. **Selection of Consultants:** Individual consultants or consulting firms to be procured under the project include specialists in monitoring and evaluation, cost accounting, information technology, and audit. Short lists of consultants for services estimated to cost less than \$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All contracts estimated to cost more than US\$500,000 equivalent per contract will be subject to prior review by the Bank.

8. Services of consulting firms and individual consultants, under the SWAp component of the Project, estimated to cost less than US\$100,000 and US\$50,000 equivalent, respectively, may be procured in accordance with the methods of “*técnica e preço*” and/or “*melhor técnica*” as provided for in the Procurement Law No. 8666, of June 21, 1993, as amended to the date of this Agreement.

9. Under component 1 (SWAp), a procurement plan is required for ICB and NCB above the prior review thresholds as well as for consulting firms above US\$100,000. A procurement plan will be required for component 2 (TA). With respect to all other expenditures subject to procurement processes, the Bank will carry out post review of program-related documentation and contracts, as part of normal supervision.

10. **Operating Costs:** During project preparation, it was agreed that operating costs would include staff-related expenses, supplies, and miscellaneous expenses. The operating costs which will be financed by the project will be procured using the implementing agency’s administrative procedures which were reviewed and found acceptable to the Bank.

11. **Others:** The need for special arrangements for scholarships, grants, etc., was not identified during project preparation.

12. The procurement procedures and standard bidding documents to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the project’s Operations Manual.

13. Considering that the procurement risk has been rated as **average**, the prior review and procurement method thresholds were defined as follows:

Table 24: Procurement Methods & Thresholds

SWAp COMPONENT

Expenditure category	Contract value threshold (US\$ thousands)	Procurement method	Processes subject to prior review
Works	≥ 15,000	ICB	All processes
	< 15,000	NCB	All processes above US\$10,000,000
Goods	≥ 5,000	ICB	All processes
	< 5,000	NCB	All processes above US\$1,000,000
Non-consulting services	≥ 5,000	ICB	All processes
	< 5,000	NCB	All processes above US\$1,000,000
Consulting (firms & individuals)	≥ 200	QCBS/QBS	The first process under each selection method and all processes above US\$500,000
	< 200 ≥ 100	LCS/CQS	
	< 100	<i>“técnica e preço”</i> and/or <i>“melhor técnica”</i> as provided for in Procurement Law No. 8666	
Individual consultants	< 50		
Direct contracting			All cases regardless of the amounts involved
Agreements			All cases regardless of the amounts involved

TECHNICAL ASSISTANCE COMPONENT

Expenditure category	Contract value threshold (US\$ thousands)	Procurement method	Processes subject to prior review
Goods	≥ 5,000	ICB	All processes
	< 5,000 ≥ 100	NCB	First process and all processes above US\$ 1,000,000 thereafter
	< 100	Shopping	First process.
Non-consulting services (incl. training, communication)	≥ 5,000	ICB	All processes
	< 5,000 ≥ 100	NCB	First process and all processes above US\$ 1,000,000 thereafter
	< 100	Shopping	First process
Consulting (firms)	≥ 200	QCBS/QBS	All processes
	< 200 ≥ 100	LCS/CQS	First process under each selection method
	< 100	LCS/CQS	
Individual consultants		Section V in the Guidelines	
Direct contracting			All cases regardless of the amounts involved
Agreements			All cases regardless of the amounts involved

B. Assessment of the agency's capacity to implement procurement

14. An assessment of the capacity of the Implementing Agencies to implement procurement for the project was carried out in October 2007. The capacity assessment included organizational aspects, staff skills, quality and adequacy of supporting and control systems, and suitability of the laws, rules and regulations applicable to the agency. Table 25 summarizes the key features of an action plan to strengthen the weak areas identified through the capacity assessment.

Table 25: Action Plan: Strengthening the procurement function in the State of Ceará.

Description	Responsible Actor
1. Structure a Web-based, unified Procurement Portal	SEPLAG
2. Integrate financial / accounting / budgeting / procurement systems through S2GPR. Provide support in some of the activities presently under implementation by the state information technology company (ETICE)	SEPLAG/SECON ETICE
3. Develop a state Procurement Manual including Standardization of bidding documents for goods, services and works.	PGE
4. Structure a career for procurement specialists in the public sector and develop a permanent training plan.	SEPLAG
5. Develop and implement a performance evaluation system of the state's procurement function.	SEPLAG
6. Support the preventive auditing project	SECON
7. Support the consolidation and implementation of a transparency and ethics state system	SECON

C. Procurement Plan

15. The Borrower, at appraisal, will have developed a procurement plan for project implementation of the TA component which provides the basis for the procurement methods. This plan will be agreed between the Borrower and the Project Team prior to project presentation to the Board. The Procurement Plan will be available on the project's database and on the Bank's external website. The Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

16. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agencies has recommended yearly supervision missions to visit the field to carry out post review of procurement actions. A yearly external procurement audit, acceptable to the Bank, will be required to assess and verify compliance with the local law of a sample of processes procured from the pool of funds. As a result of the post

reviews and external procurement audits, the Bank will be in a position to identify any cases of noncompliance and apply the remedies provided for in the Loan Agreement.

17. The Bank will declare misprocurement in any misprocured contract funded by the whole pool of funds, and will have the option of canceling from its loan (or requesting reimbursement of) an amount equivalent to the contract amount multiplied by the Bank’s percentage participation in the pool of funds.

18. In order to mitigate the inherent risk of the SWAp operation and the corresponding use of country systems, a series of performance indicators to be applied during post reviews and/or supervision missions are proposed. These indicators will help to identify areas of high risk and issues that required special attention:

- Average # of days between advertising and bid opening
- Average # of days between bid opening and contract award
- Average # of bids/proposals received under each procurement method
- Percentage of rejected bids/offers in each process
- Number of direct contracts (dispensa de licitação) and % in relation to # of processes
- % de variation between estimated value and actual contract amounts
- % de variation between original contract amounts and final contract amount

E. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non-Consulting Services

(a) List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
	N/A							

(b) ICB contracts for Goods and non-consulting services estimated to cost above US\$500,000 per contract and all direct contracting will be subject to prior review by the Bank.

(c) ICB contracts for Works estimated to cost above US\$10,000,000 per contract and all direct contracting will be subject to prior review by the Bank.

2. Consulting Services

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
N/A						

(b) Consultancy services (firms and individuals) above US\$100,000 and US\$50,000 respectively and all single source selection of consultants will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

ANNEX 9. ECONOMIC AND FINANCIAL ANALYSIS

1. Ceará SWAp II is a multi-sectoral operation that supports programs and activities in different areas. The Government's priority programs supported by the Bank's SWAp operations are summarized in Table 26 below. Some of these programs are better evaluated by their cost-effectiveness, while others are amenable to more traditional cost-benefit analysis. However, as a SWAp supporting the government's program, a detailed economic assessment does not apply and was not undertaken.

Table 26: Ceará Development Agenda Priorities Addressed by the operation

CPS Paradigmatic Challenges	Ceará SWAp Sectors and Emphasis
Fiscal & Public Sector Management	<i>Public Sector Management.</i> Expansion and consolidation of results-based management, combined with judicious fiscal and fiduciary management. Diagnostic tools for financial management (PEFA) and procurement (OECD Indicators) have been completed and an action plan is funded under the TA component.
Private Sector Development	<i>Business Environment & Innovation.</i> Installation of state-wide of broadband internet network and connections, and better economic performance through an improved business-friendly environment.
Infrastructure	<i>Water resources & sanitation.</i> Institutional strengthening of the water company, emphasizing charging for water use and profit margins; continuation of efforts to extend household connections to water and sanitation
Human Development & Education	<i>Health.</i> Strengthened primary, secondary and tertiary care, with emphasis on the quality of care to accompany expanding coverage. <i>Education.</i> Institutional strengthening and improved performance through annual testing programs, emphasis on early primary literacy and performance incentives.

Sector 1: Public sector management

2. The present project supports Ceara's commitment to develop further the good public sector management practices that have been adopted in the state in recent years including prudent fiscal management and special emphasis on mainstreaming Results Based Management.

3. Fiscal sustainability and cost effectiveness are targeted through the choice of programs to be supported in this operation, the setting of disbursement-linked indicators and institutional strengthening initiatives (see Annex 4). These include a number of initiatives that will generate not only significant improvements in expenditure efficiency and quality but also increase revenues and reduce expenses.

4. Strengthening fiscal and fiduciary oversight and institutionalizing results-based management (RBM) in policy setting and public administration will have a positive impact the efficiency and effectiveness of the entire government, including the targeted sectors. The SWAp I initiated some preliminary, positive steps toward judicious fiscal management and RBM. In this second SWAp, fiscal indicators have been selected to reflect the emphasis on growth: instead of using the more commonly-adopted primary surplus indicator, the project will target the gross operating balance, which takes into account the need to preserve (or even expand) the level of public investment while maintaining fiscal discipline.

5. Expanding and mainstreaming RBM is identified as perhaps the single most important activity supported by the SWAp II. Consequently, while the broad objectives for Public Sector Management remain the same, the activities and indicators have been adjusted from the first APL to the second.

Sector 2: Education

6. Education is considered an investment in the collective future of societies, rather than simply a contribution to an individual's success³⁷. Indeed, lower educational attainment is a significant factor explaining Brazil's disappointing growth performance since the 1980s. The education gap between Brazil and South Korea is responsible for growth rates 15% to 30% lower than would otherwise be expected for Brazil³⁸. In other words, the more educated is the workforce, the better is it able to implement technological advances³⁹

7. Empirical evidence confirms the importance of education for economic growth: by analyzing 19 middle-income and less-developed countries, a study conducted by UNESCO found that, for every additional year of adult schooling there is a 3.7 percent increase in the long-term economic growth rate. The same work concluded that physical capital investment is correlated with growth in early stages of industrialization, but educational attainment eventually becomes the stronger driver of economic growth with industrial development.⁴⁰

8. Brazil has made steady improvements in education. Today, a 5-year-old school child can be expected to stay in school twice as long as adults from just one generation ago⁴¹. With elementary education virtually guaranteed, the next step is to improve education quality and secondary and tertiary completion rates in order to prepare the country for the demands of a knowledge-based society. An analysis of data from Portuguese and Mathematics test scores demonstrates the high impact of the student's socio-economic status. The importance of socio-economic conditions indicates how the educational system traditionally reproduces social inequities and provides a justification for GoC efforts at compensatory educational programs that

³⁷ UNESCO (2002). "Financing Education – Investments and Returns." Analysis of the World Education Indicators."

³⁸ See Barros, R. P.; Mendonça, R. (1997). "Investimentos em educação e desenvolvimento econômico." Texto para discussão nº 525. IPEA and Behrman, J. (1996). "Human Resources in Latin America and the Caribbean." Washington: Inter-American Development Bank.

³⁹ Dowrick, S. (2003) "Ideas and Education: Level or Growth Effects?". NBER Working Paper No. W9709.

Available at SSRN: <http://ssrn.com/abstract=408205>

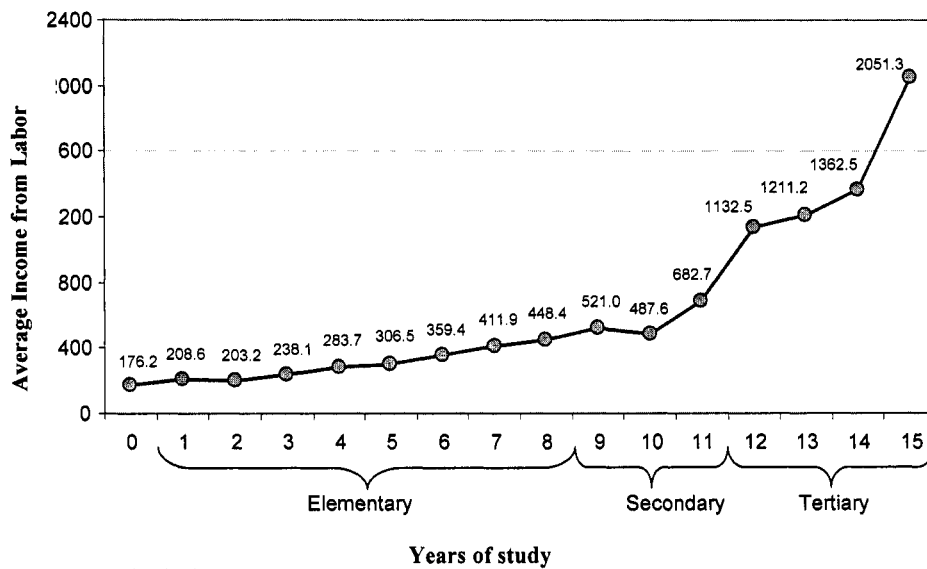
⁴⁰ See UNESCO (2002), op. cit.

⁴¹ See UNESCO (2002), op. cit.

seek to reverse this tendency, such as the early childhood literacy program *Alfabetização na Idade Certa* – something taken for granted for children from upper-income quintiles because they learn to read at home.

9. In the case of Ceará, as in the case of Brazil in general, the low level of education of the labor force tends to lead to high private returns to education. In the chart below we show that the premium to the quantity of education—measured in years of education of an individual—is high and that it increases with higher levels of education. The low premia to primary education is an indication of the fact that primary education alone is not sufficient to garner an earnings differential in the labor market which increasingly needs at least a secondary level of education.

Figure 7: Earnings as a Function of Years of Study in Ceará (2006)



Source: PNAD/IBGE/IPECE

Sector 3: Health

10. Poor health lowers GDP per capita by reducing both labor productivity and the relative size of the labor force. In fact, the initial health of a population has been identified as one of the most robust and potent drivers of economic growth. Countries that have low levels of income but high levels of health are expected to experience relatively faster economic growth as their incomes adjust.⁴²

11. An early groundbreaking study concluded that roughly 30 percent of the income growth of a group of selected countries and territories—and even more for the poorest of them—was

⁴² Bloom, David E.; Canning, D.; Sevilla, J. (2004). “The Effect of Health on Economic Growth: A Production Function Approach.” *World Development* 32 (January): 1–13.

accounted for by declines in mortality⁴³. Another studied showed that GDP per capita is raised by about 4 percent for one extra year of life expectancy⁴⁴.

12. Health indicators in Brazil have improved in recent years, both through direct and indirect policies that have had positive effects on the country's economy. Infant mortality fell by 72 percent between 1970 and 2000 thanks to improvements in education and sanitation services, as well as increases in per capita income⁴⁵. However, Brazilian health expenditures remain well below developed countries levels⁴⁶.

Sector 4: Water resource management & Water Supply and Sanitation

13. One of the major issues affecting water utilities in Brazil is the considerable high levels of unaccounted for water (UFW), also called "non-revenue water." This is the difference between the amount of bulk water put into the distribution system and the amount of water billed to customers. High levels of UFW reflect huge volumes of water being lost through leaks, failure to invoice customers, or both. It affects the financial viability of water utilities through lost revenues and increased operational costs. Although CAGECE is one of the best performing utilities in the northeast region, UFW remain at high and inconstant levels, as shown in Figure 8 below.

14. Although it is not feasible to eliminate all UFW in a water utility, reducing the current level of losses is a realistic target. This reduction could generate an estimated additional R\$ 10.2 million for the water company from 2008 to 2011 (from both increased revenues and reduced costs), and save enough water potentially to service an additional 100,000 people without any new investments in production facilities nor drawing further on scarce water resources.

15. The project also expects to expand water supply and sanitation to about 284,000 people living in urban areas serviced by CAGECE (or about 35,000 new clients). Considering the current average payment of R\$ 1.98/m³, these added connections will generate an additional cash flow of about R\$ 3.3 million over four years. Considering both UFW reduction and increase of clients from subsidized investments CAGECE may have a direct benefit of about R\$ 13.5 million in four years.

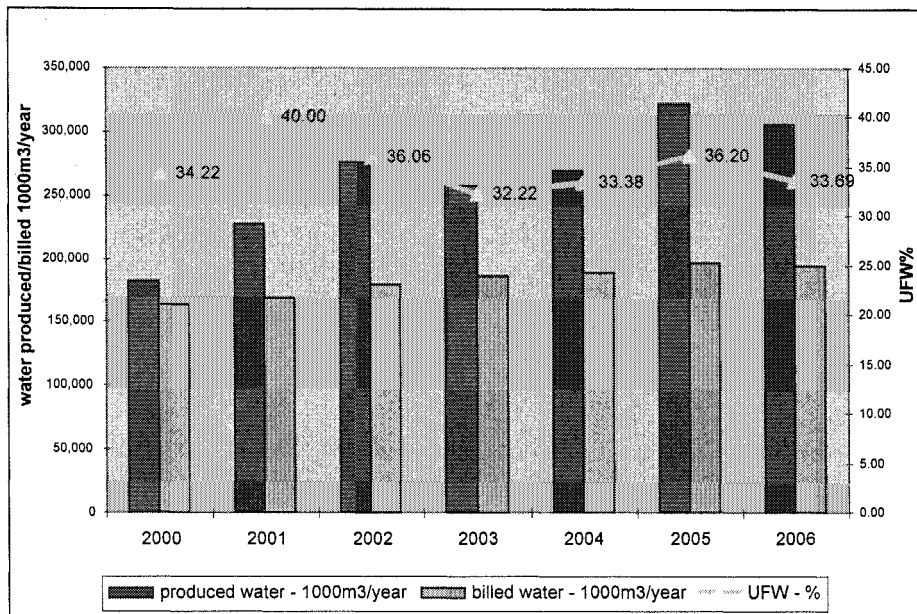
⁴³ Usher, D. (1973) "An Imputation to the Measure of Economic Growth for Changes in Life Expectancy," in *The Measurement of Economic and Social Performance*, edited by Milton Moss (New York: Columbia University Press for National Bureau of Economic Research). Available at <http://www.nber.org/chapters/c3616.pdf> (accessed in 1.1.2008)

⁴⁴ See Bloom, Canning, and Sevilla (2004), *op. cit.*

⁴⁵ Alves, D.; Belluzzo, W. (2005), "Child health and infant mortality in Brazil," Research Network Working papers; R-493. IADB.

⁴⁶ In 2003 Brazil spent in health US\$ 597 per capita, or less than 8 percent of its GDP, whereas the median for OECD almost 11 percent of the GDP. Ocké-Reis, C. O. (2006) "Sistemas de saúde comparados: gasto, acesso e desempenho." IPEA. Available at <http://www.ipea.gov.br/sites/000/2/destaque/seminario0237.pdf> (accessed on 1.1.2008)

Figure 8: CAGECE Unaccounted For Water, 2000-2006



16. The total benefit from increased WSS coverage and UFW reductions is far greater than the financial effect for CAGECE. Infectious diarrhea is primarily caused by water-borne and water-washed diseases. From a health perspective improving access to safe water supply and sanitation services is a preventive intervention, whose main outcome is a reduction in the number of episodes of diarrhea and accordingly a proportionate reduction in the number of deaths. According to the World Health Organization (WHO)⁴⁷, evidence shows that improved water supply and sanitation radically reduces population illness. Access to in-house regulated piped water and sewerage connection, with partial treatment of wastewaters, could achieve an average global reduction of 69% of diarrhea morbidity.

17. Beyond reducing the water-borne and water-washed diseases, providing better access to improved water and sanitation confers many other diverse benefits ranging from the easily identifiable and quantifiable (costs avoided, time saved) to the more intangible and difficult to measure (convenience, well-being). WHO estimates that achieving the water and sanitation MDG target would bring economic benefits ranging from US\$3 to US\$34 per US\$1 invested, depending on the region. Additional improvement of drinking-water quality, such as point-of-use disinfection, in addition to access to improved water and sanitation would lead to a benefit ranging from US\$5 to US\$60 per US\$1 invested. If we take the most conservative WHO estimate of economic benefit for improved WSS (i.e., US\$5 per US\$1 invested) the total economic benefit from the projected expansion of water supply and sewerage connections included in the Ceará SWAP II project would be estimated at R\$ 658 million.⁴⁸

⁴⁷ Guy Hutton and Laurence Haller (2004), "Evaluation of the Costs and Benefits of Water and Sanitation Improvements at the Global Level," Geneva: WHO.

⁴⁸ Calculation based on an average price of R\$2,000 for a WSS connection, and 3.75 people per household and 1.15 households per connection.

Sector 5: Business Environment & Innovation

(a) Innovation

18. The economic literature has documented the role of technological innovation as a key source of income and employment growth. In developing country contexts, and especially at the sub-national level, investments should be geared towards promoting technology transfer to local firms and to strengthening local R&D capabilities so that Ceará will be in a better position to take advantage of the existing stock of knowledge at the national or even global level. Government intervention in this area is justified on the basis that the market for knowledge and technology presents a series of failures that lead to sub-optimal private investments in new technologies.

19. Market failures arise in this area because of significant positive externalities and spillovers, which make the social return on R&D expenditures much larger than the private return. As argued by Hausman and Rodrik (2003) this reasoning applies not only to the generation of knowledge that is new in a global perspective, but also to the first introduction of foreign ideas in a country where they have not been tested on a commercial basis. Other relevant market failures are related to possible indivisibilities in innovation expenditures which imply that full in-house provision of R&D is prohibitive for all but very large firms. Moreover, the high risk and long term horizon associated to R&D investments create serious obstacles for private financing of those activities. Finally, given that technological knowledge is to a large extent tacit and non-codifiable, the government has a role to play in bringing together and coordinating the various agents and institutions involved in its production and use. With similar motivations many countries have created specific programs to support the technical and managerial upgrading of SMEs, both individually and through consortia, in order to help them reach the standards required for supplying large exporting companies and/or to overcome “export entry barriers” in a cost-effective manner.

20. As for the economic rationale for providing state support to the development of broadband services, it is based, first, on a general consensus that those services will have a significant impact on economic activities and will accelerate economic development, including through positive impacts in e-commerce, education, healthcare, entertainment and e-government. E-commerce, for example, has the potential to assist SMEs in the marketing and distribution of their goods and services, while also expanding their markets and improving their internal efficiency. Moreover, increased access to ICTs (including the internet) in rural areas can facilitate access to market and technical information, and thus lead to increases in agricultural productivity. Other important potential benefits of the diffusion of ICTs are related to the improvement of governance through improved decision making and public administration, improved service provision (e.g., in health and education) and the empowerment of civil society through expanded access to government information.⁴⁹

21. Given these potential benefits, a second rationale for state support is the recognition that whereas the promotion of competition in infrastructure can go a long way to boost broadband access, in geographical areas where private investments are not likely to be forthcoming,

⁴⁹ See Grace, Keny and Qiang (2004).

government assistance may be needed in order to ameliorate the digital divide. Castro and Kester (2003) conclude that a common theme to the broadband policies of several OECD countries—including the U.S., Canada, France, Ireland, Sweden, and South Korea—is an active role of government in bringing broadband connectivity to every citizen at a reasonable price, especially in those areas where the market will not provide them in the coming years. It is crucial, however, to avoid pushing connectivity without the commitment of local communities, and the presence of an adequate demand for the corresponding services. Moreover, it is critical to implement policies in parallel aimed at increasing the potential benefits of connectivity by developing applications in areas such as healthcare, distant learning, e-government, etc. Finally, the public broadband infrastructure should be open to all operators and service providers, such that the development of some technologies is not stifled at the expense of others, and regulation is used sparingly and only to encourage investments and to promote competition.

(b) *Business Environment*

22. As argued by Perry et al. (2007), the level of firm informality in any given situation is likely to be based on private cost/benefit analyses that take into account the firms' and entrepreneurs' assets and productivity and the characteristics of the business environment in which they operate. In this perspective, some of the main private *benefits* of informality are the avoidance of the time and costs associated with compliance with government regulations, including those related to tax registration and payments. As for the main *costs* of informality, they include the risk of being caught, and a more limited access to markets—both for inputs such as credit, and for outputs such as government services (e.g., contract enforcement and SME support programs)—which may restrict the ability and incentives of informal firms to expand.

23. Small and young firms are more likely to be informal because of their larger reliance on local markets and implicit contracts—with more limited use of formal contract enforcement mechanisms—and their larger reliance on internal sources of finance as well as on credit from family and friends. When and if firms expand, the need for wider markets, formal contracts and external sources of finance increase, as do the relative benefits from formality.

24. Despite the fact that firm formality may be affected by a number of different factors, there is now considerable empirical evidence on the potential impact that reductions in the time and cost required for starting a business can have on informality. In particular, recent papers have estimated the impact of specific reform programs aimed at simplifying and expediting the process of firm registration. Thus, Kaplan et al. (2006) and Bruhn (2007) have analyzed the effect of the Mexican SARE program that allows for firm registration procedures to be completed within three days. Kaplan et al. find that SARE led to an increase of between 4 and 8 percent in the *flow* of new registered firms. Bruhn (2006), on the other hand, finds that SARE increased the fraction of registered businesses—the *stock*—by 5.6 percent. In addition, in the case of Colombia, Cardenas and Rozo (2007) have evaluated the impact of so-called Enterprise Service Centers (*CAEs* or *Centros de Atencion Empresarial*), which greatly simplified procedures and reduced the time for registering businesses. Using an empirical approach similar to that of Bruhn (2007), Cardenas and Rozo (2007) find that CAEs led to an average increase of 5.2% in the number of firms registered in the corresponding cities, after controlling for city and country-level GDP, as well as for other time and city effects. These results are quantitatively

similar to those obtained by Kaplan et al. (2006) for Mexico. They suggest that administrative simplification programs aimed at reducing the transaction costs associated with operating legitimate businesses, including by taking advantage of internet-based technologies and one-stop-shops, can be effective tools to tilt the incentives of small firms towards formalization.

(c) Human Development

25. The quality of human capital is a key determinant of economic development, which places investment in health and especially in education at the center of the growth discussion. Economists differentiate investment in human capital from investment in physical capital such as machinery. Broadly speaking, accumulation of capital has positive effects on the economy in the short-run, but its impact decreases as the capital stock outpaces the limited land and labor resources. The underlying assumption is the diminishing returns to capital accumulation. Investing in education and health, on the other hand, has significant impact on long-run growth because of its direct impact on labor productivity and indirect impact on total factor productivity.

26. Government authorities in Ceará have conducted econometric analysis of economic growth across municipalities, providing linkages with the regional aspects of the Inclusive Growth strategy. They used Cobb-Douglas style functions and tested labor (formal employment), physical capital (proxied by energy consumption), human capital (proxied by average education levels or the number of pupils completing high school), and infrastructure (proxied by a composite index of urbanization, and connections to water and electricity). One test uses census data from 1991 and 2000 and covers a sample of 151 municipalities, while another test uses annual data for 2000-2004 and covers 177 municipalities. The preliminary results suggest that both human capital formation and investment in physical capital provide the greatest growth impacts in urban areas, even though all of these variables have statistically significant and positive impacts on growth⁵⁰.

Fiscal Sustainability

Projected Fiscal Situation 2007-2020 and the impact of the proposed SWAP II World Bank operation

27. In this section, Ceará's fiscal situation is projected in order to assess the impact of the proposed World Bank operation on state fiscal conditions. Two scenarios are depicted: a baseline scenario without the lending operation and a second scenario with the SWAp II lending operation. The projections look at the evolution of operating and primary balances and resulting net lending/borrowing and indebtedness, as well as the compliance with the Fiscal Responsibility Law indicators.

28. The main hypotheses for both projections are presented in Table 27 below. Market expectations, extracted from the Central Bank Report "Market Readout," were used to set values for inflation, GDP growth and the exchange rate in these exercises.⁵¹ The projection of the

⁵⁰ See presentation "Determinantes do Crescimento Economico do Estado do Ceara" (IPECE).

⁵¹ The expectation was from the January 4, 2008.

baseline scenario and the scenario including the World Bank operation indicate a very comfortable fiscal situation. The projection exercise shows that fiscal sustainability is assured: decreasing indebtedness levels and increasing investment expenses – mostly financed by robust operating balances and to a lesser extent by new credit operations –, will lead to lower but still large primary balances.

Table 27: Assumptions for Financial Projections

Variables	Assumptions
Base year figures (2006)	Ceará Government's Fiscal Management Report 2006
Macroeconomic/demographic	
Population growth	1.45% in 2007, 1.41% in 2008, and decreasing to 1.14% in 2015 and 0.99% in 2020 (IBGE projection).
GDP growth	5.2% in 2007, 4.5% in 2008, and 4.0% from 2009 to 2020 in the basic scenario. The scenario with the WB operation assumes that growth will accelerate to 4.4% from 2009 to 2011, to 4.7% from 2011 to 2014, and to 5.3% from 2015 to 2020.
Inflation rate	4.4% in 2007, 4.3% in 2008 and 4.5% thereafter.
Exchange rate	Central Bank Market Expectations from 2007 to 2011, varying with inflation afterwards.
Revenue	
ICMS	Increase with GDP growth and inflation
IPVA	Increase with population growth and inflation
Social Contributions	Increase with population growth and inflation
Others	Increase with GDP growth and inflation
Transfers	
Total Transfers (current and capital)	Increase with GDP growth and inflation
Other Current Revenues	Increase with population and inflation
Capital Revenues	
Credit Operations	Obtained from Fiscal Adjustment Program 2007-2009 agreed with the National Treasury Secretariat
Capital Transfers	Average of 2003 to 2006 levels, and increase with inflation onwards
Expenditures	
Current Expenditures	
Personnel, including social security benefits	Increase with population growth and inflation
Goods and Services	Increase with population growth and GDP growth
Transfers to municipalities	Increase with GDP growth and inflation
Interest payments	Obtained from Debt Department of SEFAZ Ceará
Capital expenditures	
Investment	Average from 2003 to 2006 for 2007 and increase with GDP growth, population growth and inflation and financial assets availability
Capital transfers	Increase with inflation and GDP growth
Amortizations	Obtained from Debt Department of SEFAZ Ceará
IBRD Loan	US\$ 240 million, grace period 7 years, maturity 15 years Annual interest rate of 5.25% (including other fees). Annual disbursements obtained from the Program Document.

29. Figure 9 below shows that, as a consequence of higher investment levels (about 3 percentage points higher), the World Bank operation would reduce the state primary balance, operating balances (due to the effect of higher interest payments) and lending/borrowing requirements during the implementation period 2008 to 2012. On the other hand, revenues would improve since, starting in 2009, GDP growth would accelerate as a consequence of improvements in the business environment and gains in the education and health of the population. Net consolidated debt under the SWAp II World Bank lending scenario would be about 3 percentage points higher than the baseline projection. Afterwards, state indebtedness trends will converge under both scenarios. Other Fiscal Responsibility Law indicators will be maintained below the legal ceilings. In summary, the lending operation will allow Ceará to increase investment expenses without putting medium-term fiscal sustainability at risk.

Figure 9: Evolution of main fiscal variables & impact of World Bank operation, 2008-2020

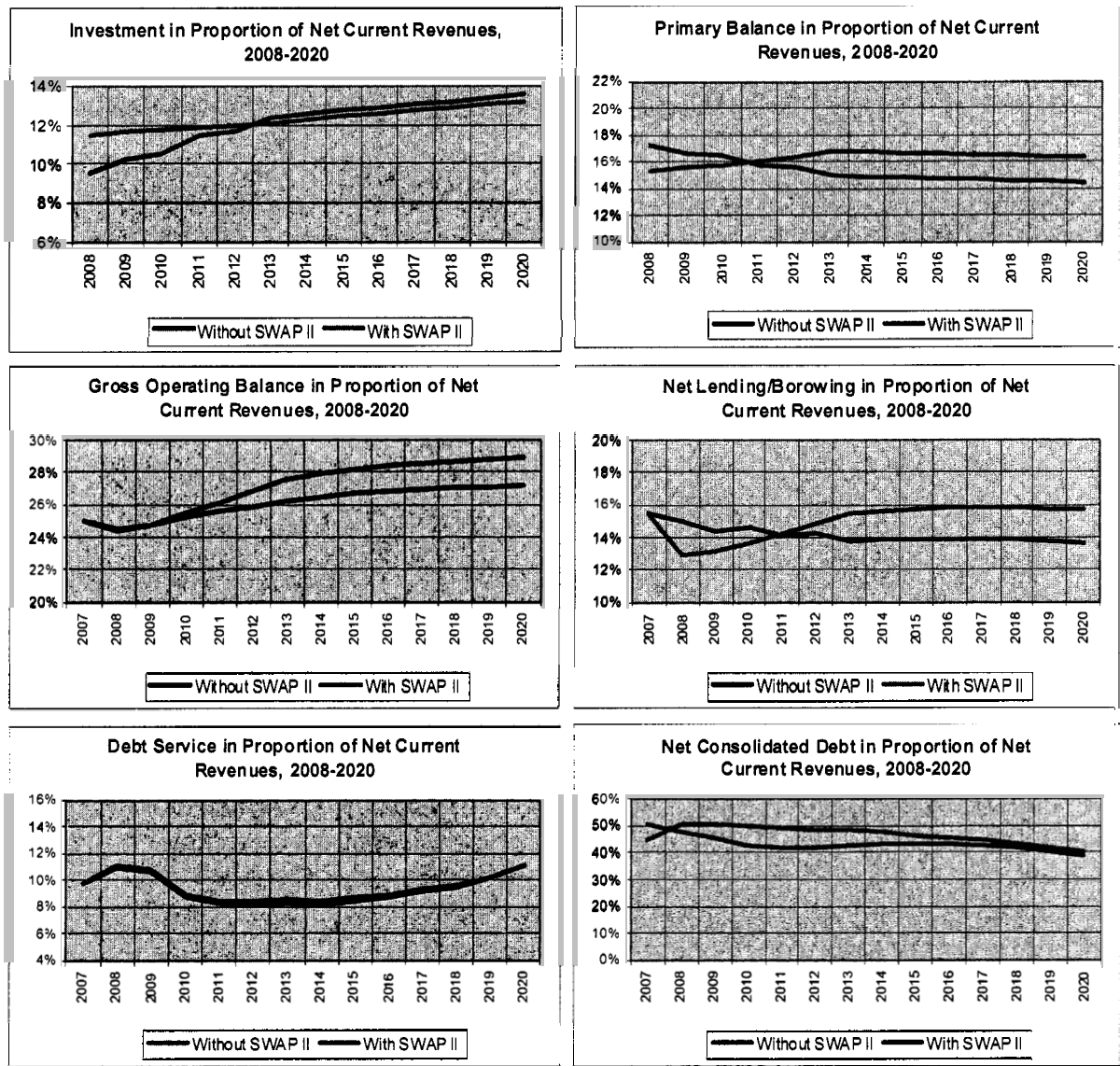


Table 28: Ceará Fiscal Projections 2008-2020, Baseline Scenario (without World Bank Operation)

in R\$ million

	2006*	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7.212	9.401	10.221	11.070	12.009	13.029	14.140	15.346	16.654	18.073	19.613	21.282	23.092	25.053	27.180
Taxes	3.853	4.170	4.538	4.927	5.348	5.806	6.303	6.842	7.428	8.064	8.755	9.505	10.320	11.204	12.165
Soc. Contributions	3	648	685	726	769	814	861	911	963	1018	1075	1135	1199	1266	1336
Transfers	3.049	4.221	4.601	5.000	5.434	5.906	6.418	6.975	7.581	8.239	8.954	9.731	10.576	11.494	12.491
Other Revenues	307	363	397	418	459	504	558	618	683	753	829	910	998	1.090	1.189
Deductions:	1.179	2841	3097	3366	3658	3975	4320	4695	5103	5546	6027	6550	7119	7737	8408
Net Current Revenue	6.033	6.560	7.125	7.705	8.352	9.054	9.820	10.651	11.552	12.528	13.586	14.732	15.973	17.317	18.772
Expense	6.016	7.763	8.475	9.168	9.905	10.715	11.597	12.558	13.601	14.736	15.972	17.315	18.773	20.359	22.079
Comp. of Employees	2.490	3.642	3.922	4.220	4.541	4.887	5.258	5.658	6.089	6.552	7.052	7.590	8.170	8.795	9.469
Goods and Services	1.179	1.406	1.553	1.711	1.885	2.075	2.283	2.511	2.761	3.035	3.335	3.663	4.023	4.416	4.847
Interest Payments	229	223	298	315	320	337	361	393	430	475	529	592	664	746	837
Trans. to Munic.	1.726	1.990	2.169	2.357	2.562	2.784	3.026	3.289	3.574	3.884	4.221	4.588	4.986	5.419	5.889
Pensions	392	503	532	564	597	632	669	707	748	790	835	882	931	983	1.037
Gross Operating Bal.	1.196	1.638	1.746	1.902	2.104	2.315	2.543	2.788	3.053	3.337	3.641	3.967	4.318	4.695	5.102
Investment	1.197	619	680	791	879	1.034	1.142	1.318	1.449	1.593	1.750	1.922	2.111	2.317	2.543
Primary Balance	153	1.136	1.228	1.284	1.379	1.423	1.531	1.592	1.717	1.853	2.000	2.158	2.330	2.514	2.714
Net Lending/Borrow	-1	1.019	1.066	1.111	1.225	1.281	1.401	1.471	1.604	1.744	1.891	2.045	2.208	2.377	2.558
Financial Transact.	35	-191	-248	-160	-25	81	98	168	207	210	215	191	192	136	29
New Loans	577	228	233	339	381	486	539	654	720	791	869	955	1048	1151	1.263
Amortizations net	-941	-419	-482	-501	-409	-407	-444	-489	-515	-583	-657	-767	-859	-1.018	-1.237
Asset sales	399	0	2	2	2	2	2	2	3	3	3	3	3	3	3
Total Balance	33	828	818	951	1.200	1.362	1.499	1.639	1.811	1.955	2.106	2.236	2.400	2.513	2.587
Debt to NCR ratio	58%	41%	48.0%	45.3%	42.8%	42.0%	42.1%	42.5%	43.0%	43.3%	43.2%	42.6%	41.6%	40.4%	38.8%
New Loans ratio	10%	3.3%	4.4%	4.6%	5.4%	5.5%	6.1%	6.2%	6.3%	6.4%	6.5%	6.6%	6.6%	6.7%	6.8%
Personnel expenses	48%	50%	49%	49%	48%	48%	48%	47%	47%	47%	46%	46%	45%	44%	44%
Debt Service	19%	9.8%	11.0%	10.6%	8.7%	8.2%	8.2%	8.3%	8.2%	8.4%	8.7%	9.2%	9.5%	10.2%	11.0%

Table 29: Ceará Fiscal Projections 2008-2020, Scenario with World Bank Operation

in R\$ million

	2006*	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7.212	9.401	10.221	11.093	12.059	13.127	14.301	15.589	16.921	18.369	19.939	21.643	23.490	25.492	27.663
Taxes	3.853	4.170	4.538	4.949	5.398	5.904	6.463	7.082	7.689	8.348	9.063	9.840	10.683	11.599	12.594
Soc. Contributions	3	648	685	726	769	814	861	911	963	1018	1075	1135	1199	1266	1336
Transfers	3.049	4.221	4.601	5.000	5.434	5.906	6.418	6.975	7.581	8.239	8.954	9.731	10.576	11.494	12.491
Other Revenues	307	363	397	418	458	504	559	621	689	765	847	936	1.032	1.133	1.242
<i>Deductions:</i>	1.179	2.841	3.097	3.366	3.658	3.975	4.320	4.695	5.103	5.546	6.027	6.550	7.119	7.737	8.408
<i>Net Current Revenue</i>	6.033	6.560	7.125	7.728	8.401	9.152	9.981	10.894	11.819	12.823	13.912	15.092	16.371	17.755	19.255
<i>Expense</i>	6.016	7.763	8.483	9.181	9.925	10.737	11.622	12.582	13.624	14.758	15.991	17.333	18.790	20.374	22.092
Comp. of Employees	2.490	3.642	3.922	4.220	4.541	4.887	5.258	5.658	6.089	6.552	7.052	7.590	8.170	8.795	9.469
Goods and Services	1.179	1.406	1.553	1.711	1.885	2.075	2.283	2.511	2.761	3.035	3.335	3.663	4.023	4.416	4.847
Interest Payments	229	223	306	328	340	359	386	417	452	496	549	610	680	761	850
Trans. to Munic.	1.726	1.990	2.169	2.357	2.562	2.784	3.026	3.289	3.574	3.884	4.221	4.588	4.986	5.419	5.889
Pensions	392	503	532	564	597	632	669	707	748	790	835	882	931	983	1.037
<i>Gross Operating Bal.</i>	1.196	1.638	1.739	1.912	2.135	2.390	2.680	3.007	3.297	3.611	3.948	4.309	4.700	5.118	5.571
<i>Investment</i>	1.197	619	815	898	989	1.089	1.198	1.318	1.449	1.593	1.750	1.922	2.111	2.317	2.543
<i>Primary Balance</i>	153	1.136	1.093	1.200	1.319	1.466	1.636	1.831	1.978	2.136	2.308	2.493	2.693	2.910	3.144
<i>Net Lending/Borrow</i>	-1	1.019	924	1.014	1.146	1.302	1.482	1.690	1.849	2.019	2.198	2.387	2.589	2.801	3.028
<i>Financial Transact.</i>	35	-191	-112	-53	84	125	135	142	176	175	179	154	155	98	-10
New Loans	577	228	368	446	491	541	595	654	720	791	869	955	1.048	1.151	1.263
Amortizations net	-941	-419	-482	-501	-409	-417	-462	-515	-546	-618	-693	-803	-896	-1.056	-1.276
Asset sales	399	0	2	2	2	2	2	2	3	3	3	3	3	3	3
<i>Total Balance</i>	33	828	811	961	1.230	1.427	1.617	1.831	2.025	2.194	2.376	2.541	2.744	2.899	3.018
<i>FRL Indicators:</i>															
Debt to NCR ratio	58%	41%	50.7%	50.6%	49.6%	48.9%	48.8%	48.2%	47.3%	46.4%	45.6%	44.7%	43.4%	42.1%	40.5%
New Loans ratio	10%	3.5%	5.2%	5.8%	5.8%	5.9%	6.0%	6.0%	6.1%	6.2%	6.2%	6.3%	6.4%	6.5%	6.6%
Personnel expenses	48%	50%	49%	49%	48%	48%	48%	47%	46%	46%	45%	44%	44%	43%	42%
Debt Service	19%	9.8%	11.1%	10.7%	8.9%	8.5%	8.5%	8.6%	8.4%	8.7%	8.9%	9.4%	9.6%	10.2%	11.0%

Sensitivity Analysis

30. Using the World Bank lending operation as the underlying scenario, a sensitivity analysis exercise is performed. The purpose of this section is to identify the most important risks to future financial performance of the Ceará state government. The analysis is based on a set of potential risks considered most important and assesses the state's financial performance sensitiveness to each of them. Changes in revenues (tax and current transfers) and expenditures (personnel and other current expenditures – without interest and constitutional transfers) will be considered as well as changes in the most important economic determinants of state fiscal sustainability, economic growth, and the exchange rate.

31. The main conclusion of this section is that, only very large adverse shocks would threaten the healthy financial situation of Ceará. The projection exercise in the previous section depicted a comfortable fiscal situation during the period analyzed. This finding is in part the result of the sound current financial situation and the better performance of current revenues in comparison with the performance of current expenses that allow the State to increase investment expenditures. Behind the better performance of revenues is the hypothesis of higher economic growth (which affects revenue) *vis-à-vis* the population growth (which affects expenditures). In this sense, even if a negative development forces the State to fail to comply with the legal requirements for a few years, the assumption about GDP and population growth rates will guarantee the return to a sustainable path.

i) Revenues

32. The debt level indicator (net consolidated level to net current revenue ratio) is sensitive to changes in revenues, as it depends directly on the latter. However, since the debt level is well below (58 percent) the FRL ceiling of 200 percent, only extremely large variations in revenue can make Ceará disrespect the legal requirement.

33. A large decrease of 20 percent of the state ICMS would revert the decreasing path of state indebtedness, however, even in this adverse scenario, Ceará would comply the FRL requirement of indebtedness. The personnel expenditures to net current revenue ratio would continue below the legal ceiling as well as the new loans to net current revenue ratio. The only indicator above the FRL limit would be the debt service under such large adverse shock.

34. A reduction of 25 percent in transfers would promote similar results: increasing indebtedness ratio (albeit still below FRL ceiling), and the no-compliance with the debt service to net current revenue ratio. In summary only sizeable shocks on the revenue side would put the state financial situation under risk.

ii) Expenses

35. On the expenditure side, two items are considered: personnel expenditures and other current expenditures, excluding interests and constitutional transfers to municipalities. The state exercises more control on the former items than the latter, which is constitutional and automatic. Interest payments for debts already contracted are also outside the state's immediate control.

Besides these rigid expenditure categories, personnel expenditures constitute a substantial source of nominal rigidity.

36. An increase of more than 25 percent in personnel expenditures is enough for non-compliance with the legal ceiling for personnel expenditures and would lead to a rapid deterioration of state fiscal balances. This sensitivity of the legal indicators to personnel expenditures indicates the importance of state policies directed to personnel expenditures control. In a similar way, an increase of more than 50 percent on other current expenditures, would lead to the deterioration of state fiscal balances, however, FRL requirements would still be met. In summary, as in the case of revenues, only large increases in current expenses would jeopardize the solid financial situation of Ceará state government.

iii) Economic Growth and Exchange rates

37. State finances are also resilient to adverse shocks on economic growth: only extremely large negative shocks would deteriorate medium term fiscal sustainability. Despite external debt is relatively small, state finances are influenced by exchange rate variations. The vulnerability to exchange rate shocks is due to the existence of debt indexed to the general price index (IGP), a price index very sensitive to exchange rate. However, given the very low indebtedness, only very large exchange rate devaluation would imply non-compliance with the legal debt ceiling.

ANNEX 10. SAFEGUARD POLICY ISSUES

1. This operation is a follow-up to the Ceará SWAp I loan. The first SWAp supported implementation of the state's development agenda, including numerous sectoral investments, from 2004 to 2007. The innovative design of the project elevated the importance of Results-based management (“*Gestão por Resultados*”) and provided an important model for inter-sectoral and inter-institutional management of key programs. The current operation will preserve many of the SWAp I components, as these are closely linked to the state's policy priorities. However, the SWAp II also will expand beyond the social sectors to address issues of growth and competitiveness.

2. This second Ceará Sector Wide Approach (CE SWAp II) of an Adaptable Program Loan (APL) is rated as Category B in accordance with the Bank's Social and Environmental Safeguard Policies. World Bank safeguards policies apply to the SWAp EEP expenditures as a whole, though specific focus is directed to the project activities in WSS and health, as these appear to present the greatest safeguards risks. The particular safeguards policies triggered by the Project include OP 4.01 – Environmental Assessment; OP/BP 4.12 – Involuntary Resettlement; and OP 4.10 – Indigenous Peoples.

3. **OP 4.01 – Environmental Assessment.** The proposed project will strengthen public sector policies and improve the quality of primary education, healthcare and sewerage services. For the most part, the proposed Project is expected to provide an overall positive environmental impact given the improvements in basic sanitation and Health Waste management, especially the final disposal of hazardous waste. In addition, the SWAp II provides for contingent TA resources to assist in developing better environmental management and licensing systems, focusing on SEMACE and other state environmental agencies. Some specific investments might result in short-term reversible impacts that will be mitigated.

4. In accordance with the Bank's Information Disclosure Policy (BP 17.50) the Health Waste Management Strategy has been disclosed during a meeting with key stakeholders in early December 2007. The project will continue to organize Public Consultations to address specific impacts with key stakeholders and affected communities.

5. The investments in water and sanitation services under the *Sanear II* will result in a number of localized impacts. The *Sanear II* already has an ESMF that was recently reviewed and found adequate in addressing potential issues. The ESMF for *Sanear II* includes: (i) procedures criteria and environmental assessment for regional and urban infrastructure subprojects (environmental assessment framework); (ii) resettlement policy framework; (iii) environmental construction manual; (iv) mitigating actions for the envisioned impacts at this Project's stage; and (v) strengthening of environmental management within Ceará State Government.

6. **Preliminary Environmental Analysis of the Project's Components.** The following is an analysis of the potential impacts by project component/sector:

Sector 1: Public Sector Management (“Umbrella Sector”)

7. The investments are focused on strengthening fiscal and fiduciary oversight, and institutionalizing Results-based management (RBM) in policy setting and public administration to improve efficiency and effectiveness of the entire government, including the targeted sectors. These investments will not have any negative environmental or social impacts.

Sector 2: Education

8. The SWAp II investments are supporting the State Government’s program to: (i) implement a student testing cycle; (ii) improve overall basic education quality and primary school literacy; (iii) upgrade expenditure efficiency and quality; and (iv) improve state/municipal cooperation in delivering primary education. There are no infrastructure investments considered in this sector, therefore no environmental impacts are expected.

Sector 3: Health

9. This was a priority sector under the first SWAp and currently healthcare coverage is relatively high. The most pressing problem that the second SWAp will address is the quality and efficiency of healthcare delivery. The project will help implement and develop monitoring systems for quality of hospital and Family Health Center throughout the state. The improvements proposed in the quality of the health services in the state are closely linked to the environmental impacts related to the improper separation, handling and storage of waste within healthcare centers and hospitals and its collection, treatment and final disposal. A comprehensive strategy involving health and environmental agencies is needed. The proposed quality improvements and licensing of hospitals and healthcare centers include in-situ handling of waste, especially hazardous and contaminated waste, but should go beyond in addressing issues related to overall collection, treatment and disposal of waste.

Sector 4: Water Resource Management & Water Supply and Sanitation.

10. Water resources in Ceará, a state located in Brazil’s semi-arid Northeast, are fundamental to the State’s economic and social development. The SWAp II will support programs to strengthen the financial health of CAGECE and rationalizing water use through user charges, as well as expand the provision of potable drinking water and sewer connections to improving quality of life and combating water-borne health and pollution problems. The construction of the basic infrastructure could result in some limited negative environmental impacts; most of them localized short-term environmental impacts, which would be prevented or mitigated through the implementation of a series of measures. A specific EMSF has been prepared for the investments in this sector and will be further discussed below.

Sector 5: Business Environment & Innovation

11. This SWAp II component will support the government’s strategy to strengthen development poles – dynamic municipal clusters outside of the Fortaleza Metropolitan Region and will not have direct impacts in the short term. Strengthen the state’s environmental management and licensing systems (under component 1), should ensure potential environmental impacts are prevented, minimized or properly mitigated.

Environmental and Social Management Framework for Basic Infrastructure Investments

12. The “*Sanear II*” project is structured in 3 components: (i) basic sanitation in Fortaleza; (ii) water and sewerage in the interior of the state; and (iii) institutional development. An overall EIA was prepared for the project and included an Environmental Control Plan with guidelines for the works financed by the project.

13. The operational manual includes environmental screening procedures, assessment requirements and procedures for different types of basic infrastructure investments. For a project with no or minor impacts, the actual environmental screening form will be used. For projects with moderate impacts a simplified environmental report will be prepared; and for projects with significant impacts, an EIA will be required. The procedures for preparing the environmental reports and EIAs are presented in the Operational Manual.

14. The operational manual for the *Sanear II* project includes detailed elements that need to be considered in the environmental assessments and the basic project designs. It also includes a Terms of Reference for compensation of affected populations and resettlement of poor families. It also describes public consultation requirements and how issues discussed are being addressed or incorporated in project.

15. The contracts signed under the project include a series of environmental requirements for the construction of water supply and sewerage systems that have to be followed by the contractor during the construction of systems.

16. CAGECE is responsible for overall environmental monitoring during construction phase and operation of facilities and systems. The project team within CAGECE includes an environmental specialist and receives direct support from the Environmental Administration (GEMAM) of CAGECE, especially regarding environmental licensing procedures. The GEMAM has a close working relationship with the state environmental agencies, especially SEMACE.

17. External environmental and social audits were contracted to evaluate the adequacy of the framework in addressing actual impacts of *Sanear II* on the ground. An area that needs to be better enforced is the implementation of environmental buffer zones around dams and water bodies, as required in the operational manual. Overall the institutional capacity was also assessed. So far, CAGECE’s GEMAM has been able to adequately supervise the environmental and social aspects of basic infrastructure related investments, but the team could be expanded, especially to more regularly monitor and ensure compliance of investments in the interior of the State of Ceará.

Health Waste Management Strategy

18. Inadequate management of waste generated by health services, along with an increase of production has worsened the environmental risks to health and the population. The staff responsible for handling waste in each health center must adopt a Health Waste Management

Plan (PGRSS). It is the responsibility of the State Secretary of Health (SESA) and the SEMACE to guide and assist in its preparation and monitor its implementation.

19. The PGRSS provide specific guidelines regarding waste handling, including strategies to reduce, minimize and recycle waste, separate waste streams and actions to protect safety of employees, public health and the environment. In case of radioactive waste, the norms CNEN-6.05 have to be followed. The Plan should include procedures for cleaning and hygiene and actions to be taken in case of accidents.

20. As part of the PGRSS, a monitoring and evaluation plan has to be established with indicators to monitor the progress in implementing the PGRSS, which should include the following indicators: number of accidents with hazardous waste, changes in waste generation and waste compositions by type, amount of waste by bed, staff, patient and meals.

21. The project will support the state and municipalities in building the capacity of health staff and Sanitary Teams (VISAS) in the implementation and monitoring of PGRSS. An important step will be the creation of regional technical commissions to oversee the implementation of the program and with SEMACE work on the collection and proper disposal of health waste. The acquisition of autoclaves for the treatment of hazardous waste in small health units has to be encouraged.

OP 4.10 – Indigenous Peoples

22. Ceará has been made progress improving economic and social indicators over the last ten years. However, social indicators show half of the population still lives below the poverty line of ½ minimum wage, and more than ¼ live in extreme poverty. The SWAp II project will support the State of Ceará's efforts to promote "inclusive growth" and social inclusion, supporting priority programs for education, health, WSS, and business environment & innovation selected from the Plano Plurianual 2008-2011 (PPA).

23. According to a number of analyses in Ceará, indigenous peoples are among the most vulnerable groups in the state, with low levels of investment on infrastructure, and lagging access to health and education services. In order to ensure full compliance with both Ceará law and Bank safeguard policy concerning Indigenous Peoples (OP 4.10), any intervention in indigenous communities will require a special approach to ensure that the intervention is culturally appropriate and reflects free, prior and informed consultation with affected indigenous communities.

24. The precise locations of all subprojects have not been identified. Thus, an Indigenous Peoples Framework (IPF) has been prepared to provide for the screening and review of future subprojects to determine what actions, if any, may be necessary in the social area concerning indigenous peoples. The IPF will be applied to each subproject on a case-by-case basis prior to the financing of any operation in indigenous areas under the SWAp II.

25. The IPF covers the following subjects: (i) general context; (ii) potential impacts (both positive and negative) on indigenous peoples of subprojects; (iii) plan for carrying out Social

Assessments for qualifying subprojects; (iv) framework for free, prior and informed consultation with affected indigenous communities; (v) institutional arrangements for screening, evaluation of impacts, and addressing potential grievances; (vi) monitoring and reporting arrangements, including appropriate mechanisms and benchmarks; and (vii) disclosure arrangements.

26. **General Context.** Approximately 21,000 people living in Ceará self-identify as *Povos Indígenas*. There are 11 officially recognized indigenous peoples grouped by ethnic affiliation, totaling 13,255 families. The largest group is the Tapeba (33.8 % of the indigenous population) followed by the Tremembé (16.8 % of the population). The other groups—Pitaguary, Potyguara, Tabajara, and the Anacé, Kanindé, Jenipapo Kanindé, Kalabaca and Gavião—each have less than 1,000 members. Indigenous peoples are Portuguese speakers and little is known about the socio-cultural characteristics of the less populous ethnic groups. Nearly 95% of the total population is settled in urban areas (IPECE 2006). The indigenous communities are concentrated in 16 municipalities and settled in 68 rural villages, confronting significant levels of poverty.

27. The *Fundação Nacional do Índio* (FUNAI) is a federal government institution for indigenous policies established under the Constitution (1988). In Ceará, FUNAI works through a *Núcleo de Apoio Local* (NAL). Among its competencies, it is responsible for land titling and the official recognition of ethnic peoples.

28. A number of Federal and State indigenous policies recognize that the provision of health and education services should be delivered in a “differentiated manner” to respond to indigenous demands and their cultural specificities. IPECE considers that the SWAp II provides an opportunity to improve the quality of health and education in a culturally appropriated manner for indigenous peoples.

29. **FUNAI is the federal organization that promotes Basic Education for indigenous communities.** As mentioned above, in Ceará the NAL receives demands from indigenous communities and works closely with COPICE and the *Secretarias Municipais de Educação*.

30. In 1991 Presidential Decree no. 26 delegated the implementation of indigenous education policies to the States’ Education Secretaries. This reform was followed by a number of regulations that defined the programs’ contents, technical requirements and institutional arrangements for policy implementation at the state level (e.g., the *Lei Darcy Ribeiro*, LDR, 1996). The LDR defined the differentiated treatment of indigenous education, underscoring its inter-cultural and bilingual approaches. It confirmed the administrative collaboration between the States’ systems and municipalities, while the profile of indigenous teachers was assigned to the State Education Councils (*Conselhos Estaduais de Educação*) along with the competence for the authorization of indigenous schools. In 2001 the definition of indigenous curriculum parameters was delegated to the National Council of Education (Law 10.172). In the same year the National Plan of Education defined the objectives and targets of indigenous education. The system has been gradually decentralizing.

31. The most recent education census for Ceará registered the following information:

Table 30: Indigenous Peoples and Education in Ceará, by Municipality

Municipality	Ethnic Group	Schools	Teachers	Students
Maracanaú	Tapeba, Pitaguary, Jenipapo, Kanindé, Anacé	16	117	2,765
Itapipoca	Tremembé	1	8	154
Acaraú	Tremembé	10	41	640
Canindé	Kanindé de Canindé	1	2	24
Baturité	Kanindé de Aratuba	1	9	131
Crateús	Kariri, Potiguara, Kalabaca, Tabajara	7	66	1,737
Tauá	Tabajara	1	11	134
TOTAL	11 ethnic groups	37	254	5,865

Source: Secretaria da Educação, Coordenadoria de Desenvolvimento da Escola (2006)

32. The State Education Council of Ceará, according to legal dispositions, performs a number of activities, including: organization, characterization, localization, accreditation and administration of schools. They define and carry out teacher training, define the schools' equipment provisions and lead the participatory processes with community members to ensure a fluent dialogue and receive demands.

33. The Management Nucleus (*Núcleo Gestor*) for Indigenous School Education of Ceará has a technical team of five members in Fortaleza and twenty indigenous peoples working at the schools of thirteen municipalities. Following the established regulations, in Ceará the appointments of both indigenous teachers and members of the *Núcleo Gestor* are confirmed by the Secretary of Education, applying differentiated selection criteria that emphasize the indigenous self-adscription of the selected personnel. The system privileges participatory processes; and consultations are carried in alliance with COPICE.⁵²

34. Ceará State has built four schools for indigenous students and another five are concluding a bidding process. The infrastructure and design parameters were chosen after consultations with indigenous communities, including aspects such as size, materials, and building sites.

35. **The National Health Foundation** (*Fundação Nacional de Saúde*, FUNASA) **provides health services for officially-recognized indigenous peoples.** FUNASA defined a regulatory framework for the provision of health services to the indigenous communities at basic and specialized levels (2007). This regulatory framework defines the competences and budget of the states and municipalities (SIAS/FUNASA), according to the number of indigenous inhabitants. Thus, although FUNASA is a federal institution, it has arrangements for Regional Coordination with the state and municipal Secretaries of Health. The Local and District Health Councils (*Conselhos Locais e Distritais de Saúde*, CLDS) are mechanisms for participation and social control by the indigenous population.

⁵² COPICE, is a NGO, created in 2003, and responsible for the implementation of indigenous health with FUNASA and advocacy for indigenous rights.

36. In Ceará the CLDS, the 16 municipalities with indigenous peoples, and Ceará's Coordinator of the District Health Council for Indigenous Health (CONDISI) issued a District Plan 2008-2010. This Plan was prepared in a participatory manner and defined the following: (i) a epidemiologic profile of the indigenous population; (ii) the healthcare professionals attending indigenous health programs; (iii) access of the indigenous population to primary health care and specialized care, including geographic location and means of transport; (iv) indicators and tasks for monitoring the implementation of the Plan; and (v) resources for capacity building for health teams and beneficiaries, and investment (infrastructure and equipment) needed for Plan implementation.

37. **Potential impacts.** Overall, the decentralization process underway provides greater competencies to the GoC for planning and providing education and health services. The legal and regulatory frameworks define the process of informed consultation before designing service provision for indigenous communities. Multidisciplinary teams plan and attend in a "differentiated and culturally appropriated manner" education and health provision to indigenous communities.

38. Negative impacts under the project are unlikely. However, there will be screening for possible adverse cumulative impacts in the context of the SWAp II. Consistent with the Operational Policy 4.10 of the World Bank the project will put in place a mechanism to ensure the inclusion of traditional knowledge and practices where indigenous groups are impacted, responding to indigenous demands for free, prior and informed consultation with affected indigenous communities. Similarly, the IPF includes principles to guide activities to track the positive impacts for indigenous peoples of the SWAp II-supported programs.

39. **Social Assessments of subprojects.** Given the type of project activities, these investments are not expected to have negative impacts for indigenous communities. The Framework is intended to ensure that indigenous peoples receive culturally appropriate benefits under the project. That requires that the concept of "culturally appropriate benefits" must be consulted with indigenous peoples.

40. Prior to carrying out subproject activities that may impact indigenous peoples the Borrower will carry free and informed consultations and conduct social assessments (SAs). The objectives of the consultation are to: (a) provide an update of the quality of public services offered to indigenous peoples; (b) assess the use of intercultural approaches for health and education services provided under the project, and perceptions of good practices (traditional or non-traditional) by public or private providers, individuals or agencies; and (c) ensure access by indigenous peoples to health and education investments.

41. The SAs will:

- a. Review, on a scale appropriate to the project, the legal and institutional framework applicable to indigenous peoples;
- b. Develop baseline data on the demographic, social, cultural and political characteristics of the affected indigenous communities—the territories they have

- traditionally owned, used or occupied, and the natural resources on which they depend;
- c. Review of key project stakeholders and the elaboration of a culturally appropriate process for consulting indigenous peoples at each stage of subproject preparation and implementation;
 - d. Carry out an assessment based on free, prior and informed consultation with the affected indigenous communities, of potential positive and negative project impacts, as well as the relative vulnerability of, and risks to, the affected indigenous communities;
 - e. Identify and evaluate measures to avoid, minimize, mitigate or compensate for any adverse effects.

43. The Social Assessments will be carried out by the GoC, supporting the harmonization between the GoC and WB OP/ BP 4.10 and defining the corresponding mechanisms for monitoring and evaluation of this results-based approach. The Bank will review Terms of Reference for any SAs to ensure the necessary qualifications and experience of the consultants.

44. IPECE will ensure compliance with OP/BP 4.10, issuing the SAs for the preparation and implementation of the multiple subprojects. This includes evaluating and screening the potential stakeholders prior to implementation, and recommending ways and procedures that could prevent such impacts. A previous screening will define required capacity-building needs for the implementing agency in the GoC.

45. IPECE will be responsible for formulating and implementing the consultations in order to: (i) ensure the availability of relevant information on the project to indigenous peoples; and (ii) support instruments for project monitoring. IPECE will establish the mechanism to inform at the design stage FUNASA, CONDISI, and *Educação Escolar Indígena* regarding project objectives and descriptions in education and health, if implemented in areas with indigenous population.

46. **Consultations: free, prior and informed consultation.** Bank policy requires that all projects affecting indigenous peoples include a process of free, prior and informed consultation with the affected communities throughout the project cycle. Federal law also requires consultation to ensure the effectiveness of basic rights to the cultural, social and economic integrity of indigenous communities. The following are the guidelines to be taken into account for the consultation process, to be tailored to specific sectors needs and circumstances, as well as to those of the corresponding population:

- “free, prior and informed consultation” that occurs voluntarily, in a culturally appropriate manner, form and language, and where the consulted parties have prior access to information on the intent and scope of the project;
- full discussion with the concerned groups, even in cases where the expected affects are indirect;
- legitimate representation of indigenous spokespersons and leaders and established representative bodies;

- consultation conducted in a manner compatible with the communities' own decision-making structures;
- provision of assistance necessary to ensure full participation of all affected indigenous communities;
- record of the consultation process as part of the project files, including the participation of individuals and events (e.g., attendance sheets) and the opinions expressed and conclusions reached (e.g., minutes of meetings);
- a system for reporting and addressing any grievances and/or suggestions that might arise during the consultation process.

47. **Institutional arrangements for an Indigenous Peoples Plan.** When screening Programs, if it is determined that OP 4.10 on Indigenous Peoples is triggered, then it will be determined if and Indigenous Peoples Plan (IPP) or other instruments are to be prepared by the borrower. The Bank will make this determination and convey the decision to the borrower, discuss any actions necessary to prepare the IPP or other required instrument(s), and agree on a timeline for preparation and delivery to the Bank. IPECE will provide Terms of Reference for the elaboration of the IPP and other instrument(s). The borrower will then submit the Plan to the Bank for review before the respective Program may be deemed eligible for Bank financing.

48. The IPP will detail the specific measures designed to ensure that any Indigenous Peoples affected by the project will receive culturally appropriate social and economic benefits, and that any identified potential adverse impacts will be avoided, minimized, mitigated or compensated. .

49. Each Indigenous peoples Plan (IPP) will be fully integrated into the programs design, with a varying level of detail according to the specific program involved. The IPP will include: a) a summary of results of the consultation, and a framework for ensuring free and prior informed consultation with the affected indigenous communities during implementation; b) an action plan of measures designed to ensure that indigenous peoples receive culturally appropriate social and economic benefits (including, where necessary, capacity building measures for the implementing agencies); c) measures designed to avoid, minimize, mitigate or compensate for any identified potential adverse impacts on indigenous peoples; d) cost estimates and a financing plan for the IPP, and appropriate mechanisms and benchmarks for monitoring, evaluating and reporting on the implementation of the IPP. FUNASA and FUNAI will monitor and evaluate the programs implementation on education and health respectively, when implemented in the rural municipalities with indigenous population officially recognized as such, by FUNAI.

50. **Monitoring and Evaluation.** An appropriate monitoring and evaluation framework will be elaborated in consultation with key stakeholders, including affected indigenous groups, in order to:

- identify expected social development indicators;
- propose mechanisms for measuring these social development outcomes; and
- define the institutional responsibilities for the monitoring and evaluation procedures.

52. The monitoring and evaluation framework will be tailored to the particular subproject's conditions and affected groups, and will rely to the greatest possible extent on participatory

mechanisms. It will include supervision instruments and stakeholder feedback as inputs into project improvement

53. **Disclosure.** The borrower will make the IPF and all draft IPPs available to the affected indigenous communities in an appropriate form, manner, and language. Before project appraisal, the borrower will submit the IPF to the Bank for review. Once it has been accepted as providing an adequate basis for subproject appraisal, the Bank will then make the IPF available to the public in accordance with the World Bank Policy on Disclosure of Information, and the borrower will make it available to the affected indigenous communities in the same manner as the earlier draft documents. All reports and accompanying materials will be provided in Spanish and, where necessary, any relevant indigenous language.

OP 4.12 – Involuntary Resettlement

54. The SWAp II project will support the GoC to extend the coverage of water and sanitation services. The EEPs include waste management and basic infrastructure for improvement on water and sewage. Resettlement is expected to be avoided and the affected population is anticipated to be either very small or non-existent. The affected population will be determined on case-by case basis, based on field surveys, social assessments and consultations. In the event a need for resettlement arises, the GoC has experience in applying involuntary resettlement practices that are considered among the best practices across the country. (This experience has been acquired mainly with two projects of the IDB, *Sanear I & II*.) The Bank's Operational Policy (OP 4.12) and the GoC's principles and procedures of involuntary resettlement and land acquisition are very similar. The Bank has evaluated the *Sanear* resettlement framework and its implementation. Both are deemed acceptable by the Bank. To support policy harmonization, the SWAp II will follow the principles established for the *Sanear* project. In the event that any discrepancy arises, however, the Bank's policies will prevail.

55. The GoC Resettlement Framework provides the principles and guidance in cases when the construction of water and sanitation infrastructure financed by SWAp II results in the removal of either families and/or businesses (loss of income sources or means of livelihood). This states that when a subproject affects fewer than 200 people, the project should prepare an Abbreviated Resettlement Plan (ARP). Meanwhile, if a subproject affects 200 people or more, a complete Resettlement Plan (RP) is required. In either instance, the ARP or RP should be submitted for World Bank review before construction begins. Any subproject "Resettlement Plans" should consider: (i) all occupants of areas occupied by infrastructure; and (ii) all people temporarily displaced by the civil works.

56. The principles that guide this framework are:

- Avoid and minimize negative impacts caused by the project
- Avoid affecting living conditions of the community
- Provide technical assistance so that the displaced may have the possibility of reestablishing their previous levels of income
- Establish clear and transparent eligibility criteria for receiving benefits

- Establish a minimum standard for resettlement or compensation in order to guarantee a minimum quality of life, irrespective of the previous status of those being resettled (land owner, lessee, resident)
- Promote the participation of the affected communities and involvement of local institutions
- Include resettlement costs in the subproject's overall cost

59. As with the SWAp I, the overall costs of resettlement, if any, are expected will be provided by the GoC. When resettlement is considered as part of project activity, a prior consultative process will be carried out, ensuring wide participation of beneficiaries and interested parties to:

- inform the affected population on works impacts;
- take note of the affected population's needs and preferences;
- provide examples for alternative solutions for the affected families;
- register the reactions of the affected population to the proposed solutions, including suggestions

60. A communication strategy will ensure the access to project information during the project implementation.

Institutional Arrangements

61. IPECE in the Secretary of Planning will be the responsible implementing agency. The Project Coordinator is the head of IPECE, who will report to the Secretary of Planning. Each secretary/sector is represented by a key technical staff person on a SWAp Committee to ensure close and continuing monitoring and evaluation by all sector stakeholders. The Committee will meet monthly and each representative will report on progress in achieving indicators, technical assistance, and EEP so that any problems that surface can be identified and addressed promptly. Issues that require multi-sector responses can be addressed in these collaborative meetings.

62. Project coordination responsibilities comprise the activities normally undertaken by project coordinating/implementation units, including coordinating the effort of participating secretaries, running the SWAp Committee, and identifying and resolving problems. The specific responsibilities to be carried out by the participating Secretaries include: (i) implementing sector programs and meeting performance indicators; (ii) participating in the SWAp Committee and tracking and reporting on all activities for which the Secretary has assumed responsibility; (iii) collaborating with the Project Coordinator/IPECE in preparing specific TORs, processing procurement and overseeing implementation of such activities; (iv) taking the lead in municipal contacts essential to meeting loan objectives; and (v) providing sectoral expertise as needed to optimize loan impact. IPECE has the primary responsibility for monitoring and evaluation of these principles, and will establish a system satisfactory to monitor particular subprojects and their expected results.

ANNEX 11. PROJECT PREPARATION AND SUPERVISION

Brazil Ceará SWAP II

	Planned	Actual
PCN review	10/16/2007	10/16/2007
Initial PID to PIC	10/16/2007	12/19/2007
Initial ISDS to PIC	10/16/2007	1/11/2008
Appraisal	02/11/2008	3/31/2008
Negotiations	07/02/2008	08/14/2008
Board/RVP approval	06/3/2008	
Planned date of effectiveness	10/31/2008	
Planned date of mid-term review	10/31/2010	
Planned closing date	10/31/2011	

Key institutions responsible for preparation of the project: *Secretaria de Planejamento e Coordenação, Instituto de Pesquisa e Estratégia Econômica do Ceará (IPECE)*

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Jose Guilherme Reis	Co-task-team leader	LCSPF
Jeffrey Rinne	Co-task-team leader	LCSPS
Chris Parel	Consultant	LCSPS
Pablo Fajnzylber	Senior Economist	LRCCE
Gerard La Forgia	Lead Health Specialist	LCSHD
Marcos Thadeu Abicalil	Senior Water & Sanitation Specialist	LCSUW
Paula Freitas	Operations Analyst	LCSEN
Ricardo R. Silveira	Senior Operations Officer	LCSHE
Deborah Wetzel	Lead Public Sector Specialist	LCSPS
Luis R. Prada Villalobos	Senior Procurement Specialist	LCSPT
Isabella Micali Drossos	Senior Counsel	LEGLA
Fernando Blanco	Economist	LCSPE
Regis Cunningham	Sr Financial Management Specialist	LCSFM
Rajeev Kumar Swami	Sr Financial Management Specialist	LCSFM
Musa Asad	Senior Financial Analyst	LCSEN
Pilar Larreamendy	Sr. Social Development Economist	LCSO
Paul Procee	Environmental Specialist	LCSEN
Dorte Verner	Senior Economist	LCSO
Christine de Mariz Rozeira	Young Professional	LCSPS
Patricia Rodrigues de Melo	Team Assistant	LCSPF
Jason Anthony Hobbs	Consultant	LCSHD
Sidney N. Nakahodo	Consultant	LCSPF
Marie Georgiana Josephine Vidal	Consultant	LCSPE

Bank funds expended to date on project preparation: August 28, 2008

1. Bank resources: \$387,500
2. Trust funds: \$0
3. Total: \$387,500

Estimated Approval and Supervision costs:

1. Remaining costs to approval: \$10,000
2. Estimated annual supervision cost: \$150,000

ANNEX 12. DOCUMENTS IN THE PROJECT FILE

Brazil Ceara SWAp II

A. Project Implementation Plan and other materials produced by the Borrower

- SWAP II Program (Powerpoint presentation). IPECE. September 2007.
- Ceará SWAP II – “Leading the Way” (Disbursement Indicators, Technical Assistance, and Eligible Expenditure Programs). IPECE. 2007
- Project of Support to Social Inclusion and Economic Growth in Ceará (Powerpoint presentation). IPECE. 2007.
- Broadband Universalization (Powerpoint presentation). ETICE. October 2007.
- Determinants of Growth of Ceará State (Powerpoint presentation).
- Synthesis of Social Indicators 2005. IPECE.

B. Bank Staff Assessments

- Financial Management – Rajeev K. Swami (WB)
- Health - Jerry La Forgia (WB)
- Water and Sanitation – Mar (WB)
- Project reviews by Jose Luis Guasch, Yasuhiko Matsuda, Antonio Rocha Magalhaes (WB)
- Ceará SWAP II – “Leading the Way” Preparation Mission (Powerpoint presentation). Jose Guilherme Reis. November 2007.
- WB CAS Brazil – FY 2004-2007
- WB CPAR. March 2004.
- WB PAD Ceará SWAP - P106765.
- Electronic IRIS documents for the Project.

C. Other

- WB LCSOS–Safeguards Advisory Team Review and Clearance Procedures for Investment Lending

ANNEX 13. STATEMENT OF LOANS AND CREDITS

BRAZIL: BR Cear SWAp II

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P089929	2008	BR RGN State Integrated Water Res Mgmt	35.90	0.00	0.00	0.00	0.00	35.90	0.00	0.00
P082651	2007	BR APL 1 Para Integrated Rural Dev	60.00	0.00	0.00	0.00	0.00	60.00	16.00	0.00
P070867	2007	BR GEF Caatinga Conserv. and Sust. Mngmt	0.00	0.00	0.00	10.00	0.01	10.00	0.00	0.00
P089011	2007	BR Municipal APL1: Uberaba	17.27	0.00	0.00	0.00	0.00	17.27	0.00	0.00
P089793	2007	BR State Pension Reform TAL II	5.00	0.00	0.00	0.00	0.00	5.00	0.00	0.00
P095460	2007	BR-Bahia Integr.Hway Mngmt.	100.00	0.00	0.00	0.00	0.00	100.00	0.57	0.00
P082523	2006	BR HD Technical Assistance Loan	8.00	0.00	0.00	0.00	0.00	7.98	6.74	0.00
P066535	2006	BR GEF Amazon Aquatic Res - AquaBio	0.00	0.00	0.00	7.18	0.00	6.48	1.57	0.00
P082142	2006	BR-Cear Multi-sector Social Inclus Dev	149.75	0.00	0.00	0.00	0.00	35.09	35.09	0.00
P081436	2006	BR-Bahia Poor Urban Areas Integrated Dev	49.30	0.00	0.00	0.00	0.00	45.34	27.95	0.00
P081023	2006	BR- Sugar Bagasse Cogeneration Project	0.00	0.00	0.00	0.00	0.00	0.27	0.00	0.00
P089440	2006	BR-Brasilia Environmentally Sustainable	57.64	0.00	0.00	0.00	0.00	53.69	20.55	0.00
P095675	2006	BR-2nd Progr. Sustn.& Equit Growth	601.50	0.00	0.00	0.00	0.00	601.51	601.51	0.00
P050761	2006	BR-Housing Sector TAL	4.00	0.00	0.00	0.00	0.00	3.99	1.82	0.00
P052256	2006	BR-MG Rural Poverty Reduction	35.00	0.00	0.00	0.00	0.00	17.03	-1.61	0.00
P090041	2006	BR ENVIRONMENTAL SUST. AGENDA TAL	8.00	0.00	0.00	0.00	0.00	6.43	5.32	0.00
P092990	2006	BR - Road Transport Project	501.25	0.00	0.00	0.00	0.00	501.25	176.67	0.00
P093787	2006	BR Bahia State Integ Proj Rur Pov	54.35	0.00	0.00	0.00	0.00	7.12	-15.68	0.00
P076924	2005	BR- Amapa Sustainable Communities	4.80	0.00	0.00	0.00	0.00	3.98	3.07	0.00
P075379	2005	BR GEF-RJ Sust IEM in Prod Landscapes	0.00	0.00	0.00	6.73	0.00	5.72	3.01	0.00
P082328	2005	BR-Integ.Munic.Proj.-Betim Municipality	24.08	0.00	0.00	0.00	0.00	2.37	-5.98	0.00
P069934	2005	BR-PERNAMBUCO INTEG DEVT: EDUC QUAL IMPR	31.50	0.00	0.00	0.00	0.00	22.40	17.01	0.00
P083533	2005	BR TA-Sustain. & Equit Growth	12.12	0.00	0.00	0.00	0.00	10.14	6.49	0.00
P087711	2005	BR Espirito Santo Wtr & Coastal Pollu	36.00	0.00	0.00	0.00	0.00	20.61	19.96	0.00
P088009	2005	BR GEF-Sao Paulo Riparian	0.00	0.00	0.00	7.75	0.00	5.13	3.47	0.00

Forests										
P083013	2004	BR Disease Surveillance & Control APL 2	100.00	0.00	0.00	0.00	0.00	55.87	47.52	0.00
P087713	2004	BR Bolsa Familia 1st APL	572.20	0.00	0.00	0.00	2.86	11.22	14.08	0.00
P060573	2004	BR Tocantins Sustainable Regional Dev	60.00	0.00	0.00	0.00	0.00	49.32	40.12	14.96
P080830	2004	BR Maranhão Integrated: Rural Dev	30.00	0.00	0.00	0.00	0.00	17.87	17.12	0.00
P049265	2003	BR-RECIFE URBAN UPGRADING PROJECT	46.00	0.00	0.00	0.00	0.00	36.11	28.23	17.87
P054119	2003	BR BAHIA DEVT (HEALTH)	30.00	0.00	0.00	0.00	0.00	12.55	12.55	0.00
P058503	2003	GEF BR Amazon Region Prot Areas (ARPA)	0.00	0.00	0.00	30.00	0.00	12.51	30.00	0.00
P074777	2003	BR-Municipal Pension Reform TAL	5.00	0.00	0.00	0.00	0.00	3.05	3.05	3.05
P080400	2003	BR-AIDS & STD Control 3	100.00	0.00	0.00	0.00	0.00	15.88	15.88	0.00
P076977	2003	BR-Energy Sector TA Project	12.12	0.00	0.00	0.00	0.00	9.43	9.43	0.00
P066170	2002	BR-RGN Rural Poverty Reduction	22.50	0.00	0.00	0.00	0.00	22.50	0.00	0.00
P043869	2002	BR SANTA CATARINA NATURAL RESOURC & POV.	62.80	0.00	0.00	0.00	0.00	12.95	11.34	0.00
P060221	2002	BR FORTALEZA METROPOLITAN TRANSPORT PROJ	85.00	0.00	0.00	0.00	86.49	36.01	83.19	30.27
P070552	2002	GEF BR PARANA BIODIVERSITY PROJECT	0.00	0.00	0.00	8.00	0.00	2.74	8.00	0.00
P057653	2002	BR- FUNDESCOLA IIIA	160.00	0.00	0.00	0.00	0.00	24.03	-48.84	0.00
P073192	2002	BR TA Financial Sector	14.50	0.00	0.00	0.00	4.57	3.95	8.52	-0.02
P051696	2002	BR SÃO PAULO METRO LINE 4 PROJECT	209.00	0.00	0.00	0.00	0.00	44.41	44.41	44.41
P073294	2001	BR Fiscal & Fin. Mgmt. TAL	8.88	0.00	0.00	0.00	0.00	5.11	4.81	5.11
P050772	2001	BR LAND-BASED POVRTY ALLEVIATION I (SIM)	202.10	0.00	0.00	0.00	58.13	69.94	55.55	-7.75
P050875	2001	BR Ceará Rural Poverty Reduction Project	37.50	0.00	0.00	0.00	0.00	14.59	-22.91	-22.91
P050880	2001	BR Pernambuco Rural Poverty Reduction	30.10	0.00	0.00	0.00	0.63	26.00	-3.37	0.96
P050881	2001	BR BR-PIAUI RURAL POVERTY REDUCTION	22.50	0.00	0.00	0.00	0.00	19.00	-3.50	-3.50
P059566	2001	BR- CEARÁ BASIC EDUCATION	90.00	0.00	0.00	0.00	0.00	4.27	4.27	4.27
P039199	2000	BR PROSANEAR 2	30.30	0.00	0.00	0.00	6.40	10.75	17.15	10.75
P006449	2000	BR CEARÁ WTR MGT PROGERIRH SIM	136.00	0.00	0.00	0.00	0.00	9.61	9.61	7.49
P038895	1998	BR FED.WTR MGT	198.00	0.00	0.00	0.00	40.00	50.00	40.00	4.17
P043420	1998	BR WATER S.MOD.2	150.00	0.00	0.00	0.00	125.00	8.60	133.57	-0.53
P006474	1998	BR LAND MGT 3 (SAO PAULO)	55.00	0.00	0.00	0.00	10.00	4.59	14.59	3.22
Total:			4,264.96	0.00	0.00	69.66	334.09	2,177.56	1,497.90	111.82

BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	ABN AMRO REAL	98.00	0.00	0.00	0.00	15.77	0.00	0.00	0.00
2005	ABN AMRO REAL	98.00	0.00	0.00	0.00	15.77	0.00	0.00	0.00
2001	AG Concession	0.00	30.00	0.00	0.00	0.00	30.00	0.00	0.00
2002	Amaggi	17.14	0.00	0.00	0.00	17.14	0.00	0.00	0.00
2005	Amaggi	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2002	Andrade G. SA	22.00	0.00	10.00	12.12	22.00	0.00	10.00	12.12
2001	Apolo	6.04	0.00	0.00	0.00	3.54	0.00	0.00	0.00
1998	Arteb	20.00	0.00	0.00	18.33	20.00	0.00	0.00	18.33
2006	BBM	49.40	0.00	0.00	0.00	49.40	0.00	0.00	0.00
2001	Brazil CGFund	0.00	19.75	0.00	0.00	0.00	18.15	0.00	0.00
2004	CGTF	54.01	0.00	7.00	65.12	54.01	0.00	7.00	65.12
1994	CHAPECO	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
1996	CHAPECO	1.50	0.00	0.00	5.26	1.50	0.00	0.00	5.26
2003	CPFL Energia	0.00	40.00	0.00	0.00	0.00	40.00	0.00	0.00
1996	CTBC Telecom	3.00	8.00	0.00	0.00	3.00	8.00	0.00	0.00
1997	CTBC Telecom	0.00	6.54	0.00	0.00	0.00	6.54	0.00	0.00
1999	Cibrasec	0.00	3.27	0.00	0.00	0.00	3.27	0.00	0.00
2004	Comgas	11.90	0.00	0.00	11.54	11.90	0.00	0.00	11.54
2005	Cosan S.A.	50.00	5.00	15.00	0.00	50.00	5.00	15.00	0.00
	Coteminas	0.00	1.84	0.00	0.00	0.00	1.84	0.00	0.00
1997	Coteminas	1.85	1.25	0.00	0.00	1.85	1.25	0.00	0.00
2000	Coteminas	0.00	0.18	0.00	0.00	0.00	0.18	0.00	0.00
1980	DENPASA	0.00	0.52	0.00	0.00	0.00	0.48	0.00	0.00
1992	DENPASA	0.00	0.06	0.00	0.00	0.00	0.06	0.00	0.00
	Dixie Toga	0.00	0.34	0.00	0.00	0.00	0.34	0.00	0.00
1998	Dixie Toga	0.00	10.03	0.00	0.00	0.00	10.03	0.00	0.00
1997	Duratex	1.36	0.00	3.00	0.57	1.36	0.00	3.00	0.57
2005	EMBRAER	35.00	0.00	0.00	145.00	35.00	0.00	0.00	145.00
1999	Eliane	14.93	0.00	13.00	0.00	14.93	0.00	13.00	0.00
1998	Empesca	1.33	0.00	2.67	0.00	1.33	0.00	2.67	0.00
2006	Endesa Brasil	0.00	50.00	0.00	0.00	0.00	50.00	0.00	0.00
2006	Enerbrasil Ltda	0.00	5.50	0.00	0.00	0.00	0.00	0.00	0.00
2006	FEBR	12.00	0.00	0.00	0.00	12.00	0.00	0.00	0.00
2000	Fleury	0.00	0.00	6.00	0.00	0.00	0.00	6.00	0.00
1998	Fras-le	4.00	0.00	9.34	0.00	4.00	0.00	6.04	0.00
2006	GOL	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005	GP Capital III	0.00	14.00	0.00	0.00	0.00	0.14	0.00	0.00
	GP Cptl Rstretcd	0.00	2.22	0.00	0.00	0.00	2.16	0.00	0.00
2001	GPC	0.00	0.00	9.00	0.00	0.00	0.00	9.00	0.00

	GTFP BIC Banco	44.91	0.00	0.00	0.00	44.91	0.00	0.00	0.00
	GTFP BM Brazil	4.22	0.00	0.00	0.00	4.22	0.00	0.00	0.00
	GTFP Indusval	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1997	Guilman-Amorim	18.08	0.00	0.00	14.37	18.08	0.00	0.00	14.37
1998	Icatu Equity	0.00	5.46	0.00	0.00	0.00	4.16	0.00	0.00
1999	Innova SA	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
1980	Ipiranga	0.00	2.87	0.00	0.00	0.00	2.87	0.00	0.00
1987	Ipiranga	0.00	0.54	0.00	0.00	0.00	0.54	0.00	0.00
2006	Ipiranga	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2006	Itambe	15.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	Itau-BBA	12.86	0.00	0.00	0.00	12.86	0.00	0.00	0.00
2002	Itau-BBA	70.61	0.00	0.00	0.00	38.47	0.00	0.00	0.00
1999	JOSAPAR	7.57	0.00	7.00	0.00	2.57	0.00	7.00	0.00
2005	Lojas Americana	35.00	0.00	0.00	0.00	35.00	0.00	0.00	0.00
1992	MBR	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2006	MRS	50.00	0.00	0.00	50.00	0.00	0.00	0.00	0.00
2002	Microinvest	0.00	1.25	0.00	0.00	0.00	0.82	0.00	0.00
	Net Servicos	0.00	10.93	0.00	0.00	0.00	10.93	0.00	0.00
2002	Net Servicos	0.00	1.60	0.00	0.00	0.00	1.60	0.00	0.00
2005	Net Servicos	0.00	5.08	0.00	0.00	0.00	5.08	0.00	0.00
1994	Para Pigmentos	2.15	0.00	9.00	0.00	2.15	0.00	9.00	0.00
1994	Portobello	0.00	0.59	0.00	0.00	0.00	0.59	0.00	0.00
2000	Portobello	4.28	0.00	7.00	0.00	4.28	0.00	7.00	0.00
2002	Portobello	0.00	0.90	0.00	0.00	0.00	0.90	0.00	0.00
2000	Puras	0.00	0.00	1.00	0.00	0.00	0.00	1.00	0.00
2003	Queiroz Galvao	26.67	0.00	10.00	0.00	26.67	0.00	10.00	0.00
2004	Queiroz Galvao	0.60	0.00	0.00	0.00	0.08	0.00	0.00	0.00
2006	RBSec	22.83	1.51	0.00	0.00	0.00	1.51	0.00	0.00
	Randon Impl Part	2.33	0.00	3.00	0.00	2.33	0.00	3.00	0.00
1997	Sadia	2.55	0.00	2.33	3.28	2.55	0.00	2.33	3.28
1997	Samarco	3.60	0.00	0.00	0.00	3.60	0.00	0.00	0.00
1998	Saraiva	0.00	1.24	0.00	0.00	0.00	1.24	0.00	0.00
2000	Sepetiba	26.24	0.00	5.00	0.00	11.24	0.00	5.00	0.00
2002	Suape ICT	6.00	0.00	0.00	0.00	6.00	0.00	0.00	0.00
1999	Sudamerica	0.00	7.35	0.00	0.00	0.00	7.35	0.00	0.00
2006	Suzano petroq	50.00	0.00	10.00	140.00	39.50	0.00	10.00	110.50
2001	Synteko	11.57	0.00	0.00	0.00	11.57	0.00	0.00	0.00
2006	TAM	50.00	0.00	0.00	0.00	17.00	0.00	0.00	0.00
1998	Tecon Rio Grande	3.55	0.00	5.50	3.71	3.55	0.00	5.50	3.71
2004	Tecon Rio Grande	7.87	0.00	0.00	7.76	7.59	0.00	0.00	7.48
2001	Tecon Salvador	2.95	1.00	0.00	3.10	2.95	0.77	0.00	3.10
2003	Tecon Salvador	0.00	0.55	0.00	0.00	0.00	0.55	0.00	0.00
2004	TriBanco	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
2006	TriBanco	0.35	0.00	0.00	0.00	0.35	0.00	0.00	0.00
2002	UP Offshore	9.01	9.51	0.00	23.29	0.00	2.51	0.00	0.00
2002	Unibanco	16.89	0.00	0.00	0.00	16.89	0.00	0.00	0.00
	Total portfolio:	1,164.15	253.88	144.84	503.45	703.91	223.86	141.54	400.38

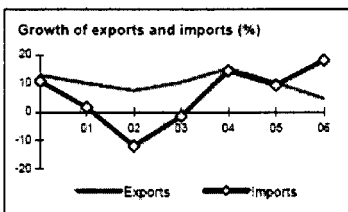
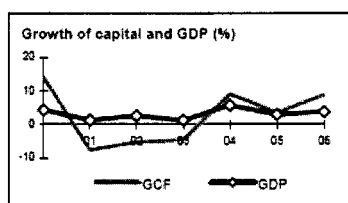
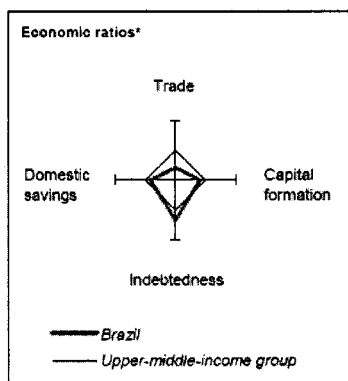
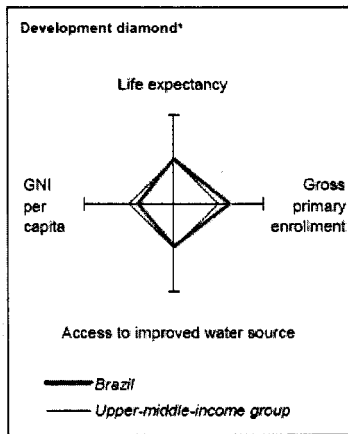
FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2000	BBA	0.01	0.00	0.00	0.00
1999	Cibrasec	0.00	0.00	0.00	0.00
2006	Ipiranga II	0.00	0.00	0.00	0.10
2002	Banco Itau-BBA	0.00	0.00	0.00	0.10
Total pending commitment:		0.01	0.00	0.00	0.20

ANNEX 14. COUNTRY AT A GLANCE

Brazil at a glance

10/1/07

	Brazil	Latin America & Carib.	Upper-middle-income		
POVERTY and SOCIAL					
2006					
Population, mid-year (millions)	188.7	556	810		
GNI per capita (Atlas method, US\$)	4,730	4,767	5,913		
GNI (Atlas method, US\$ billions)	892.5	2,650	4,790		
Average annual growth, 2000-06					
Population (%)	1.4	1.3	0.8		
Labor force (%)	1.8	2.1	1.3		
Most recent estimate (latest year available, 2000-06)					
Poverty (% of population below national poverty line)	22	..	..
Urban population (% of total population)	85	78	75		
Life expectancy at birth (years)	71	73	70		
Infant mortality (per 1,000 live births)	31	26	26		
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	90	91	93		
Literacy (% of population age 15+)	89	90	93		
Gross primary enrollment (% of school-age population)	140	118	112		
Male	146	120	106		
Female	135	116	104		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1986	1996	2005	2006	
GDP (US\$ billions)	268.1	839.7	882.5	1,067.5	
Gross capital formation/GDP	19.1	17.0	16.0	16.8	
Exports of goods and services/GDP	8.8	6.6	15.1	14.7	
Gross domestic savings/GDP	21.6	15.2	19.6	19.7	
Gross national savings/GDP	17.1	14.1	15.8	17.3	
Current account balance/GDP	-1.9	-2.8	1.6	1.3	
Interest payments/GDP	2.4	1.0	1.2	..	
Total debt/GDP	40.7	21.6	21.3	..	
Total debt service/exports	46.8	42.6	45.5	..	
Present value of debt/GDP	..	..	23.7	..
Present value of debt/exports	..	..	151.9	..
	1986-96	1996-06	2005	2006	2006-10
<i>(average annual growth)</i>					
GDP	1.6	2.4	2.9	3.7	4.6
GDP per capita	0.0	1.0	1.5	2.5	3.8
Exports of goods and services	6.5	9.5	10.1	4.6	3.3
STRUCTURE of the ECONOMY					
	1986	1996	2005	2006	
<i>(% of GDP)</i>					
Agriculture	11.2	5.5	5.6	5.1	
Industry	45.2	26.0	30.3	30.9	
Manufacturing	33.0	16.8	18.4	18.4	
Services	43.7	68.5	64.0	64.0	
Household final consumption expenditure	67.8	64.7	60.4	60.4	
General gov't final consumption expenditure	10.7	20.1	20.1	19.9	
Imports of goods and services	6.4	8.4	11.5	11.7	
	1986-96	1996-06	2005	2006	
<i>(average annual growth)</i>					
Agriculture	2.3	4.3	1.0	4.1	
Industry	0.1	1.9	2.1	2.7	
Manufacturing	3.2	1.9	1.1	1.6	
Services	2.9	3.5	3.4	4.1	
Household final consumption expenditure	2.8	1.9	3.8	4.7	
General gov't final consumption expenditure	1.8	2.4	1.9	3.6	
Gross capital formation	1.8	0.3	3.6	8.7	
Imports of goods and services	12.0	1.4	9.3	18.1	



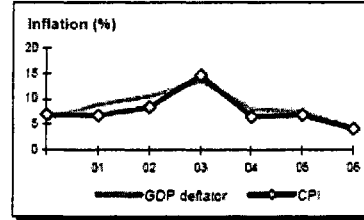
Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

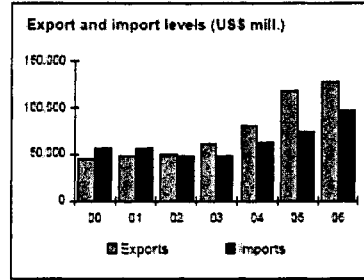
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
Domestic prices				
(% change)				
Consumer prices	150.0	15.8	6.9	4.2
Implicit GDP deflator	145.3	17.1	7.5	4.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	10.1	16.4	..	..
Current budget balance	-0.4	-0.6	..	..
Overall surplus/deficit	-1.6	2.4	..	..



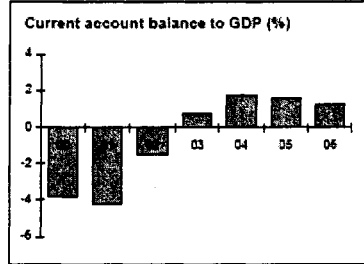
TRADE

	1986	1996	2005	2006
(US\$ millions)				
Total exports (fob)	22,394	46,925	118,308	127,305
Iron ore, manganese	1,722	2,695	..	..
Soybeans	1,562	1,018	..	..
Manufactures	11,839	35,025	71,112	79,904
Total imports (cif)	14,044	53,346	73,560	96,835
Food	..	2,484	1,374	..
Fuel and energy	3,541	5,929	11,925	..
Capital goods	3,464	12,918	25,114	49,003
Export price index (2000=100)	74	106	117	106
Import price index (2000=100)	41	83	97	89
Terms of trade (2000=100)	182	128	120	120



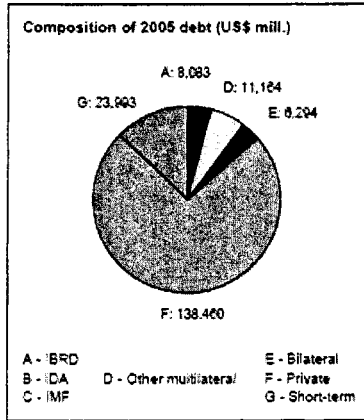
BALANCE of PAYMENTS

	1986	1996	2005	2006
(US\$ millions)				
Exports of goods and services	23,870	52,785	134,403	156,908
Imports of goods and services	16,576	67,065	97,801	120,243
Resource balance	7,294	-14,280	36,602	36,665
Net income	-12,259	-11,669	-25,968	-27,489
Net current transfers	-26	2,446	3,557	4,307
Current account balance	-4,991	-23,503	13,985	13,621
Financing items (net)	1,759	31,899	2,161	18,419
Changes in net reserves	3,232	-8,396	-16,146	-32,040
Memo:				
Reserves including gold (US\$ millions)	6,760	60,110	53,799	85,839
Conversion rate (DEC, local/US\$)	4.97E-9	1.0	2.4	2.2



EXTERNAL DEBT and RESOURCE FLOWS

	1986	1996	2005	2006
(US\$ millions)				
Total debt outstanding and disbursed	109,051	181,338	187,994	..
IBRD	7,546	5,876	8,083	9,694
IDA	0	0	0	0
Total debt service	11,618	25,217	62,762	..
IBRD	1,164	1,838	1,335	1,174
IDA	0	0	0	0
Composition of net resource flows				
Official grants	30	80	112	..
Official creditors	1,168	-751	34	..
Private creditors	-444	15,758	1,872	..
Foreign direct investment (net inflows)	345	11,200	15,193	..
Portfolio equity (net inflows)	9	5,785	6,451	..
World Bank program				
Commitments	1,620	858	852	205
Disbursements	1,619	1,500	773	2,203
Principal repayments	608	1,222	1,029	743
Net flows	1,011	278	-255	1,460
Interest payments	556	416	307	432
Net transfers	455	-138	-562	1,028



MAP SECTION



BRAZIL CEARÁ SWAP 2 (P106765)

- PROJECT STATE
- STATE CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- STATE BOUNDARIES
- INTERNATIONAL BOUNDARIES

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