

Document of
The World Bank

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Report No: PAD239

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$ 360 MILLION
TO THE
STATE OF RIO GRANDE DO NORTE
WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL
FOR THE
RIO GRANDE DO NORTE REGIONAL DEVELOPMENT AND GOVERNANCE PROJECT

MAY 20, 2013

Sustainable Development Department
Brazil Country Management Unit
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 20, 2013)

Currency Unit	=	Brazilian Real (R\$)
R\$2.0409	=	US\$1.00
R\$1.00	=	US\$ 0.4880

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AA	Environmental Evaluation	<i>Avaliação Ambiental</i>
AACC	Association for Local Communities Support of Rio Grande do Norte	<i>Associação de Apoio às Comunidades no Campo do Rio Grande do Norte</i>
ACS	Health Community Agents	<i>Agentes Comunitários de Saúde</i>
AGN	State Agency for Investment Promotion	<i>Agência de Fomento do Rio Grande do Norte S.A</i>
AP	Productive Alliances	<i>Alianças Produtivas</i>
APL	Local Productive Value Chains	<i>Arranjos Produtivos Locais</i>
ASA Potiguar	Social Articulation for Semiarid Potiguar	<i>Articulação no Semiárido Potiguar</i>
ANVISA	National Agency for Sanitary Surveillance	<i>Agência Nacional de Vigilância Sanitária</i>
ASD	Areas Subjected to Desertification	<i>Áreas Suscetíveis à Desertificação</i>
ATER	Technical Assistance and Rural Extension Services	<i>Assistência Técnica e Extensão Rural</i>
ATP	Technical and Pedagogic Advisors	<i>Assessoria Técnica Pedagógica</i>
BB	Bank of Brazil	<i>Banco do Brasil</i>
BNB	Bank of Northeast Brazil	<i>Banco do Nordeste do Brasil</i>
BNDES	National Development Bank	<i>Banco Nacional do Desenvolvimento</i>
BRL	Brazilian Real	
CA	Community Association	<i>Associação Comunitária</i>
CAERN	State Water and Sanitation Company	<i>Companhia de Águas e Esgotos do Rio Grande do Norte</i>
CADÚNICO	Unified Registry of Beneficiaries of Social Programs under the Ministry of Social Development Management	<i>Cadastro Único para Programas Sociais do Ministério do Desenvolvimento Social e Combate à Fome</i>
CACON	Oncological Centre of High Complexity	<i>Centro de Alta Complexidade em Oncologia</i>
CDR	State Council for Sustainable Development	<i>Conselho Estadual de Desenvolvimento Sustentável</i>

CEDRUS	State Council for Rural Sustainable Development	<i>Conselho Estadual de Desenvolvimento Rural Sustentável</i>
CEES	State Council for Economic Solidarity	<i>Conselho Estadual de Economia Solidária</i>
CEE	State Education Council	<i>Conselho Estadual de Educação</i>
CEF	Federal Bank	<i>Caixa Econômica Federal</i>
CES	State Health Council	<i>Conselho Estadual de Saúde</i>
CEMP	State Entrepreneurs Registry	Cadastro Empresarial do Rio Grande do Norte
CGP	Project Steering Committee	<i>Comitê Gestor do Projeto</i>
CIOSP	State Centre for Public Security Integrated Operations	<i>Centro Integrado de Operações de Segurança Pública</i>
CIR	Regional Committees for Integrated Management	<i>Comissões Intergestores Regionais</i>
CJRG	Criminal Justice Resource Group (World Bank)	
CMD	Municipal Development Council	<i>Conselho Municipal de Desenvolvimento</i>
CNES	National Registry of Health Infrastructure	<i>Cadastro Nacional de Estabelecimentos da Saúde</i>
CNT	Transport National Confederation	<i>Confederação Nacional do Transporte</i>
CODESAOP	Cooperative of Sustainable Development for the <i>Alto Oeste Potiguar</i> Region	<i>Cooperativa de Trabalho para o Desenvolvimento Sustentável do Alto Oeste Potiguar</i>
COEX	Executive Committee for Phytosanitation	<i>Comitê Executivo de Fitossanidade</i>
COFIEIX	Committee for Foreign Financing at the Secretariat of External Affairs/Ministry of Planning	<i>Comissão de Financiamento Externos da Secretaria de Assuntos Internacionais/Ministério do Planejamento</i>
CONAB	National Company for Food Supply	<i>Companhia Nacional de Abastecimento</i>
CONTAG	National Federation for Rural Workers	<i>Confederação Nacional de Trabalhadores na Agricultura</i>
CONETUR	State Tourism Council	<i>Conselho Estadual de Turismo</i>
CONTROL	State General Auditor	<i>Controladoria Geral do Estado</i>
COPES	Special Projects Coordination	<i>Coordenadoria de Projetos Especiais da SETHAS</i>
COPLAC	Planning, Monitoring and Control Coordination	<i>Coordenadoria de Planejamento</i>

CPCS	State Coordination for Planning and Control of Health System	<i>Acompanhamento e Controle Coordenadoria de Planejamento e Controle do Sistema de Saúde</i>
CPO	Budget Programming Coordination	<i>Coordenadoria de Programação Orçamentária</i>
CPS	Center of Social Policies	<i>Centro de Políticas Sociais da Fundação Getúlio Vargas</i>
CT	Territorial Committee	<i>Colegiado de Articulação Territorial</i>
CVT	Vocational and Technical Center	<i>Centro Vocacional Tecnológico</i>
DAP	Family Agriculture Registry (PRONAF)	<i>Declaração de Aptidão ao PRONAF</i>
DATASUS	Database of the Unified Health System	<i>Banco de Dados do Sistema Único de Saúde</i>
DER	Department of Roads	<i>Departamento de Estradas e Rodagens</i>
DFDA	State Office of the Ministry of Agrarian Development	<i>Delegacia Estadual do Ministério de Desenvolvimento Agrário</i>
DIRE	State Regional Board of Education	<i>Diretoria Regional de Educação</i>
DRAE	State Regional Board of School Nutrition	<i>Diretoria Regional de Alimentação Escolar</i>
EMATER	Rural Extension and Technical Assistance Company	<i>Empresa de Assistência Técnica e Extensão Rural do Rio Grande do Norte</i>
EMBRAPA	Brazilian Agricultural and Livestock Research Company	<i>Empresa Brasileira de Pesquisa Agropecuária</i>
FAO	Food and Agriculture Organization	<i>Organização das Nações Unidas para Agricultura e Alimentação</i>
FECOP	State Fund for Poverty Reduction	<i>Fundo Estadual de Combate à Pobreza</i>
FIERN	Industrial Federation of Rio Grande do Norte	<i>Federação das Indústrias do Estado do Rio Grande do Norte.</i>
FNDE	National Education Development Fund	<i>Fundo Nacional de Desenvolvimento da Educação</i>
FUNAI	National Indigenous Peoples' Foundation	<i>Fundação Nacional do Índio</i>
FUNASA	National Health Foundation	<i>Fundação Nacional da Saúde</i>
HDI	Human Development Index	<i>Índice de Desenvolvimento Humano</i>
HOI	Human Opportunities Index	<i>Índice de Oportunidades</i>

		<i>Humanas</i>
IBGE	Brazilian Institute of Geography and Statistics	<i>Instituto Brasileiro de Geografia e Estatística</i>
IDEMA	Institute for Sustainable Development and the Environment of RN	<i>Instituto de Desenvolvimento Sustentável e Meio Ambiente do RN</i>
IETS	Work and Society Studies	<i>Estudos do Trabalho e Sociedade</i>
IEL	Euvaldo Lodi Institute	<i>Instituto Euvaldo Lodi</i>
IICA	Inter-American Institute for Cooperation on Agriculture	<i>Instituto Interamericano de Cooperação na Agricultura</i>
INSA	National Institute for Semiarid	<i>Instituto Nacional do Semiárido</i>
IPEA	Institute of Applied Economic Research	<i>Instituto de Pesquisa Econômica Aplicada</i>
IRR	Internal Rate of Return	<i>Taxa Interna de Retorno</i>
ISDS	Integrated Safeguards Data Sheet	
ITEP	Technical-Scientific Institute	<i>Instituto Técnico-científico</i>
LDB	National Education Law	<i>Lei de Diretrizes e Bases da Educação Nacional</i>
LGBT	Lesbian Gay Bisexual and Transgender	<i>Lésbica Gay Bissexual e Transgêneros</i>
MDA	Ministry of Agrarian Development	<i>Ministério do Desenvolvimento Agrário</i>
MDS	Ministry of Social Development Hunger Eradication	<i>Ministério do Desenvolvimento Social e Combate à Fome</i>
MIS	Monitoring and Information System	<i>Sistema de Monitoramento e Informações</i>
NSO	Network of Social Organizations	<i>Rede de Organizações Sociais</i>
OVEEB	Basic Education Observatory	<i>Observatório da Vida do Estudante da Educação Básica</i>
PA	Productive Alliance	<i>Aliança Produtiva</i>
PAE	State Agriculture Survey	<i>Pesquisa Agrícola Estadual</i>
PAM	Municipal Agriculture Survey	<i>Pesquisa Agrícola Municipal</i>
PAR	Education Articulation Action Plan	<i>Plano de Ações Articuladas (Educação)</i>
PDE	School Development Plans	<i>Plano de Desenvolvimento Escolar</i>
PMAQ-AB	National Program on Improving Access and Quality of Primary Care	<i>Programa Nacional de Melhoria do Acesso e da Qualidade da Atenção Básica</i>
PNAD	National Household Survey	<i>Pesquisa Nacional por Amostra de Domicílios</i>
PNAE	National School Meals Program	<i>Programa Nacional de Alimentação Escolar</i>

PO	Producers' Organization	<i>Organizações de Produtores</i>
PPA	Multi-year Investment Plan	<i>Plano (de Investimentos)</i>
PPP	Public-Private Partnerships	<i>Parcerias Público Privadas</i>
PROERD	State Drug Prevention Program	<i>Programa Estadual de Resistência às Drogas</i>
PRONAF	National Program to Strengthen Family Agriculture	<i>Programa Nacional de Fortalecimento da Agricultura Familiar</i>
PRONACAMPO	National Program for Education in the Rural Areas	<i>Programa Nacional de Educação do Campo</i>
PRONATEC	National Program for Employment and Technical Education	<i>Programa Nacional de Acesso ao Ensino Técnico e Emprego</i>
RDC	ANVISA Board Resolution	<i>Resolução da Diretoria Colegiada da ANVISA</i>
RPF	Resettlement Plan Framework	<i>Marco de Planejamento de Reassentamento</i>
SAB-RN	State Basic Education Evaluation System	<i>Sistema de Avaliação da Educação Básica do RN</i>
SAPE	State Secretariat of Agriculture, Livestock and Fisheries	<i>Secretaria de Estado de Agricultura Pecuária e Pesca</i>
SC	School Councils	<i>Associação Escolar</i>
SEARH	State Secretariat of Administration and Human Resources	<i>Secretaria de Estado da Administração e do Recursos Humanos</i>
SEBRAE	Brazilian Agency for Micro- and Small-Business Assistance	<i>Serviço Brasileiro de Apoio às Micro e Pequenas Empresas</i>
SEDEC	State Secretariat of Economic Development	<i>Secretaria de Estado do Desenvolvimento Econômico</i>
SEEC	State Secretariat of Education	<i>Secretaria de Estado de Educação</i>
SEMARH	State Secretariat for the Environment and Water Resources	<i>Secretaria de Estado do Meio Ambiente e dos Recursos Hídricos</i>
SENAR	National Service for Rural Apprenticeship	<i>Serviço Nacional de Aprendizagem Rural</i>
SEPLAN	State Secretariat of Planning	<i>Secretaria de Estado de Planejamento</i>
SESAP	State Secretariat of Health	<i>Secretaria de Estado de Saúde</i>
SESED	State Secretariat of Security and Social Defense	<i>Secretaria de Estado da Segurança e da Defesa Social</i>
SETHAS	State Secretariat of Labor, Housing and Social Assistance	<i>Secretaria de Estado do Trabalho, Habitação e Assistência Social</i>
SETUR	State Secretariat of Tourism	<i>Secretaria de Estado do Turismo</i>

SIAP	Integrated Financial Management System	<i>Sistema Integrado de Administração Financeira</i>
SIAP	Integrated Planning Support System	<i>Sistema Integrado de Apoio ao Planejamento</i>
SIGEDUC	Education Management System	<i>Sistema Integrado de Gestão da Educação</i>
SO	Social Organization	<i>Organização Social</i>
UFRN	Rio Grande do Norte Federal University	<i>Universidade Federal do Rio Grande do Norte</i>
SUS	Unified Health System	<i>Sistema Único de Saúde</i>
UES	Sectoral Unit	<i>Unidade Executora Setorial</i>
WSS	Water and Sanitation Services	<i>Serviços de Água e Saneamento</i>

Regional Vice President:	Hasan A. Tuluy
Country Director:	Deborah L. Wetzel
Sector Director:	Ede-Jorge Ijjasz-Vasquez
Sector Manager:	Laurent Msellati
Task Team Leader:	Maria de Fatima Amazonas

BRAZIL
Rio Grande do Norte: Regional Development and Governance Project

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PAD DATA SHEET

Brazil

Rio Grande do Norte: Regional Development and Governance (P126452)

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSAR

Report No.: PAD239

.					
Basic Information					
Project ID	Lending Instrument	EA Category	Team Leader		
P126452	Investment Project Financing	B - Partial Assessment	Maria de Fatima de Sousa Amazonas		
Project Implementation Start Date		Project Implementation End Date			
02-Dec-2013		30-Nov-2018			
Expected Effectiveness Date		Expected Closing Date			
29-Nov-2013		31-May-2019			
Joint IFC					
No					
Sector Manager	Sector Director	Country Director	Regional Vice President		
Laurent Msellati	Ede Jorge Ijjasz-Vasquez	Deborah L. Wetzel	Hasan A. Tuluy		
.					
Borrower: Secretariat of Planning and Finance					
Responsible Agency: Project Management Unit					
Contact:	Ana Cristina Guedes	Title:	Manager		
Telephone No.	55-84-3232-1818	Email:	rnsustentavel@rn.gov.br		
.					
Project Financing Data(in USD Million)					
<input checked="" type="checkbox"/> [X]	Loan	<input type="checkbox"/> []	Grant	<input type="checkbox"/> []	Other
<input type="checkbox"/> []	Credit	<input type="checkbox"/> []	Guarantee		

Total Project Cost:	400.00	Total Bank Financing:	360.00				
Total Cofinancing:		Financing Gap:	0.00				
Financing Source		Amount					
Borrower		40.00					
International Bank for Reconstruction and Development		360.00					
Total		400.00					
Expected Disbursements (in USD Million)							
Fiscal Year	2013	2014	2015	2016	2017	2018	2019
Annual	0.00	15.00	50.00	115.00	110.00	70.00	0.00
Cumulative	0.00	15.00	65.00	180.00	290.00	360.00	360.00
Proposed Development Objective(s)							
The objective of the Project is to support the Borrower’s efforts to: (i) increase food security and access to productive infrastructure and markets for family agriculture; (ii) improve the quality of, and access to, health, education and public security services; and (iii) improve systems for public expenditure, human resource and physical asset management in the context of a results-based management approach.							
Components							
Component Name					Cost (USD Millions)		
Component 1: Sustainable Regional Development					180.30		
Component 2: Improving Public Services					116.90		
Component 3: Public Sector Management					58.90		
Institutional Data							
Sector Board							
Agriculture and Rural Development							
Sectors / Climate Change							
Sector (Maximum 5 and total % must equal 100)							
Major Sector			Sector		%	Adaptation Co-benefits	Mitigation Co-benefits

			%	%
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	30	50	50
Public Administration, Law, and Justice	Public administration- Information and communications	20		
Education	General education sector	20		
Health and other social services	Health	20		
Agriculture, fishing, and forestry	Irrigation and drainage	10	50	50
Total		100		
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Rural development	Rural markets	40		
Public sector governance	Public expenditure, financial management and procurement	20		
Social dev/gender/inclusion	Gender	10		
Human development	Education for the knowledge economy	10		
Human development	Health system performance	10		
Urban development	Municipal governance and institution building	10		
Total		100		
Compliance				
Policy				
Does the project depart from the CAS in content or in other significant respects?			Yes []	No [X]
Does the project require any waivers of Bank policies?			Yes []	No [X]
Have these been approved by Bank management?			Yes []	No [X]

Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
Safeguard Policies Triggered by the Project		
	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37	X	
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X
Legal Covenants		
Name	Recurrent	Due Date
Project Management Committee		29-Nov-2013
Description of Covenant		
Loan Agreement - Schedule 2 Section I.A.1. No later than thirty days after the Effective Date, the Borrower shall establish, and thereafter operate and maintain during the implementation of the Project, a Project Management Committee chaired by SEPLAN's Secretary, and composed by representatives from key secretariats and organizations.		
Name	Recurrent	Due Date
Project Management Unit	X	
Description of Covenant		
Loan Agreement - Schedule 2 Section I.A.2.(a) Operate and maintain, until the completion of the Project, a unit within SEPLAN (the PMU), responsible for the overall management, coordination, supervision, monitoring and evaluation of the Project.		
Name	Recurrent	Due Date
Project Sectoral Units	X	
Description of Covenant		
Loan Agreement - Schedule 2 Section I.A.2. (b) Operate and maintain, until the completion of the Project, sectoral units (the UES) within SAPE, SETHAS, SESAP, SESED, SEDEC, SEEC, SEARH, SETUR and DER responsible for the management, and implementation, supervision,		

monitoring and evaluation of Project activities within their respective sectors			
Name	Recurrent	Due Date	Frequency
Annual Operating Plans	X		Annually
Description of Covenant			
Loan Agreement - Schedule 2 Section I.A.3. The Borrower shall: (a) prepare and furnish to the Bank annual operating plans, satisfactory to the Bank, detailing the Project activities to be carried out during the year following the date of presentation of each such plan, together with the respective sources of funding, by December 5 of each year during Project implementation.			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Alberto Coelho Gomes Costa	Senior Social Development Specialist	Social Specialist	LCSSO
Carla Zardo	Program Assistant	Program Assistant	LCC5C
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Luciano Wuerzius	Procurement Specialist	Procurement Specialist	LCSPT
Rodrigo Serrano-Berthet	Senior Social Development Specialist	Senior Social Development Specialist	LCSSO
Mariana Margarita Montiel	Senior Counsel	Senior Counsel	LEGLE
Jose M. Rodriguez Alvarez	Sr Public Sector Spec.	Sr Public Sector Spec.	LCSPS
Maria de Fatima de Sousa Amazonas	Senior Rural Development Specialist	Team Lead	LCSAR
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Miguel-Santiago da Silva Oliveira	Senior Finance Officer	Senior Finance Officer	CTRLN
Erwin De Nys	Sr Water Resources Spec.	Sr Water Resources Spec.	LCSN
Tiago Carneiro Peixoto	E T Consultant	E T Consultant	WBIOG

Joao Vicente Novaes Campos	Financial Management Specialist	Financial Management Specialist	LCSFM
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Emanuela Monteiro	Urban Specialist	Urban Specialist	LCSDU
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Marcilio Neves	Road Engineer		Belo Horizonte
Luis Dias Pereira	Economist		Rome
Carlos Puig	Agribusiness Specialist		Montreal
Jose Luiz Ratton	Professor		Recife
Flavia Fonseca Carbonari de Almeida	Consultant	458-1282	Washington
Stephanie Kuttner	Gender Specialist		Brasilia
Locations			
Country	First Administrative Division	Location	Planned
Brazil	SEPLAN	Natal, RN	

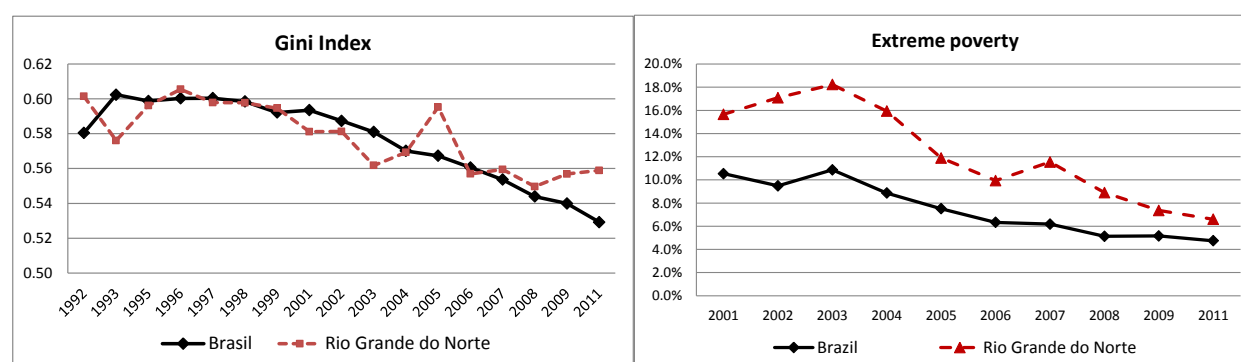
I. STRATEGIC CONTEXT

A. Country and State Context

1. **Over the last decade, Brazil has made significant advances in terms of economic and public sector management, poverty reduction, and social indicators.** Consecutive governments have maintained sound macroeconomic policies, achieving low inflation, robust economic growth, and significant job creation. Growth in employment and labor incomes, as well as the implementation of targeted social assistance programs, such as *Bolsa Família*, have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R\$70¹ (US\$35) a month from 10.5 percent at the start of the 2000s to 4.7 percent in 2011, as well as a reduction in inequality as reflected in a fall in the Gini coefficient from 0.59 to 0.53 over the same period. Brazil has also seen significant improvements in health and education outcomes resulting from public investments and sectoral reforms.

2. **However, the Brazilian economy slowed significantly over 2011 and 2012.** Real GDP grew at 0.9 percent in 2012 compared to 2.7 percent in 2011. With trend growth estimated at around 4 percent, this growth slowdown represents a major weakening of economic performance. Furthermore, the Brazilian economy is very concentrated in certain regions and shared prosperity remains a challenge. The Southeast and South regions accounted for 72 percent of GDP in Brazil in 2009; while the Northeast region persists as one of the poorest and most unequal in the country (and indeed, in the entire Latin America region). Encouragingly, since the late 1990s, the Northeast region has begun to see reduction in poverty and inequality attributed to the introduction of new technologies (e.g. irrigation for commercial fruit farming), the discovery of natural gas and oil deposits, as well as to federal income transfers programs² (see Figure 1).

Figure 1 - Inequality and extreme poverty, Rio Grande do Norte (RN) State and Brazil



Note: Extreme poverty is defined as per capita income of less than 70 Reais a month (US\$35) in 2010 prices.

Sources: IETS for Gini. IPEA and WB staff for extreme poverty.

3. **Nonetheless, economic and social indicators in the State of Rio Grande do Norte remain well below the national average** (see Table 1). Although some human development indicators such as poverty rates, income inequality, illiteracy and infant mortality rates have been

¹ In 2010 prices, as defined by Instituto Brasileiro de Geografia e Estatística (IBGE)

² About 341,000 families in RN are receiving benefits under the federal *Bolsa Família* program (Ministry of Social Development, 2011).

improving, these remain higher than national levels. While the proportion of the population of RN living in poverty rate fell from just over half, to just over a third 2001 and 2009, it still remains significantly above the national rate of 21 percent.³ Income disparities worsen further still when taking regional distribution and gender gaps into account. Furthermore, nutrition and food security remain a concern in RN with nearly half of all households still facing some level of food insecurity as compared to about a third across Brazil.

4. **Economic development remains very uneven across the State's ten territories, prompting the Government of Rio Grande do Norte (GoRN) to develop an integrated regional development strategy** (described further in Annex 2) Gender inequality is pervasive but is most severe in lagging regions and within vulnerable groups. Income inequality is more marked in the State's lagging central belt and western border region, and the gender gap worsens further when focusing on rural areas with higher concentrations of female-headed households.

Table 1 - Economic and Social indicators for Rio Grande do Norte, Northeast, and Brazil

Indicators	Unit	Rio Grande do Norte	Northeast	Brazil
Population (2010)	Million inhabitants	3.2	53	191
Area	(1000) Km ²	52.8	1,222	8,514
Urban population (2010)	% population	78	73	84
GDP (2009)	R\$ million	27,905	437,720	3,239,404
<i>Per capita</i> GDP (2010)	R\$ thousand	8,894	8,168	16,917
Gini Index (2009)	-	0.559	0.558	0.543
Poverty (2009)	% population	34	40	21
Food insecurity (2009)	% population	47.1	46.1	30.2
Life expectancy (2009)	Years	71	70	73
Infant mortality (2010)	deaths/1,000 births	17.2	19.1	16.0
Illiteracy (2011)	% population	15.8	16.9	8.6

Source: IBGE (SIDRA, 2010), IPEA (IPEADATA, 2010), Ministry of Health (SINASC/SIM)

5. **The rural poor depend largely on agriculture for their livelihoods and food security; however they remain poorly organized within agriculture production/value chains.** Although it represents only a small percentage of the State's GDP, the agriculture sector is an important element in the State's sustainable development, food security and poverty reduction strategy. The sector has two distinct characteristics: (i) multinational large-scale agribusiness, particularly fruit farming and sugarcane plantations; and (ii) small-scale family agriculture producers. These small farmers have generally not benefited from advances in agricultural technologies and practices; nor have they organized collectively to improve their productivity or market position.

6. **The agriculture sector faces productivity constraints and intensifying environmental and climatic challenges.** Aside from its fertile eastern coastline, the Brazilian Northeast region is characterized by poor soils, low rainfall, with long drought periods, which result in poor yields and low capacity to generate income, particularly in the semiarid and transition areas. Thus, one of the constraints to increased productivity and value chain development is the low water use

³ IBGE/Projecto Pesquisa Nacional por Amostra de Domicílios (PNAD), 2009

efficiency at farm level, requiring modern water-saving techniques and practices. As a response to these challenges, the GoRN has been working with local development partners to adopt more efficient and sustainable production practices and identified promising value chains with on-farm and off-farm income and labor-generating potential in both rural and non-rural areas.

7. **Coverage and quality of public service delivery - particularly in health, education and public security - remain very uneven across the State and insufficient to meet demand.** Inefficient monitoring and referral systems, incomplete coverage, and poor quality of health care services have limited the State's capacity to respond to increasing rates of chronic non-communicable diseases (NCDs), the rise of violence and traffic-related injuries (mainly in urban areas), and stubbornly high infant and maternal mortality rates⁴. Adult illiteracy in Rio Grande do Norte - at 15.8 percent for ages 15 years and older in 2011⁵ - remains well above the national average of 8.6 percent and jumps further to 49 percent amongst those working in family agriculture (and higher still amongst rural women in lagging regions). Furthermore, public security agencies lack effective management and information systems to monitor the incidence of crime and violence in Rio Grande do Norte and social context within which it is taking place. These capacities are critical for the design of more effective program and policy responses to increasing rates of homicide, domestic violence, and other violent crime affecting much of the Northeast of Brazil.⁶

8. **The public administration struggles to support the GoRN's ambitious development objectives.** While Rio Grande do Norte has adopted some isolated modernization measures, it has not yet undertaken a more comprehensive reform. Moreover, little has been done to shift the focus from input control and formalistic procedures towards achievement of results. This has undermined the ability of the public administration to contribute effectively to the State's social and economic development.

9. **This proposed Project⁷ would support the GoRN to achieve its planned strategic results by combining investments which would favor economically inclusive growth, poverty reduction, shared prosperity, reduced inequality and broad-based human development.**

B. Sectoral and Institutional Context

10. **The GoRN is aligning its development strategies with the Federal Government's goal of eradicating extreme poverty by promoting greater regional integration, productive inclusion and access to public services.** The State's Strategic Development Plan (*Plano Plurianual* 2012-2015, PPA) and its Poverty Reduction Strategy (*Plano RN Sem Miséria e Programa RN Mais Justo* 2012-2015 - aligned to the national *Brazil Sem Miséria* Poverty

⁴Maternal mortality rate (deaths per 100,000 live births) was 46.9 in 2011 (IBGE); while Infant mortality rate (deaths/1,000 births) was 17.2 in 2010.

⁵IBGE / PNAD, 2009.

⁶World Bank, *Making Brazilians Safer: Analyzing the Dynamics of Violent Crime*, Sustainable Development Sector, Latin American and the Caribbean Region, Report no. 70764, June 2012.

⁷ The proposed Loan for this Project was approved by the Federal Government via COFLEX Recommendation No. 1306 dated January 2, 2012.

Reduction Strategy⁸ - reflect the goals of equitable, inclusive and efficient growth, by focusing, in particular, on sustainable and integrated regional development, the elimination of extreme poverty, and modernization of public sector management.

11. **The proposed Project would support priority programs selected from the PPA and RN Sem Miséria.** Investments will be linked to a well-designed strategy focused on: (a) promoting regional development and inclusive growth through productive inclusion, entrepreneurship, infrastructure and logistics investments; (b) elimination of extreme poverty through enhanced food security and income-generation; (c) improvement of public services delivery, namely education, health and public security; and (d) modernization of public sector management through a results-oriented program that introduces integrated and results-based management methodology, as well as measures for strengthening public institutions.

C. Higher Level Objectives to which the Project Contributes

12. The Project is grounded in the regional strategies of the Bank and the International Finance Corporation which focus on creating opportunities for growth and employment, targeting the poor and vulnerable, strengthening governance and promoting global collective action, as well as stimulating private sector innovation and competitiveness. It would also support two other pillars of the World Bank Group's Country Partnership Strategy (CPS) 2012-2015⁹ by contributing to an **Equitable Brazil** (by targeting rural productive inclusion, poverty reduction and services for human capital development), and to a **Sustainable Brazil** (through the promotion of sustainable production systems. The proposed Project's objectives and activities are in line with key focus areas of the World Bank's Action Plan (FY13-15) including: green and inclusive growth, gender and human development, agriculture and rural development/nutrition, governance and public sector, knowledge transfer, ICT and transparency.

13. **The World Bank has had a long-standing partnership with the Northeast Region and the State of Rio Grande do Norte,** with regular dialogue on the overall lending program, State sector strategies and specific operations. Until recently, IBRD support to the State of Rio Grande do Norte was limited to investment projects in poverty reduction, and water infrastructure and management.¹⁰ Building on the work of these earlier Projects, this Project marks a shift in approach away from sectoral interventions and traditional community-focused rural poverty reduction approaches, towards more multi-sectoral, regionally integrated and market-oriented approaches to sustainable development and poverty reduction in Rio Grande do Norte.

14. **Of the other major external financing agencies operating in Brazil - the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF),** only the IADB is currently active in Rio Grande do Norte. It recently completed negotiations on a US\$27 million loan to the State that

⁸ Launched in 2011, targeting elimination of extreme poverty affecting 16.2 million people or about 8.5% of the Brazilian population.

⁹ Report No. 63731-BR, discussed by the Executive Directors on November 1, 2011.

¹⁰ The Rural Poverty Reduction Project (P066170); State Program of Sustainable Development and Living with the Semiarid *Potiguar* (P089929).

will help strengthen fiscal management and increase the effectiveness and quality of public expenditures. Additionally, the GoRN is preparing a third operation in the tourism sector with IADB, and this operation (PRODETUR), and the proposed Project, through the Subcomponent 1.1, will align investments for logistic improvement (road recovery and upgrading) in target areas to increase tourism potentials as well as market-access for producers.

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

15. The objective of the Project is to support the Borrower's efforts to: (i) increase food security and access to productive infrastructure and markets for family agriculture; (ii) improve the quality of, and access to, health, education and public security services; and (iii) improve systems for public expenditure, human resources and physical asset management in the context of a results-based management approach.

PDO Level Results Indicators

16. Key results expected from the Project are: (i) increased real revenue of beneficiary producers' organizations; (ii) increased provision of health services related to prioritized health care networks at the regional level (maternal and infant, urgency and emergency, and oncological health care networks); (iii) increased Development Index of Basic Secondary Education (IDEB); (iv) increased percentage of population locally benefited by the electronic police reporting system; and (v) increased budget percentage of State's strategic projects adopting results oriented approach/performance evaluation in planning and implementation.

Project Beneficiaries

17. Project beneficiaries of the different components are linked to the same target population; namely, the most vulnerable in the State's lagging regions. Furthermore, the Project will seek to ensure a minimum of 60 percent female beneficiary rate across all components. However, as Project sub-components include activities in different sectors, each one will focus on a sub-set of the larger target group of beneficiaries in order to contribute to the achievement of the PDO. For example, subprojects under Component 1 (Sustainable Regional Development) are expected to benefit approximate 20,000 farming families representing about 70,000 individuals. Interventions in the health sector under Component 2.1 will benefit infants, women of reproductive age and those at risk for breast and cervical cancer; as well as the general population in need of emergency care. Under Component 2.2 on Education, the Project would benefit over 310,000 students enrolled in RN's 700 State-run schools representing 40 percent of the total student population. Interventions in public security under Component 2.3 will benefit the population generally by improving the State's capacity to respond to criminal incidents and increase security monitoring which would particularly benefit groups most at risk of suffering negative effects of increasing violence and insecurity, such as women, youth and minorities. Finally, Public Sector Management reforms under Component 3 would particularly benefit users of health, education and public security services, through: (i) improvement in public sector management leading to more efficient and effective delivery of public services; and (ii) increased

availability of public resources - for social policies and investments - as a result of rationalization of public expenditures.

III. PROJECT DESCRIPTION

A. Project Components

18. The proposed Project is a US\$ 360 million Investment Project Financing (IPF) to support implementation of the State's Strategic Development Plan (PPA) and its Poverty Reduction Strategy (*RN Sem Miséria*) over a six-year period. Project Components would be organized in the following fashion in support of the State's strategy:

19. **Component 1: Sustainable Regional Development (US\$ 200.5 million of which US\$ 180.3 million IBRD financing).** This Component aims to reduce regional inequalities and increase productive inclusion through the following Subcomponents:

20. ***Subcomponent 1.1: Strategic Investments and Local Governance Strengthening (US\$ 109.8 million, of which US\$ 98.7 million IBRD financing)*** will strengthen the Borrower's capacity to implement its Sustainable Regional Development Strategy through: (i) the provision of support to SAPE, SETHAS, SETUR, SEDEC and DER for the carrying out of strategic studies and diagnostics to identify environmental and socio-economic viability of potential Subproject investments; (ii) the provision of support to SAPE and SETHAS for the preparation, implementation and supervision of Business Plans; and (iii) based on the results of the diagnostics and feasibility studies carried out under (i) above, the provision of support to SAPE, SETHAS, SETUR, SEDEC and DER for strategic investments in the expansion, improvement and integration of regional productive infrastructures including, *inter alia*: APL¹¹ innovation, technology and trade centers, aquaculture stations, phyto-sanitary inspection units, physical facilities and equipment for production of seedlings and breeding animals, road upgrading and rehabilitation, and tourism infrastructure..

21. ***Subcomponent 1.2: Productive, Social and Environmental Subprojects (US\$ 90.7 million, of which US\$ 81.6 million IBRD financing)*** will provide support to Producers Organizations (POs), Social Organizations (SOs) and Network of Social Organizations (NSOs) for the carrying out of: (i) Productive Subprojects; (ii) Socio-Economic Infrastructures Subprojects; and (iii) Social and Environmental Subprojects. Subproject categories, selection criteria and cycles are described further in Annex 2.

22. **Component 2: Improving Public Services (US\$ 130.0 million of which US\$ 116.9 million IBRD financing)** supports the human development and citizen security pillars of the State's Poverty Reduction Strategy by improving the quality of, and access to, basic public services and would be divided into three subcomponents:

23. ***Subcomponent 2.1: Health. (US\$ 45.0 million, of which US\$ 40.4 million IBRD financing)***. Would provide support to SESAP in the implementation of strategic priorities in the health sector, including:

¹¹ Arranjos Produtivos Locais (Local Productive Value Chains)

- (a) The reduction of maternal and infant mortality rates, through: (i) the refurbishing and provision of the necessary equipment for selected maternity hospitals; (ii) the preparation and implementation of a continuous training program for primary care professionals (doctors and nurses) in prenatal care with emphasis on risk classification, primary health care access and postpartum/newborn care; (iii) the construction of an infant and maternal hospital in *Mossoró*; (iv) the establishment of a system of human milk banks; and (v) the implementation of a risk classification system to monitor high risk infants from birth to 12 months of age.
- (b) The increased availability of early detection and quality treatment for breast and cervical cancer patients, through: (i) the refurbishing and provision of the necessary equipment for the referral center for diagnosis on cancer diseases; (ii) the preparation and implementation of continuous educational programs for health professionals and managers; (iii) the development of telemedicine programs for disease diagnosis; (iv) the construction of new and renovation of existing laboratories for cancer testing and diagnosis, as well as the provision of the necessary equipment; and (v) the preparation and implementation of continuous professional training programs focused on cancer diseases.
- (c) The establishment of a regionalized emergency health service network in the Borrower's territory, through: (i) the improvement of selected emergency medical facilities and services; (b) the implementation of evidence-based clinical protocols and pathways for emergency health services.

24. ***Subcomponent 2.2: Education. (US\$ 68.8 million, of which US\$ 61.9 million IBRD financing).*** Promotion of basic education quality improvement and regional development for the education sector in the Borrower's territory, through:

- (a) The provision of support to SEEC for: (i) the development of instruments and action plans to support regional development activities, including, *inter alia*, the construction, refurbishing and equipment of selected rural and urban schools, the provision of literacy and technical-vocational training programs for youth and adults and the provision of training and didactic materials for accessing the PNAE; and (ii) the development of new curricula and programs for each level of education in the Borrower's public schools; (iii) the development of new pedagogical materials and training programs for teachers to support the implementation of the new curricula referred in (ii) above; (iv) the establishment of a basic education observatory (*Observatório da Vida do Estudante da Educação Básica*) to monitor school quality, together with an education evaluation system to assess students and school's performance; (v) the preparation and implementation of a manual of minimum operational standards for all the Borrower's public schools; (vi) the preparation and implementation of training and monitoring systems to support improvements in the educational system; and
- (b) The provision of support to School Associations for: (i) the design and implementation of Schools Development Plans; and (ii) the implementation of School Subprojects.

25. ***Subcomponent 2.3: Public Security (US\$ 16.3 million of which US\$ 14.6 million IBRD financing).*** Would provide support to SESED for the integration of its management processes,

the enhancing of its capacity to provide citizen security and programs focused on violence prevention and education, as well as the strengthening of public security information systems, through *inter alia*: (i) the investment in technology to strengthen SESED public security management capacity; (ii) the investment in technologies to improve CIOSP's capacity; and (iii) investment in educational materials, equipment and technical assistance on strategic communications to support specific ongoing drug and violence prevention efforts, and the coordination mechanism that support victims of violence against women, the elderly and minorities.

26. **Component 3: Public Sector Management (US\$ 65.5 million of which US\$ 58.9 million IBRD financing)** would provide support for the modernization of the State's public sector management in strategic sectors in order to strengthen the efficiency and effectiveness of central budget, finance and planning processes and management, as well as in service delivery in health, education and public security sectors. It would be divided into three subcomponents:

27. ***Subcomponent 3.1: Integrated and Results-oriented Planning, Budgeting and Finance Management.*** (US\$ 26.2 million, of which US\$ 23.6 million IBRD financing) would support strategic priorities for strengthening planning capacity, monitoring, evaluation and policy making, through the provision of support to SEPLAN for, *inter alia*: (i) the preparation and implementation of a result-oriented management proposal, comprising staff training; (ii) the design and implementation of a web-based dashboard hall and a bureau of projects to monitor the management of the Borrower's strategic programs and projects; (iii) the development of the Project management, monitoring and evaluation system and related mechanisms; (iv) the development and implementation of ICT technology; and (v) the development of a monitoring and information system and mechanisms for the Borrower's social protection programs.

28. These activities will be implemented in two phases. The first phase, of approximately one year and a half, will include the diagnosis of the current situation and the conceptual design of the possible organizational and institutional models for both activities, while the second phase, commencing in about 2015 will comprise the final agreement on development of the models, and any required supporting systems.

29. ***Subcomponent 3.2: Modernization of State Institutions and Administrative Systems*** (US\$ 17.1 million, of which US\$ 15.4 million IBRD financing). Would provide support to SEPLAN for, *inter alia*: (i) the identification and revision of procedures for SEEC, SESAP and SESED; (ii) the carrying out of a diagnosis of the Borrower's secretariats and public agencies to identify possible dysfunctional activities and proposing corrective measures; and (iii) the preparation of a non-Project package of sectoral investments aimed at improving key infrastructure and management systems and mechanisms.

30. ***Subcomponent 3.3: Efficient Human Resources and Asset Management*** (US\$ 22.1 million, of which US\$ 19.9 million IBRD financing). Would provide support to SEARH for the strengthening of the Borrower's workforce by focusing on attracting and retaining professional personnel, through: (i) the implementation of management and payroll auditing modules, including the planning of human resources and the design of a result-oriented management model; (ii) implementation of an integrated assets management system; (iii) modernization of the

Borrower's archives; (iv) improvement of the Borrower's ICT INFOVIA to address deficiencies in territorial connectivity; and (v) the provision of training for public servants, consultants and project managers directly involved in targeting strategic project implementation, including project management, financial management, procurement, IT, and monitoring and evaluation methodology and systems.

B. Project Financing

Lending Instrument

31. The proposed operation is an Investment Project Financing (IPF) in the amount of US\$ 360.0 million (total project costs of US\$ 400.0 million). Retroactive financing¹² will be available for this Project up to the amount of US\$ 72 million (20 percent of the Loan).

Project Cost and Financing

Project Components	Project Cost (US\$)	IBRD Financing (US\$)	% Financing
1. Sustainable Regional Development and Productive Inclusion	200,545,179	180,295,760	90%
1.1 Strategic Investments and Local Governance Strengthening	109,780,501	98,695,760	90%
1.2 Productive and Socio-Environmental Subprojects	90,764,678	81,600,000	90%
2. Improving Public Services	130,069,413	116,936,063	90%
2.1. Health	44,973,659	40,432,585	90%
2.2. Education	68,813,770	61,865,516	90%
2.3. Public Security	16,281,984	14,637,962	90%
3. Public Sector Management	65,535,408	58,918,177	90%
3.1. Integrated and Results-oriented Planning, Budgeting and Finance Management.	26,261,797	23,610,095	90%
3.2. Modernization of State Institutions and Administrative Systems.	17,135,489	15,405,287	90%
3.3. Efficient Human Resources and Asset Management	22,138,122	19,902,795	90%
Total Baseline Costs	396,150,000	356,150,000	90%
Physical and financial contingencies	2,950,000	2,950,000	100%
Total Project Costs	399,100,000	359,100,000	90%
Interest during Implementation	-	-	-
Front-end Fees	900,000	900,000	100%
Total Financing Required	400,000,000	360,000,000	90%

¹² Activities that would be eligible for retroactive financing include preparatory activities such as Project dissemination events, training, development of business plans and pilot projects for productive and environmental investments, among others.

C. Lessons Learned and Reflected in the Project Design

32. Some lessons learned from the implementation of other Bank-supported projects in the State and evaluations are incorporated in Project design.¹³ They include the following:

- (a) Adopt a multi-sectoral approach: This Project reflects the PPA's emphasis on the intersectionality of development challenges facing RN and thus, links strategic interventions across a range of key sectors. That is, poverty reduction and inclusive growth will require investments in human capital through strengthened health and education systems combined with increased opportunities for productive inclusion - all of which requires the foundation of a strong public sector and functioning public security system to support the delivery of development programs.
- (b) Strengthen linkages between agriculture, nutrition, food security and poverty reduction: The Project seeks to harness the potential of the agriculture sector in RN, particularly small-scale family farming for improving human nutrition, food security and poverty outcomes - both as a direct determinant of household food consumption, and through its role in livelihoods and food systems. Lessons from earlier Projects suggest that agricultural investments targeted to smallholder farmers are more likely to succeed if they address the human capital constraints (lower health and educational outcomes) due to malnutrition. Therefore, Project will, through multi-sectoral coordination, maximize poverty reducing and nutrition/food security improving impacts, while identifying and mitigating potential harm.
- (c) Productive inclusion is important for reducing inequalities: Productive inclusion (particularly of women, of the poor and other vulnerable groups) increases agency, reduce dependency on government transfers, and reduce rates of (especially youth) delinquency and of domestic violence. The project's inclusive design will also promote the participation of women and youth, as well as marginalized indigenous and *quilombola* communities¹⁴ amongst selected producer and community groups, and increase equitable access to productive resources.
- (d) Strengthen partnership with social organizations: which can be significant for the quality of project-supported proposals (local investments), particularly regarding the level of community participation and project assessment for prioritization and implementation of investments.

¹³ Rio Grande do Norte Rural Poverty Reduction Project (P066170); Coirolo and Lammert, *Rural Poverty Reduction in Northeast Brazil Vol. 1: Achieving Results through Community Driven Development* (World Bank, 2009); Binswanger et. al., *Rural Poverty Reduction in Northeast Brazil Vol. 2: An Evaluation of Community Driven Development* (World Bank, 2009); Amazonas et.al., *CDD Initiatives in Mainstreaming Gender in Northeast Brazil: An Exploratory Case Study* (World Bank, 2011).

¹⁴ *Quilombolas* are descendants of Afro-Brazilian slaves who escaped from slave plantations and who have historically suffered legal, social and economic discrimination; thus continue to exhibit lower poverty and human development indicators. Recognized communities of *quilombolas* (*quilombos*) enjoy a particular legal status under Brazilian law.

- (e) Ensure market orientation and integration of producers' organizations in value chains: Verifiable market opportunities must underpin support for poor rural producers; while collective action among small-scale producers can reduce asymmetric bargaining power in markets dominated by intermediaries.
- (f) Promote public private partnerships: Alliances with private companies that promote “win-win” market solutions can favor equity between value chain actors. Removing barriers and increasing competitiveness requires both public interventions and partnerships with private sector actors (where divisions of responsibility and roles are clearly identified) in a comprehensive, sequenced, and coherent approach. Therefore the GoRN is integrating its support to value chains within a broader Regional Development Strategy.
- (g) Public sector reform and improved service delivery are essential for supporting development objectives: The State's own diagnostics recognize that its ability to promote integrated development would be strengthened by the adoption of results-based management. Such changes are to promote greater efficiency and effectiveness of the public sector and to increase access to quality public services, especially among the poorest groups of the population and the poorest regions of the State. Increasing fiscal space for investment and modernizing and simplifying bureaucratic procedures are also central to improve conditions for private investments. In addition, the automation of strategic projects, administrative, procurement, budget and financial management, monitoring and evaluation processes limits opportunities for graft, and the improved access to information allows greater public scrutiny.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

33. The proposed Project is a multi-sector one, which would be jointly implemented by nine State Secretariats/Departments (see Table 1 in Annex 3) drawing largely on existing Government capacities and systems. A Project Steering Committee will be set up and chaired by the Secretary of Planning and Finance. It will be composed of representatives from key secretariats and organizations responsible for providing general oversight and guidance on the strategic and multisectoral aspects of the Project. The State Secretariat of Planning and Finance – SEPLAN, through a dedicated Project Management Unit (PMU), will be responsible for the overall management, coordination, planning, and monitoring and evaluation of project activities both at central and regional levels. The other Secretariats and Departments involved in Project Implementation would be supported by their respective Sectoral Units - *Unidade Executora Setorial* (UES). The UES will assist the Secretariats and Departments in the execution of technical, administrative, financial and procurement procedures. State employees and consultants working within the PMU and UESs are receiving financial incentives (salary top-ups) from the State's own resources on the basis of Decree 23308 of 22 March 2013.

34. SEPLAN will continue to be the Bank's main interlocutor during Project implementation. It will ensure that counterpart resources are included in the State's budget and be responsible for financial management, procurement, disbursements and accounting, as well as for implementing social and environmental safeguards instruments and for disseminating project results through a

proactive communication strategy. SEPLAN will compile project-related information furnished by the various implementing agencies and be responsible for ensuring compliance with all reporting requirements as set out in the Loan Agreement. SEPLAN will also ensure dissemination of project results through a proactive communication strategy.

35. A **Project Operation Manual** has been prepared to provide details on the implementation and funds flow arrangements that inform the day-to-day implementation of the Project (See Annex 3 for details).

B. Results Monitoring and Evaluation

36. The Project will be monitored and evaluated through the existing Management Information System (MIS) developed by SEPLAN which is integrated into GoRN monitoring systems. The MIS was updated and integrated with the Financial Management Information System (SIAF), which is widely used within the State administration. Implementing agencies will be responsible for data collection and reporting to the PMU who will be responsible for managing and compiling the information.

37. A framework for monitoring of Project outcomes and results has been developed and will be under implementation by the beginning of Year 1 (see Table 3 below). It provides specificity in data collection methodology, reporting responsibilities and frequency of M&E activities. Performance indicators, baseline, and targets have been established for the Project and its Components (see Annex 1). All baseline data will be collected during the first year of Project implementation. Monitoring will consist of an internal evaluation at the component level, and one at the Project level. Evaluation will be based on periodic reports prepared by the PMU in order to keep track of unanticipated problems, in addition to previously identified risks, so that these can be appropriately addressed. Gender analysis will also be an integral part of the monitoring and evaluation of project progress and impacts. Coordination of this responsibility falls to the SEPLAN/PMU team.

38. The Project will also conduct impact evaluations. Preliminarily, the proposed impact evaluation strategy will seek to measure the Project's contribution to the: (i) implementation of new curricula and programs for basic education; (ii) gender impacts of both gender-targeted and general investments; and (iii) sustainability of productive investments. Other specific investments such as those proposed in health and education will be assessed through quasi-experimental and qualitative methodologies (see Annex 3).

C. Sustainability

39. **Institutional Sustainability.** It is important to highlight the Government's commitment to its strategy, focused on efficient and effective service delivery and aimed at promoting more inclusive and equitable development in Rio Grande do Norte. In support of this, the Project promoted since its identification and preparation stages an open dialogue among executor Secretariats and agencies to design an integrated multi-sectoral project. Moreover, substantial

consultations were carried out with main stakeholders¹⁵, both to inform and to verify the key elements of the project design. Progress on network-building among Secretariats and agencies and investments in capacity building will be monitored closely throughout project implementation, as the required inter-institutional cooperation constitutes one of the project's key risks.

40. **Financial Sustainability.** Although, the overall Financial Management (FM) risk associated with the Project is rated as substantial, the flow of funds, disbursements, monitoring, auditing and supervision arrangements have been designed in a way to respond to the multi-agency implementation arrangements. All Project investments have been integrated into the Government's medium-term budget (Multi-Year Investment Plan - PPA 2012-2015) and included in the Budget Law. Major risks identified and specific mitigation measures are outlined in Annex 3.

41. **Environmental and Social Sustainability.** The Project is not expected to cause any large scale, significant and/or irreversible negative impacts. The Project will contribute to increased competitiveness of the productive organizations in the priority areas, as well as encourage good environmental practice especially in the semiarid region. To better address any potential issue that arises from the ESIA, the Borrower prepared a set of Implementation Manuals to be applied for all types of interventions: Works Environmental Manual, Social Communication Plan, Environmental Education Plan, and also a Natural Disaster Prevention Plan (Annex 1 of ESIA).

¹⁵ Including, *inter alia*, Institute for Sustainable Development and the Environment of RN (IDEMA); State Water and Sanitation Company (CAERN), State Secretariat for the Environment and Water Resources (SEMARH), Rural Extension and Technical Assistance Company (EMATER), Bank of Northeast Brazil (BNB), *Fundação Banco do Brasil*, *Caixa Econômica Federal*, Euvaldo Lodi Institute (IEL), Brazilian Agency for Micro- and Small-Business (SEBRAE), National Service for Rural Apprenticeship (SENAR), Industrial Federation of Rio Grande do Norte (FIERN), Asa Potiguar State Health Advice, State Board of Education, State Board of Tourism, State Council for Sustainable Rural Development, State Council for Solidarity Economy

V. KEY RISKS AND MITIGATION MEASURES

Risk Ratings Summary Table

Risk	Rating
Stakeholder Risk	Substantial
Implementing Agency Risk	
- Capacity	Substantial
- Governance	Substantial
Project Risk	
- Design	Substantial
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Substantial
- Political Context	Substantial
Overall Implementation Risk	Substantial

Overall Risk Rating Explanation

42. **Notwithstanding the Bank’s long-term partnership and familiarity with the State, the overall implementation risk is considered Substantial at this stage, driven by the complexity and multi-sectoral nature of the Project.** Stakeholder and Implementing Agency risk is deemed substantial, as the Project’s success is conditional on cooperation and buy-in of political and social organizations at the municipal and state level, as well as on grassroots support from existing producers and community organizations, the private sector and financial institutions in Rio Grande do Norte. The State’s innovative multi-sectoral strategy on inclusive economic growth carries inherent institutional capacity risks. With a relatively complex operation, technical capacity building and project management are key elements to ensure that the Project is implemented effectively and in a timely manner. Previous operations have shown that without effective leadership, project implementation delays could be high. Measures to mitigate the Project’s overall risk have been or will be put in place, such as the establishment of a Project Management Unit under SEPLAN leadership, as well as of Sectoral Implementation Units (UES) established in all State Secretariats involved in the Project execution. Furthermore, suitable allocation of financing, partnerships and collaboration of other agencies and stakeholders, business plan preparation for productive investments, procurement packaging, design flexibility and up-front preparation of the Operational Manual are all meant to mitigate identified risks.

43. Regarding the Public Security Sub-component 2.3, the Bank carried out a rapid assessment of SESED and proposed Project activities. The risk assessment and mitigation strategy are in compliance with the Bank’s Legal Note for engagement in the criminal justice sector, and the risk rating (moderate) falls under the Legal Note’s “gray area”.¹⁶ There are some risks associated to the security information management activities. In particular there is a risk of

¹⁶ World Bank Chief Counsel’s *Legal Note on Bank Involvement in the Criminal Justice Sector* (February 2012) and accompanying Staff Guidance establishes the framework for WB engagement in the Criminal Justice Sector.

misuse of sensitive information that SESED's and CIOSP's systems will be channeling. The risk is moderate because CIOSP management systems include a well-designed internal control mechanism, and a strong and respected leadership, and SESED authorities are committed to strengthen governance mechanisms in the security sector. This risk will be further mitigated by the Project's capacity building activities on best practices in security information management for SESED and all other agencies involved in the implementation of the Component, and by continuous and close specialized supervision..

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

44. The project will support activities in different sectors with very different approaches, and the methodology for the Economic and Financial analysis differs for each type of programmed intervention. Those activities are linked to the PDO in support of the Borrower's multi-sectoral approach to regional development and poverty reduction. Some of these activities - for example in the health, education, and public security sectors - fall squarely within the public sector's core responsibilities thus justifying the investment of public resources to increase their efficacy. In order to effectively deliver these basic services, core functions of public sector management have been identified for reform and capacity building, which will also be supported through this Project. Finally, investments to stimulate regional development, productive inclusion and share prosperity have been identified for public financing where market failures have precluded efficient private sector development. Furthermore, Project beneficiaries are predominantly poor people who do not have access to private resources. Indeed it is in an effort to reduce their dependence on cash transfers, that this Project will stimulate their integration into markets and income-generating activities.

45. Component 1 will support productive subprojects embedded in strategic value chains as well as social and environmental subprojects. For the former, because the nature of subprojects that would receive Project support will respond to the explicit demands of its target population, indicative production models from different value chains were constructed. These 'model' subprojects generated Financial Internal Rates of Return (IRR) greater than 18 percent in all cases and demonstrate significant incremental incomes in rural producer families (R\$360/month on average). More precise and representative feasibility indicators could be estimated during implementation, using information from a larger sample of actual investment proposals under consideration for project financing.

46. Subcomponent 2.1 aims at reducing the incidence of deaths related to birth, cervical and breast cancer, as well as injury (e.g. traffic accidents, homicides, etc.). The analysis aimed solely at providing a conservative estimate of the quantifiable benefits that are expected from such intervention. It uses the product of the State's GDP per capita by the estimated incremental economic active life (number of years of economic active life that are saved through the intervention) as a 'minimal' proxy for the Project's direct economic benefit. Social benefits and indirect economic benefits were not accounted for through this approach. Using this minimal proxy, an IRR of 20 percent was obtained under the assumption that 30 percent of the expected targets would still be achieved in a situation without project intervention.

47. Subcomponent 2.2 aims at addressing the issue of underperformance of the primary and secondary education systems in Rio Grande do Norte. In the analysis, the benefits were estimated based on an increase in earnings brought by a larger number of years of education and/or earlier incorporation in the job market (lower repetition rates). Benefits from improvements in the quality of knowledge gained at each year of schooling were not accounted for. The analysis resulted in an IRR of 15 percent, even assuming that only 50 percent of the expected improvements in repetition and dropout rates are attributable to the Project's intervention.

48. In the case of Public Security Subcomponent 2.3, the Secretary of Security and Social Defense already has limited funds. Improving the efficiency of SESED's spending is therefore key for a better prioritization of resources, strengthening those destined to violence prevention efforts, including better data collection, analysis and improved information systems that would assist informed decision making in the evaluation of preventive strategies and public security policies.

49. The overall objective of Component 3 on Public Sector Management is to improve the efficiency and effectiveness of public spending and thus, increase fiscal space for increasing budget allocation to support State policy priorities of poverty reduction and of sustainable and inclusive economic growth. It is difficult to attribute the benefits of improvements in public sector management to specific activities or investments as by their nature these will be dispersed throughout improved service delivery in all areas of government activity. Nevertheless, the evidence is that in States and Countries which have undertaken such investments and supported them with the necessary political leadership the benefits in terms of social outcomes can be very high.

B. Technical

50. The Project is supporting a number of complimentary interventions to enhance human development, economic development, public security and public sector management through an integrated approach, and furthermore, will be strengthening the State's capacity to undertake this and other such multi-sectoral programs. Furthermore, productive inclusion of small producers will be achieved by means of project actions to promote their economic development through market inclusion, by adding value to and increasing the scale of rural productivity. Project actions will also target nonagricultural activities carried out by small producers. In addition, the Project design includes a strong aspect related to technical support to producers' and community organizations, and social and environmental requirements for Project investments, as well as a project capacity-building plan targeting participating stakeholders.

51. In terms of the Public sector Management component, the situation of the RN's public management requires and justifies the proposed investment. The proposed activities are designed to address structural problems for the improvement of the state's public sector core management functions (Budget and Planning Processes, Human Resources, Asset Management, and Information and Communication Technology Systems), enhancing the Government's capacity to promote economic development and reduce poverty from a cross-sectoral approach.

C. Financial Management (FM)

52. **FM Risk.** The Bank conducted a financial management assessment for the proposed Project. The results of the assessment indicate that the financial management arrangements satisfy the Bank's minimum fiduciary requirements and will be considered adequate as soon as the proposed mitigation measures are implemented (see Annex 3 for a detailed assessment).

53. Fiduciary risks have been identified and mitigation measures reflected in the ORAF matrix (see Annex 4). FM supervision missions are expected to be undertaken on a semi-yearly basis.

D. Procurement

54. The capacity assessment of the PMU in SEPLAN to implement procurement rated the risk as Substantial. Although the GoRN's procurement systems are satisfactory in light of the national rules, the multi-sectoral approach of the project, the more complex consultancy contract packages and the lack of familiarity of the PMU staff with the Bank's procurement rules require: (i) strengthened capacity, mainly by the hiring of a project management firm, including procurement consultants and (ii) closer supervision by the Bank, through lower prior review thresholds.

E. Social (including Safeguards)

55. The most vulnerable social groups in rural areas include the families single-headed by women, indigenous peoples (three ethnic groups), and *quilombola* communities (twenty-one communities, as certified by the Palmares Cultural Foundation). The Borrower conducted a social assessment that documented the pressures and threats faced by these indigenous peoples in their livelihoods and their degree of social and economic vulnerability.

56. Given the demand-driven nature of productive, social and environmental subprojects to be supported under the Project Subcomponent 1.2, a key social-related risk refers to the low organizational capacity of producer associations (particularly those representative of the most vulnerable social groups), which may not meet the criteria to gain access to sub-projects and who face great challenges regarding the management and accounting for Project funds they might eventually receive. This risk will be mitigated by activities of technical assistance and institutional strengthening, the definition of a special strategy to mobilize and open opportunities for the participation of more vulnerable groups and the mainstreaming of gender issues in project design and implementation. Gender mainstreaming is reflected on the project's emphases on the roles that women play on achieving food security and protecting environmental biodiversity in rural communities, health policies that address reproductive health and the prioritization of women as the main target group of literacy class for adults, as well as on the establishment of a monitoring system based on gender sensitive indicators.

57. **OP/BP 4.10 - Indigenous Peoples has been triggered.** Indigenous peoples are present in the project area and will be among the potential beneficiaries. Adverse effects are not expected for them under this Project. A screening was carried out using information from the Brazil's National Indian Foundation (FUNAI) and the Socio-Environmental Institute (ISA) indicating

that presently seven social groups declare indigenous ancestry and claim recognition of indigenous identity by the State of Rio Grande do Norte. FUNAI has opened a Technical Office in the State and initiated evaluations of these claims. They comprise about 3,170 people and live in seven communities.¹⁷ Indigenous groups will be eligible to benefit from Project activities based on their expression of interest in participating. Proposals must originate from indigenous peoples validated by their respective communities and organizations, through participatory processes. Project actions involving indigenous groups are expected to contribute to (a) reduce their social and economic vulnerability; (b) promote development alternatives that are ethnically, culturally and environmentally adequate, and sustainable in the short, medium and long term; (c) promote culturally adequate education; and (d) revert the processes of impoverishment, economic exploitation, discrimination, social exclusion, and cultural devaluation. A broadly consulted Indigenous Peoples Planning Framework (IPPF) was prepared to define the ways and means of project involvement with indigenous groups and ensure adequate procedures for the participation of this population in the Project.

58. OP/BP 4.12 - Involuntary Resettlement has also been triggered. The Project is not expected to fund any subprojects that could potentially cause significant physical displacement and/or economic losses. In principle, the Project will seek to avoid involuntary resettlement, wherever possible. Nonetheless, the types of subprojects proposed under Components 1 and 2 have been evaluated and it was concluded that some proposed activities (such as the building of rural schools and the expansion of logistics infrastructures) might require land acquisition and, consequently, could potentially cause involuntary resettlement. It is expected that, in these cases, the potential numbers of people who might be affected would be quite small and any land acquisition would be very limited. Given that the subprojects to be developed and the potential sites of intervention are not yet known and will not be selected until Project implementation, a Resettlement Policy Framework (RPF) was prepared. It will serve as the guide to the site-specific formulation of Resettlement Action Plans (RAPs), if needed. Consultations on the RPF were carried out¹⁸ and both the RPF and the IPPF were publicly disseminated on the Borrower's website on November 14, 2012 and on the World Bank's external website prior to Appraisal.

F. Environment (including Safeguards)

59. The Project does not entail any potential large scale, significant and/or irreversible negative environmental impacts. The preparation, by the Borrower, of the Project's Environmental and Social Impact Assessment (ESIA) was an exercise that helped support the integration of environmental and social aspects of projects into the decision making process. The Project is expected to contribute to the increased competitiveness of the productive organizations in the priority areas, as well as encourage good environmental practice, especially in the fragile semiarid regions. The ESIA found that with an integrated and sustainable

¹⁷ These groups are the Mendonça do Amarelão (located at the municipality of João Câmara), the Eleotério do Catu and the Potiguara-Catu (municipalities of Goianinha and Canguaretama), the Caboclos do Açú and the Bangüê-Assú (municipality of Assú), the Potiguara (municipality of Baía Formosa), and the Tapuia-Taparã (municipality of Macaíba).

¹⁸ On November 13, 22 and 23, 2012 in Pau dos Ferros municipality for Alto, Medio Oeste and Mossoroense Regions; in João Câmara municipality for Sertão Central, Potengi and Trairi Regions; and in Caicó for Seridó Region, respectively. The Indigenous Groups public consultation was carried out on November 24, 2014 in Natal.

development focus, the Project has statewide relevance in support of an integrated and territorially balanced development of the State.

60. According to **OP/BP 4.01 - Environmental Assessment**, the Borrower has addressed safeguards policy issues by conducting a regionally focused Environmental and Social Impact Assessment (ESIA). An Environmental and Social Management Framework (ESMF) was also prepared to outline the set of guidelines, procedures and criteria to be used for screening activities and ensure that such activities will not cause any potential large scale, significant and/or irreversible negative environmental and social impacts. The final selection of interventions will occur during implementation and the Borrower would apply the environmental “screening” before the final selection of each investment subproject. This will be the responsibility of SETUR which will receive capacity building for this function under Subcomponent 1.1 and support from the social and environmental specialists of the PMU. **The Natural Habitats Policy Safeguard (OP 4.04) was triggered** and the ESIA addressed the safeguard requirements, screens out all subprojects resulting in any significant conversion or degradation of critical natural habitats, and includes provisions to regenerate and reforest degraded area, as well as Management Plans for Protected Areas, as needed.

61. The **OP/BP 4.11 is triggered** since envisioned works and planned activities may affect **Physical Cultural Resources (PCR)**. At this stage, it is, however, not possible to determine the presence of PCR in the project’s area of influence. **The OP/BP 4.09 Pest Management** was triggered regarding proposed investments under Component 1, mainly improving competitiveness of small family farmers by encouraging and supporting technical assistance for the adoption of organic agriculture and of proven, economical-and-environmentally-sustainable Integrated Pest Management (IPM). A satisfactory Pest Management Framework has been prepared by the Borrower. Other safeguards policies, **the OP/BP 4.36 Forests and the OP/BP 4.37 Safety of Dams were also triggered** on a precautionary basis as particular local development activities could imply using forests in a productive fashion and/or using water resources from existing dams.

62. Finally, to further mitigate Project environmental risk, a negative list, recorded in the ESIA, was agreed with the Borrower, with types of project activities that will not be supported by the Loan. Activities under the Project Component 1.2 –productive subprojects will include a Negative List (as defined by the ESIA and ESMF) and also consistent with the Brazilian Forest Code.¹⁹ Thus, subprojects with the potential for conversion or degradation of natural forest or other natural habitats that are likely to have significant adverse environmental impacts, which are sensate, diverse or unprecedented, are ineligible. Nevertheless, **OP/BP 4.36 is triggered** given the potential for rehabilitation activities for Protected Areas and Riparian Legal reserves (*Áreas de Preservação Permanente – APP e Reserva Legal – RL*).

¹⁹The Negative List includes types of project activities that will not be supported including: (i) productive activities that require commercial forest harvesting, wood extraction or firewood use in the production chain; (ii) interventions that include purchase of equipment for use in tropical forests; (iii) interventions that promote degradation of critical natural habitats, deforestation or loss of native vegetation; (iv) interventions in the productive chains located in areas already in the process of degradation without the adoption of appropriate management plans; (v) interventions in areas of high risk of natural disasters; (vi) interventions in areas of dispute and/or petition for recognition as indigenous lands; and (vii) interventions in water supply and irrigation that rely on existing dams 15 meters or more in height.

63. Potential activities to be supported under Component 3 (Improving Public Services,) include the preparation of studies regarding solid waste management, with a special focus on health services waste. The proposal is to strengthen technical staff, encourage the installation of Public Consortia and foster the participation of citizen and waste pickers. Project activities do not include the construction of new landfills or waste treatment plants. **Hospital Waste Management** activities are not proposed beyond the commitment to the Brazilian legislation of solid waste management as well as the certification of physical and sanitary conditions for commencement of activities - RDC 050 of February 21, 2002 - which requires Solid Waste Management Plans and outlines Technical Regulations for planning, programming, design and evaluation of physical projects of health-care facilities; and the *Agência Nacional de Vigilância Sanitária* (ANVISA) standard - RDC 051 of October 6, 2011 - (which provides guidance for construction of smaller structures such as basic Health Units).

64. **OP/BP 7.50 (Projects on International Water Ways) is not triggered.** The proposed Project interventions, including those in agriculture and irrigation, will be focused on the rural areas of the interior of the State and with the objective of improving access to markets and food security of poor family farmers.

65. **Consultation requirements under OP/BP 4.01 (Environmental Assessment)** were met during project preparation including public dissemination of ESMF prior to appraisal. Given the multiple stakeholders and third parties affected by the activities to be supported by this Project, the ESMF was informed by a robust social assessment and consultation processes. The public consultation process included participation of government officials, stakeholders, NGOs, cooperatives, representatives of community associations, with the promotion of discussions on the role of municipal development councils, the main regional demands and need to strengthen regional coordination. Similarly, **consultation requirements under OP/BP 4.10 (Indigenous Peoples)** were met through a series of documented consultations with representatives of indigenous and traditional communities in Rio Grande do Norte.

Annex 1: Results Framework and Monitoring

Country: Brazil

Project Name: Rio Grande do Norte: Regional Development and Governance (P126452)

Results Framework

Project Development Objectives

PDO Statement

The objective of the Project is to support the Borrower's efforts to: (i) increase food security and access to productive infrastructure and markets for family agriculture; (ii) improve the quality of, and access to, health, education and public security services; and (iii) improve systems for public expenditure, human resource and physical asset management in the context of a results-based management approach.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Real revenue increase of beneficiary producers' organizations (% increase in real revenue)	<input type="checkbox"/>	Percentage	0.00	0	0	5	10	15	Annual	Baseline; Business Plans; Subproject and TA Samples; MTR	PMU

(inflation adjusted) resulting from activities supported by the project)										Study, IE Study, and MIS	
Increase the provision of health services related to prioritized health care networks at the regional level (maternal and infant, urgency and emergency, and oncological health care networks)	<input type="checkbox"/>	Percentage	62	-	66	73	80	88	Annual	DATASUS/ SISPRENATAL, SISMAMA, SISCOLO, SIM e SIH	UES / SESAP
Increase in Development Index of Basic Secondary Education (IDEB)	<input type="checkbox"/>	Number	2.80	3.2	-	3.5	-	3.90	Bi-annual	Estimated by INEP	SEEC
Percentage increase of population locally benefited by the electronic police reporting system (electronic <i>Boletim de</i>	<input type="checkbox"/>	Percentage	45	55	60	65	65	65	Annual	MIS (SMI)	SESED/SEAC

Ocorrência)											
Budget percentage increase of state' strategic projects adopting results oriented approach/performance evaluation in planning and implementation	<input type="checkbox"/>	Percentage	0	0	5	15	25	30	Annual	Integrated Financial Management System (SIAP), and Planning Support System (SIAP); State surveys of projects and MIS	PMU/SEPLAN/CPO/COPLAC

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Increase small producers' sale volume for targeted products of productive investments supported by the project	<input type="checkbox"/>	Percentage	0	0	0	10	15	20	Annual	MIS	PMU and UES
Number of people in rural areas provided with access to	<input checked="" type="checkbox"/>	Number	0	0	720	2160	3600	3600	Annual	MIS	PMU and UES

Improved Water Sources under the project											
Water users provided with new/improved irrigation and drainage services (number)	<input checked="" type="checkbox"/>	Number	0.00	0	280	840	1400	1400.00	Annual	MIS	PMU and UES
Water users provided with irrigation and drainage services - female (number)	<input checked="" type="checkbox"/>	Number Sub-Type Breakdown	0.00	0	80	250	400	400.00	Annual	MIS	PMU and UES
Productive investments supported by the project adopting sustainable social, crop production, and/or environmental practices	<input type="checkbox"/>	Percentage	0.00	0	0	30	40	50	Annual	MIS	PMU and UES
Increase participating producer groups/associate/cooperatives having contractual arrangements	<input type="checkbox"/>	Percentage	0.00	0	0	30	50	70	Annual	MIS	PMU and UES

with marketing agents											
Group productive investments led by women	<input type="checkbox"/>	Percentage	0.00	0	35	35	35	35	Annual	MIS	PMU and UES
Proportion of pregnant women receiving ante-natal care referred to hospital for delivery	<input type="checkbox"/>	Percentage	0.00	15	30	45	60	60	Annual	Antenatal Information System - SISPRENATAL	SESAP
Average waiting time for breast and cervical cancer treatments	<input type="checkbox"/>	Days	200	150	100	60	60	60	Annual	DATASUS/SIA, SIH, SISMAMAE SISCOLO	SESAP
Proportion of maternal deaths investigated	<input type="checkbox"/>	Percentage	86	90	93	95	100	100	Annual	DATASUS, Mortality Information System - SISPRENATAL	SESAP
Proportion of biopsies performed after mammography (Parameter National Institute of Cancer =5.6%-12%)	<input type="checkbox"/>	Percentage	0.56	1.01	1.82	3.28	5.9	8.85	Annual	DATASUS / Ambulatory Information System - SIA	SESAP

Proportion of biopsies performed after cervical cancer test - Papsmear (Parameter National Institute of Cancer=2.5%)	<input type="checkbox"/>	Percentage	0.57	0.74	1.00	1.35	1.89	2.45	Annual	DATASUS/ Ambulatory Information System - SIA	SESAP
Proportion of hospital access - circulatory disease's deaths	<input type="checkbox"/>	Percentage	59.00	60.5	62	64.6	67.2	70	Annual	DATASUS/ Hospital Information System – SIH and Mortality Information System	SESAP
Increase in development index of last years of basic elementary education	<input type="checkbox"/>	Percentage	2.90	3.4	-	3.8	-	4	Bi-annual	Estimated by INEP	SEEC
Rate of implementation of the curriculum guidelines and matrices for RN	<input type="checkbox"/>	Percentage	0.00	0	30	50	60	70	Annual	SEEC	SEEC
Decrease in dropout rates of secondary education	<input type="checkbox"/>	Percentage	23.10	22	21	20	18	15	Annual	INEP	SEEC

Schools covered by the project meeting the minimum standards established	<input type="checkbox"/>	Percentage	0.00	0	10	20	30	50	Annual	MIS (SMI)	SEEC
Youth and adults in rural areas participating in literacy classes supported by the project	<input type="checkbox"/>	Number	0.00	0	2500	5000	7500	12500.00	Annual	MIS (SMI)	SEEC
Percentage of women in rural areas participating in literacy classes certified	<input type="checkbox"/>	Percentage Sub-Type Supplemental	0.00	0	70	70	70	70	Annual	MIS	SEEC
Percentage increase of population locally attended by CIOSP (expansion of CIOSP services beyond the capital and metropolitan region)	<input type="checkbox"/>	Percentage	40.00	42	50	57	57	57	Annual	SMI, IBGE, CIOSP	SESED/SEAC
Percentage of staff managed through results-oriented human	<input type="checkbox"/>	Percentage	25.00	25	35	45	50	50	Annual	Reports from SEARH / COGEP	SEARH/UES

resources policies deployed in Secret. of Health, Education, Public Security, Planning and Public Administration											
Decrease the percentage of resources reallocated between different budget actions (excluding staffing)	<input type="checkbox"/>	Percentage	14.20	12.2	11.2	10.02	9.2	9.00	Annual	SIAF	SEPLAN/CPO

Annex 1: Results Framework and Monitoring

Country: Brazil

Project Name: Rio Grande do Norte: Regional Development and Governance (P126452)

Results Framework

Project Development Objective Indicators	
Indicator Name	Description (indicator definition etc.)
Real revenue increase of beneficiary producers' organizations (% increase in real revenue (inflation adjusted) resulting from activities supported by the project)	Average real income of the beneficiaries in the final year of the Project / Average income of the beneficiaries in the initial year of the project) -1, corrected by the INPC. Percentage of real income increase for family agriculture benefited by productive subprojects.
Increase the provision of health services related to prioritized health care networks at the regional level (maternal and infant, urgency and emergency, and oncological health care networks)	Access to health services procedures increased and problems resolved in the project target areas/investments. The health procedures would encompass the number of deliveries, obstetrical ultrasonography, mammography and Papa Smear tests, and hospitalizations performed among the regions, excluding the metropolitan region of Natal.
Increase in Development Index of Basic Secondary Education (IDEB)	Development index of basic secondary education estimated by INEP, biannually
Percentage increase of population locally benefited by the electronic police reporting system (electronic <i>Boletim de Ocorrência</i>)	Percentage increase of population locally benefited by the electronic police reporting system (electronic <i>Boletim de Ocorrência</i>). Electronic police reporting is operational and available to the population.
Budget percentage increase of State' strategic projects adopting results oriented approach/performance evaluation in planning and implementation	State' strategic projects adopting results oriented approach and performance evaluation in planning and implementation deployed in Secretariats of Health, Education, Public Security, Planning & Administration. This indicator will reflect the quality of public expenditures in target projects.
Percentage of women in rural areas certified in literacy	Increase the number of rural women participating in the literacy classes approved and

classes supported by the project	certified
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Intermediate Results Indicators	
Indicator Name	Description (indicator definition etc.)
Increase small producers' sale volume for targeted products of productive investments supported by the project	Volume of sales by target producers organizations increased
Number of people in rural areas provided with access to Improved Water Sources under the project	<p>This indicator measures the actual number of people in rural areas who benefited from improved water supply services that have been constructed under the project.</p> <p>Guidance on "improved water sources": "Improved water sources" include piped household connections (house or yard connections), public standpipe, boreholes, protected dug well, protected spring and rainwater collection. Hence, "Improved Water Sources" do not include, inter alia, water provided through tanker truck, or vendor, unprotected well, unprotected spring, surface water (river, pond, dam, lake, stream, irrigation channel), or bottled water. The definition of what is considered an 'improved water source' follows the UNICEF-WHO Joint Monitoring Program definition. Note that "Improved Water Sources" does not refer to the question of new versus rehabilitated water sources, but is the standard definition used to track progress on the Millennium Development Goals.</p> <p>Guidance on people with access: The data on the number of people provided with access can be estimated by multiplying: (i) the actual number of piped connections with an estimate of the number of people per household connection; and/or (ii) the actual number of community water points with an estimate of the number of people per community water point. The assumptions made regarding number of people per connection made should be carefully documented in the 'comments' section of the indicator when data is entered in the ISR.</p> <p>Guidance on rural classification: The classification should follow the official definition used in the country.</p>
Water users provided with new/improved irrigation and drainage services (number)	This indicator measures the number of water users who are provided with irrigation and drainage services under the project.
Water users provided with irrigation and drainage services - female (number)	This indicator measures the number of women's water users who are provided with irrigation and drainage services under the project.

Productive investments supported by the project adopting sustainable social, crop production, and/or environmental practices	(Number of investments adopting sustainable practices / total number of investments supported by the project) X 100. Percentage rates will be estimated considering implemented projects at period "n"
Increase participating producer groups/associations/cooperatives having contractual arrangements with marketing agents	(Number of producer groups with formal contracts with market participants / Number of producer groups funded by the project) X 100
Group productive investments led by women	Percentage of group productive investments led by women
Proportion of pregnant women receiving ante-natal care referred to hospital for delivery	Proportion of pregnant women receiving ante-natal care referred to hospital for delivery
Average waiting time for breast and cervical cancer treatments	Waiting time for breast and cervical cancer from diagnosis to treatments
Proportion of maternal deaths investigated	Maternal deaths investigated compared with total maternal deaths in one year period.
Proportion of biopsies performed after mammography (Parameter National Institute of Cancer =5.6%-12%)	Rate of biopsies performed
Proportion of biopsies performed after cervical cancer test - Papsmear (Parameter National Institute of Cancer=2.5%)	Number of biopsies performed / Total number of biopsies required for women aged from 25 to 64 years old) X 100
Proportion of hospital access - circulatory disease's deaths	Proportion of hospital access (circulatory disease's deaths)
Increase in development index of last years of basic elementary education	Increase in development index of last years of basic elementary education
Rate of implementation of the curriculum guidelines and matrices for RN	Reflects the grade of implementation of the curriculum guidelines and matrices in the state public schools (including adults and youth literacy programs)
Decrease in dropout rates of secondary education	Decrease in dropout rates of secondary education in the state public schools
Schools covered by the project meeting the minimum standards established	Rate of schools covered by the project meeting the minimum standards established
Youth and adults in rural areas participating in literacy classes supported by the project	Number of youth and adults in rural areas participating in literacy classes supported by the project
Percentage of women in rural areas participating in literacy classes certified	Number of women participating in literacy classes certified / total number of women participating in literacy classes

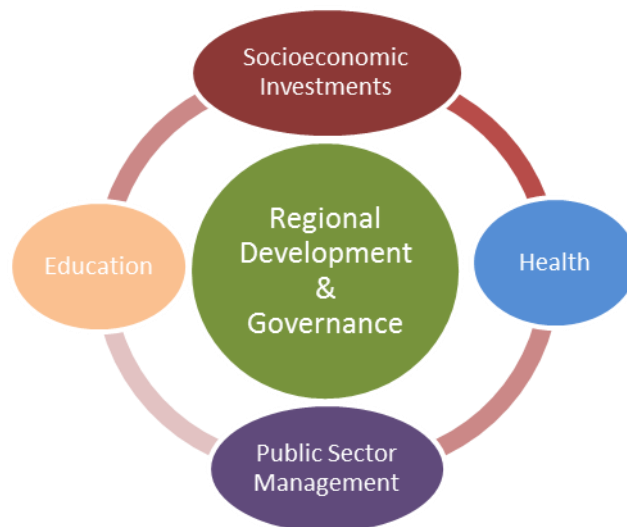
Percentage increase of population locally attended by CIOSP (expansion of CIOSP services beyond the capital and metropolitan region)	Percentage increase of population locally attended by CIOSP (expansion of CIOSP services beyond the capital and metropolitan region)
Percentage of staff managed through results-oriented human resources policies deployed in Secret. of Health, Education, Public Security, Planning and Public Administration	(Number of staff managed through results-oriented human resources policies / Total number of staff in state Secretariats of Health, Education, Public Security, Planning and Public Administration
Decrease the percentage of resources reallocated between different budget actions (excluding staffing)	[Resources reallocated between different budgetary actions (excluding staff) / Total budgetary resources for various actions (excluding staff)] X 100

Annex 2: Detailed Project Description

BRAZIL: Rio Grande do Norte Regional Development and Governance Project

1. The proposed *Rio Grande do Norte Regional Development and Governance Project* would support implementation of the State's program over a six-year period. Project activities support key components of the State's Strategic Development Plan (*Plano Plurianual 2012-2015*, PPA) and its Poverty Reduction Strategy (*Plano RN Sem Miséria e Programa RN Mais Justo 2012-2015* – aligned to the national *Brazil Sem Miséria* Poverty Reduction Strategy, and integrated with the PPA). In particular, IBRD financing will support the following State investments, to be greater detailed oncoming sections: (i) sustainable socioeconomic investments for productive inclusion, (ii) improvements in access to and quality of education and health services and (iii) reorganization and modernization of the public sector to strengthen the delivery of public services, including public security management (Figure 1).

Figure 1: Alignment of Project with State Poverty Reduction and Sustainable Growth Strategy

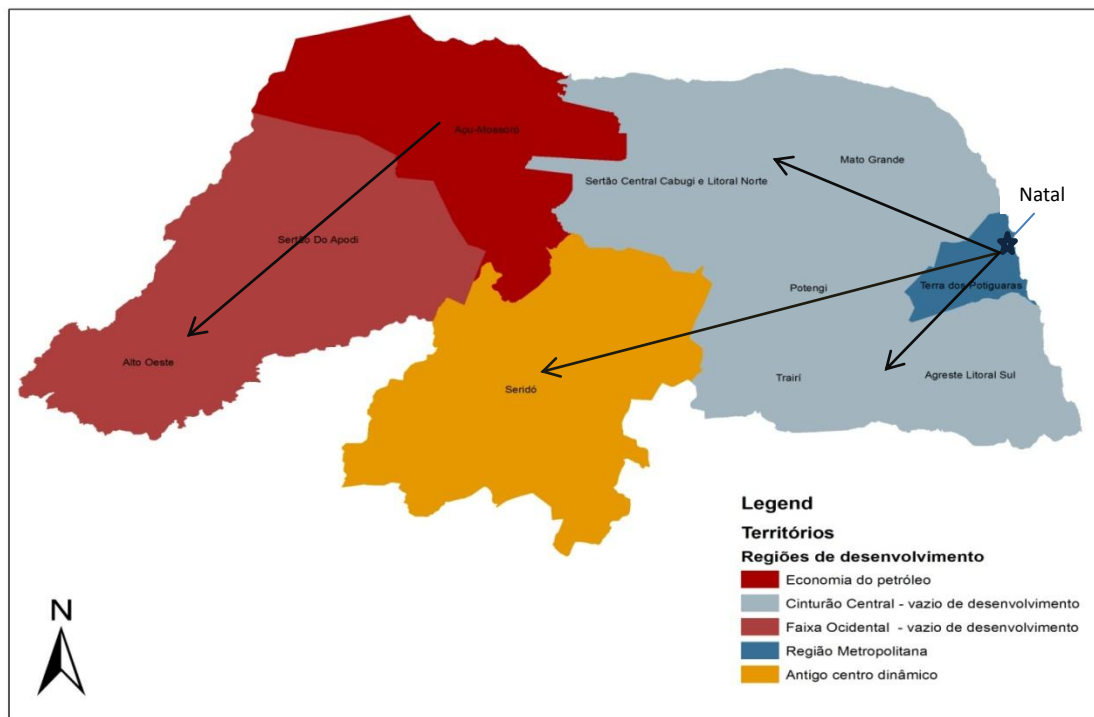


2. In order to monitor progress towards the achievement of its strategic development objectives, the GoRN is creating two new areas within its planning structure: the 'Results-based and Integrated Monitoring System' and the 'Socioeconomic Analysis and Information Department'. The broad goals of these initiatives are to: (a) establish an economic, statistical, geographical and cartographical information management policy, aimed at improving public policy analysis through more robust use of socioeconomic indicators; (b) monitor the implementation of the long-term strategic plan and the PPA, support the decision-making process, and improve society's access to information about public policies; (c) monitor the implementation of the strategic projects, (namely the State's ongoing *RN Mais Justo* and the this Project - *RN Sustentável*); and, (d) improve access, disclosure and dissemination of information and increase transparency. Design of this Project has directly benefited from these efforts to strengthen the State's planning and implementation capacities in terms of data collection, analysis, public policy and projects formulation and implementation levels. In particular, Project design has been informed by the State's Integrated Regional Development Strategy described further below.

3. **Regional Development Strategy.** Design of a the State's Integrated Regional Development Strategy was based on a comprehensive data collection and cross-analysis of key physical, environmental, demographic, social, economic, and infrastructure indicators. This was achieved by integrating three composites indices as follows: (i) a cluster of socio- economic indicators (access to basic services, jobs and income, economic growth and dynamism); (ii) a HOI (Human Opportunity Index) based on indicators for the water & sanitation, solid waste collection, literacy, school enrollment and age/grade distortion rates; (iii) mapping of the State's urban network overlaid by the distribution of service provision across the State's 10 territories.

4. Based on an assessment of these indicators, the resulting picture emerges (see Figure 2). The coastal territories of *Terra dos Potiguaras* (in the east) and *Açu-Mossoró* (in the northwest) emerge as the State's main economic drivers. *Açu-Mossoró* enjoys State's highest level of economic growth due to oil exploration and public sector investments and its capital *Mossoró* is a regional pole for economic and public services provision for communities in *Sertão do Apodi* and *Alto Oeste*. *Terra dos Potiguaras*, which encompasses the metropolitan region of Natal, has the largest population and highest per capita income of all territories in RN. Natal constitutes the main pole for both economic activity and public service provision for much of the State's interior and eastern coast.

Figure 2: Economic Drivers and Lagging Development Regions in RN



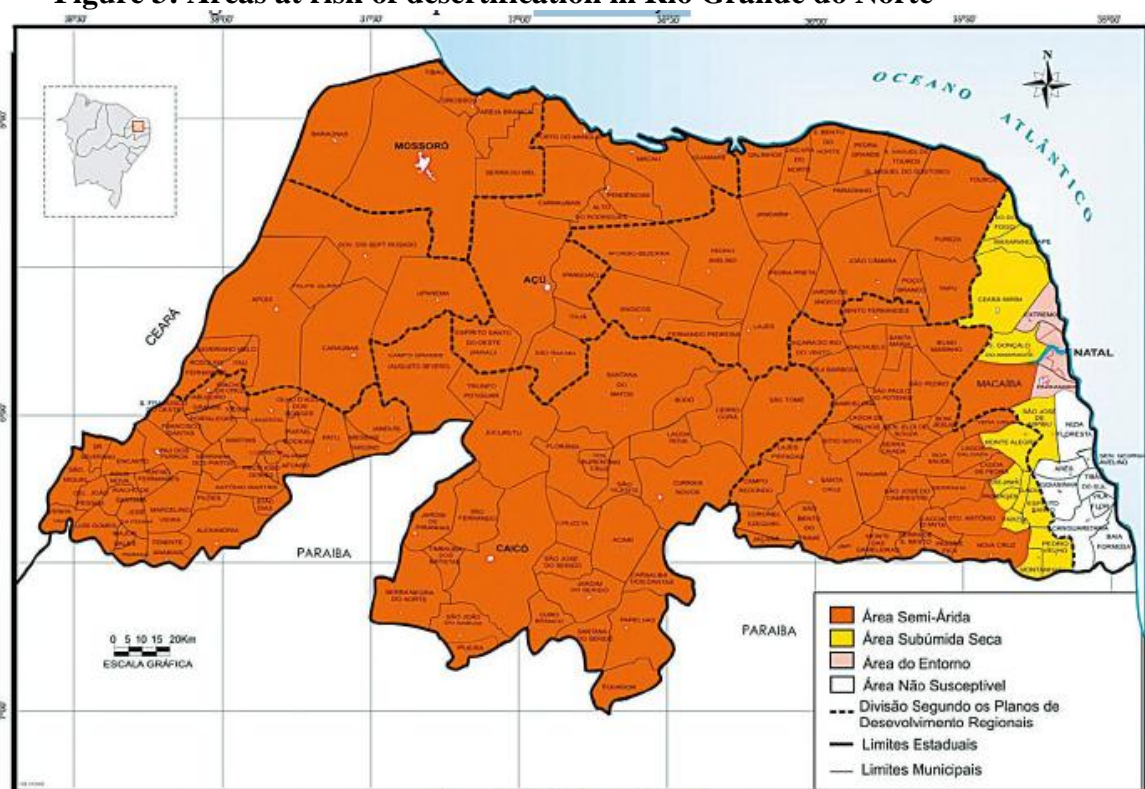
Source: SEPLAN/RN, 2012

5. The Natal metropolitan area is surrounded by a central belt of lagging development in territories of *Sertão Central Cabugi e Litoral Norte*, *Mato Grande*, *Potengi*, and *Trairi*. *Trairi* is less poor than the rest of the belt, especially due to the presence of *Santa Cruz*, a regional pole for the provision of relatively developed basic services - despite the huge income inequality

within the territory and limited access to water. *Sertão Central Cabugi* and *Litoral Norte* and *Potengi* complete the belt, characterized by low per capita income (with the exception of the cities of the north coast due to the oil and salt industries) and poor access to basic services and opportunities. Lastly, *Mato Grande* and the *Agreste Litoral Sul* are among the poorest territories of the State, with non-uniform access to basic services, particularly deficient with regard to sewage and garbage collection, and limited access to health and educational services. These territories also suffer from uneven economic development with opportunities for formal employment and income generation concentrated in the narrow coastal strip.

6. Advancing desertification presents additional challenges in closing development gaps, particularly in lagging regions (see Figure 3)

Figure 3: Areas at risk of desertification in Rio Grande do Norte



Source: SEMARH, PAE, 2010.

7. Seeking the redress pervasive inequalities and development challenges, the GoRN is pursuing a sustainable and integrated Regional Development Strategy for the State. The strategy is organized around three axes: (i) the recovery of the economic dynamism in the *Seridó* region, (ii) stimulus for the central belt characterized by significant development gaps, and (iii) the development of the western border region, characterized by lack of basic public service provision and very limited penetration of formal economic activities.²⁰ It also seeks to increase

²⁰ Territories identified as 'lagging regions' in this Project are also benefiting from complimentary investments through the Federal Government program, *Territórios da Cidadania* (Territories of Citizenship) which aims to promote economic development and universal access to public services through a strategy of sustainable territorial

connectivity, enhancing the integration of lagging and leading regions (in terms of both economic development and access to services) through improvements to intra-State transportation networks.

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8. The objective of the Project is to support the Borrower's efforts to: (i) increase food security, access to productive infrastructure and markets for family agriculture; (ii) improve the quality of, access to, health, education and public security services; and (iii) improve systems for public expenditure, human resource and physical asset management in the context of a results-based management approach.

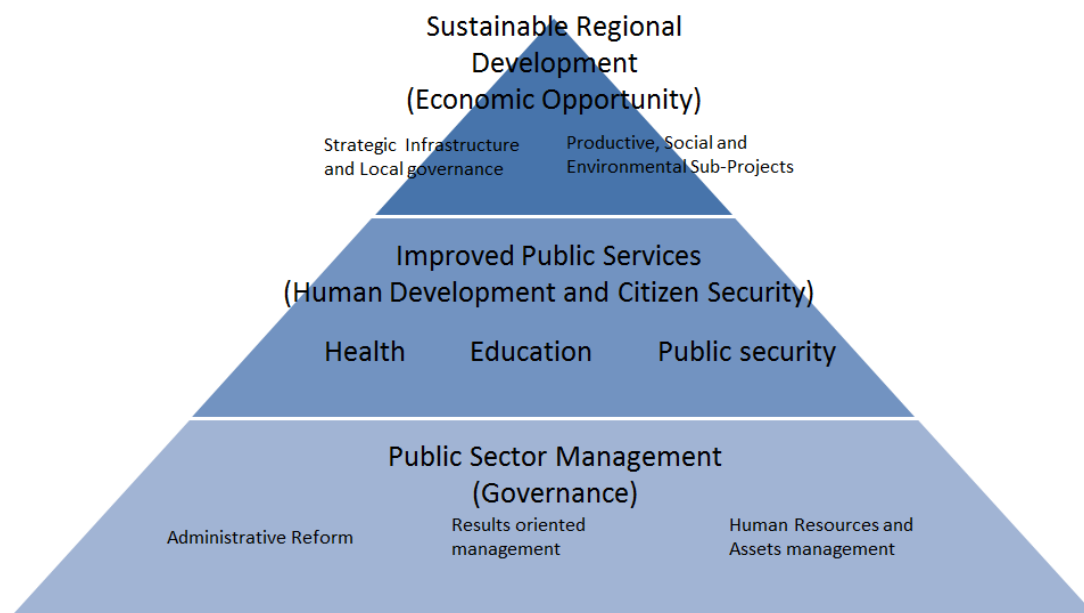
9. **Strategic Level:** 'Supporting the Borrower's efforts' means that the Project strategy and activities are aligned with the State Sustainable Development Strategic Plan and Multi-Year Investment Plan (PPA 2012-2015), reflecting the goals of equitable, inclusive and efficient growth, by focusing, in particular, on sustainable and integrated regional development, the elimination of extreme poverty, and modernization of public sector management.

10. **Operational Level:** 'Increase food security, access to productive infrastructure, and access to markets', 'improve health education and public security services', and 'improve public sector management systems' means that Project investments will focus on activities in support of these objectives through: (i) investments in sustainable productive activities and supporting infrastructures to increase food security and access to market for family agriculture; (ii) education, health and public security sector management improvement for increased coverage and better delivery of basic services (iii) modernizing key public sector functions adopting a results-oriented approach.

Project Components

11. To reflect and support the multi-dimensional nature of the GoRN's Poverty Reduction Strategy, this Project proposes multiple intersecting actions: namely, improving basic public services and stimulating inclusive economic growth; underpinned by improving the efficiency and effectiveness of the public sector as depicted in the diagram below:

development; and *Brazil Sem Miséria* the national strategy in coordination with the *Rio Grande do Norte Sem Miséria Plan* to eliminate extreme poverty by 2015.



12. Reflecting this integrated structure, Project Components would be organized in the following fashion in support of the State's strategy:

13. **Component 1: Sustainable Regional Development (US\$ 200.5 million of which US\$ 180.3 million IBRD financing).** This Component aims to reduce regional inequalities and increase productive inclusion in support of the State's Sustainable Regional Development Strategy and Poverty Reduction Strategy through the following Subcomponents:

14. ***Subcomponent 1.1: Strategic Investments and Local Governance Strengthening (US\$ 109.8 million, of which US\$ 98.7 million IBRD financing)*** to support strategic investments in the expansion, improvement and integration of regional socioeconomic infrastructures (e.g. innovation, technology and trade centers, irrigation systems upgrading, aquaculture stations, phyto-sanitary inspection units, physical facilities and equipment for production of seedlings and breeding animals, etc.) This Subcomponent will also include activities to strengthen the capacities of municipal and territorial government agencies to implement the Sustainable Regional Development Strategy and facilitate productive inclusion investments through, *inter alia*:

- (a) The provision of support to State Agencies – namely, SEPLAN (State Secretariat for Planning) SAPE (State Secretariat for Agriculture, Fisheries & Livestock), SETHAS (State Secretariat for Labor, Housing and Social Assistance), SETUR (State Secretariat for Tourism), SEDEC (State Secretariat of Economic Development) and DER (Department of Roads) - for carrying out strategic studies and diagnostics to further inform the State's regional economic development strategy and determine associated Project investments.

- (b) The provision of support to SETHAS for the preparation, implementation and supervision of Social and Environmental Assessments, and of Fair Trade Business Plans for Subprojects (described further in Sub-component 1.2).
- (c) The provision of support to SAPE for the preparation, implementation and supervision of APL Business Plans as a framework for the selection of Productive Subprojects (see Box 1);

Box 1: APL Business Plan Development

A model needs to be drawn up which allows definition and justification for the selection of priority productive sectors identified for support under Project, in light with the State Regional Development Strategy. We can call this model Business Plans (BP) to ensure its quality, aptness and effectiveness.

It is important to consider the BP's as an opportunity to advance in the formalization and consolidation of existing APLs, as well as to strengthen their capacities to be innovative and to learn. They should not be seen simply as a formal step, nor as just a target to reach. The BP elaboration should be considered an important and necessary process supporting APL consolidation.

At this point, the process of elaboration and implementation of the BP should be considered an opportunity to:

- motivate and mobilize the members of the APL – companies, State Secretariats, Agencies & other Partners – in regards to the need to analyze and compare (benchmark) the performance and capacity of the local productive system;
- develop a vision and a joint strategy to improve productivity, training and innovation;
- to formulate and implement an integrated set of policies and procedures to promote innovation and learning, and to strengthen the local innovation systems; and
- define the mechanisms by which continuous monitoring will be carried out to ensure the implementation of these strategies and to evaluate the impact of the policies and procedures.

The key players of the productive chains (APL's) need to be involved, when putting together the BP, in the analysis phase and in the definition of the strategic components and priorities that need to be included in the Plan (this needs to happen from the start and primarily involve the leaders of the APL). Likewise there should be a matrix approach (in comparison to a lineal approach in stages). The three principals that make up this approach are: (i) territorial dynamics; (ii) business development and how production is structured; and (iii) information about and access to markets. The preparation phases of the APL Business Plan, diagnostic, common vision and strategies are as a consequence, simultaneously built around these principles.

The BP should basically contain: (i) an analysis of the APL and the context in which it operates; (ii) an idea of where it strategically sees itself in the future; and (iii) an agreed action or development plan between the related parties, private sector and related institutions, with public support. The implementation follows on from the Plan. Then the evaluation process looks at the progress made, evaluates the effort made and modifies the work in progress, extracting lessons learnt and generating new learning opportunities for the future and adaptations to the business plans which should remain active working documents.

15. **Subcomponent 1.2: Productive and Social and Environmental Subprojects (US\$ 90.7 million, of which US\$ 81.6 million IBRD financing)** providing support (grants and technical assistance) to Producer Organizations (POs) embedded within selected APLs, Social Organizations and Networks of Social Organizations (SOs and NSOs) such as community associations and women's groups, to increased productive inclusion of target populations in the State's lagging development regions. This will be delivered through two categories of Subprojects more fully defined in the Project Operational Manual and differentiated as follows:

- (a) Market-oriented Productive Subprojects identified through a competitive selection process (managed by SAPE and SETHAS) based on the submission of Sustainable Subproject Business Plans (i.e. meeting requirements of commercial, technical, environmental and social sustainability - including participation, leadership and benefits sharing with women and youth) - by legally registered Producer Organization embedded within APLs identified for Project support.²¹ Selected POs would be eligible to receive matching grants (at least 20 percent beneficiary contribution required in cash and/or in kind) to support market-oriented productive investments (including, *inter alia*: productive infrastructures such as roads, irrigation and energy supply; enhancement of value-added processing capacities, etc.).
- (b) Social and Environmental Subprojects identified through a competitive selection process (managed by SETHAS) based on proposals from either POs or SO/NSOs to receive matching grants (at least 10 percent beneficiary contribution in kind) for investments to enhance climate resilience and environmental sustainability of productive activities and/or to support recovery of environmentally degraded areas, (including, *inter alia*, through grey water reuse, capacitation of local recycling systems, compensation for loss of productive capacity in degraded areas selected for recovery activities, etc.), and/or to enhance food security (including, *inter alia*, through the establishment of school gardens, introduction of higher nutrient-rich crops in local farming systems, etc.).

16. **Irrigation Investments** would be eligible, depending on their viability and target beneficiaries, for in support under both typologies of subprojects described above. One of the specific constraints on value chain development for family farmers in lagging development regions is the low water use efficiency at farm level, requiring modern water-saving techniques and practices. Small-scale irrigation by family agriculture faces diversified demands, including: (i) helping to organize producers, (ii) technical assistance in irrigation techniques, and production more broadly, (iii) lack of capital for the purchase of machinery and equipment. Therefore, irrigation investments will be supported through subprojects under this Component in order to improve smallholder irrigated agriculture production and productivity in targeted irrigated areas.

17. Irrigation investments will support the improvement of irrigation infrastructure (collective and on-farm) of poor rural communities and particularly small agricultural producers, represented by their organizations, using existing water sources and available infrastructure to enhance production and productivity with adoption of sustainable systems and technologies. Such systems and technologies should enable greater efficiency in water use, avoiding water

²¹ Producer Organizations include cooperatives, associations, small businesses or other types of legally established organizations that can provide proof of regular operation.

waste in a region where this resource is scarce during most of the year, and should minimize the risk of soil salinization or erosion. Target areas and types of investments will be defined based on the diagnosis which will be carried out in the first year of the Project as well as in feasibility analysis demonstrated in the applicants' business plans. Irrigation investments supported by Subprojects are expected to include: financing of pre-investment studies and design, execution and supervision to support eligible farmers groups, and to increase irrigation performance at the farm level through the installation of improved on-farm irrigation systems; and financing of pre-investment studies and design, execution and supervision of sub-projects to support eligible farmers groups to design and implement irrigation schemes along existing water supply infrastructure.

18. The **Subproject Cycle** for each category of Subprojects is described in greater detail in the Project Operation Manual (POM). In particular, the POM outlines eligibility requirements for POs, SOs and NSOs (for e.g., minimum participation requirements of women/youth), subproject application process and selection criteria (for e.g., calls for proposals, presentation of sustainable subproject business plans embedded within selected APLs, completion of social and environmental assessments, fair trade business plans, etc.), procurement process and co-financing requirements, modalities and partnerships for the delivery of capacity building and technical assistance (for both preparation of Business Plans and Subproject proposals; as well as for the implementation of Subproject activities), financial management systems, monitoring and evaluations systems, etc. The PMU as well as the Secretariats and State agencies will be responsible for delivering assistance directly to POs/SOs/NSOs implementing Sub-Projects, or for contracting services providers as necessary. The PMU as well as the implementing Secretariats and State agencies also monitor all project activities and an online MIS system has already been developed.

19. Past experience reinforces the importance of up-front investments in local management capacity. It is expected that national financial institutions²² would take on an ever-increasing role in financing the investments, with market-sourced finance comprising an ever-larger share of the total investment in Productive Subprojects. In addition, the participation of financial institutions in assessing and possibly co-financing viable and sustainable business plans to be implemented under Subcomponent 1.2 would extend their client base amongst members of Producer Organizations and should work to develop markets. Additionally, Social and Environmental Subprojects implemented by Social Organizations and/or Networks of Social Organizations should help reduce vulnerabilities (to poverty, food insecurity, environmental shocks, etc.) and lift households out of extreme poverty thus reducing dependency on social assistance programs.

20. Under Component 1, SEPLAN will also coordinate a package of capacity building investments (training, technical assistance and other necessary investments) to improve Project management and implementation capacities of State agencies involved in this Project. These are detailed in the Project Operational Manual.

²² Including, *inter alia*, National Development Bank (BNDES) and Bank of Northeast Brazil (BNB)

21. Component 1 would benefit poor urban and rural people (particularly small family farmers²³ as well as nonagricultural producers of handicraft, etc.) as members of organizations (such as community associations, producer organizations and/or cooperatives, social organization or networks of social organizations) receiving matching grants for productive, socio-economic and social and environmental subprojects, as well as direct State investments in key productive infrastructure. This is expected to benefit approximate 20,000 families representing about 70,000 individuals. Vulnerable groups (marginalized women and youth, *quilombolas* and indigenous communities) and beneficiaries of State and Federal social assistance programs (registered in the *Cadastro Unico*²⁴ and the national registry of family farmers – DAP²⁵) will also be targeted for inclusion in the Project's productive inclusion activities.

22. **Component 2: Improved Public Services (US\$ 130.0 million of which US\$ 116.9 million IBRD financing)** supports the human development and citizen security pillars of the State's Poverty Reduction Strategy by improving the quality of, and access to, basic public services and would be divided into three subcomponents:

23. **Subcomponent 2.2: Health (US\$ 45.0 million, of which US\$ 40.4 million IBRD financing)**) would provide support to SESAP to increase coverage and quality of three key health networks – maternal and infant care, cancer care, and emergency health care - in line with three strategic priorities for the health sector, namely:

- (a) The reduction of maternal and infant mortality rates through: (i) the refurbishing and provision of the necessary equipment for selected maternity hospitals; (ii) preparation and implementation of a continuous training program of primary care professionals (doctors and nurses) in prenatal care with emphasis on risk classification, primary health care access and reception, and postpartum/newborn care; (iii) the construction of the Infant and Maternal Hospital in Mossoró to support the State Maternal and Infant Health Care Network as a referral hospital for the State's second largest health region (designed to provide families with support, linkages to antenatal services and discharge planning for continuing care, and offer a range of services to pregnant women including antenatal care, early pregnancy assessment services, birthing services and post natal care) and; (iv) the establishment of a system of human milk banks, and (v) the implementation of a risk classification system to monitor high risk infants from 0-12 months);
- (b) Increased availability of early detection and quality treatment for breast and cervical cancer patients, through: (i) the refurbishing and provision of the necessary equipment for the Referral Center for Diagnosis on Cancer Diseases; (ii) preparation and implementation of continuous educational program for health professionals and managers; (iii) development of telemedicine programs to disease diagnosis; (iv) the

²³ As defined under the National Policy for Family Agriculture and Rural Family Units, Federal Law No. 11.326 (2006).

²⁴ The *Cadastro Unico* represents the federal government's efforts to create a unified national registry of poor households linked to *Brasilia Sem Miséria* National Poverty Reduction Program.

²⁵ Registry of Family Agriculture (DAP), of the National Program to Strengthen Family Agriculture (PRONAF).

construction of new and renovation of existing of state labs for cancer tests and diagnosis, as well as the provision of the necessary equipment, and (v) preparation and implementation of continuous professional training programs focused on cancer diseases; and

- (c) Establishment of a State-wide, regionalized, emergency health services network, through: (i) improvement of emergency medical facilities and services; and (ii) implementation of evidence-based clinical protocols and pathways for emergency health services.

24. Under this Sub-component, the Project would provide increased access to health services, namely befitting: (i) infants aged 0 – 24 months; (ii) women of reproductive age, who are at risk of maternal mortality; (iii) women aged 25 – 69, who are at a higher risk of breast and cervical cancer; and (iv) the general population in need of emergency care. This Sub-component will also benefit State and municipal health management teams through strengthened management mechanisms, which are essential for service delivery.

25. The three thematic health care networks supported by the Project aim at decentralizing the health care services to all regions of the State, highlighted as the most important priorities in the State Governmental Investment Plan as well as it is aligned with the strategic pillars of “MoH Health Covenants” and “MoH Federal Guidelines to implement Health Care Networks” - equity, competitiveness and governance - by supporting actions that: (i) reduce poverty and inequality through raising the quality of care, and ultimately, improving health outcomes, (ii) contribute to competitiveness/growth through finding sustainable solutions to the access pressures facing the state health system; and (iii) strengthen governance foundations by introducing accountability mechanisms in the health sector (e.g., information management, and network and facility governance arrangements).

26. Regionalization of health service delivery has been introduced in an effort to improve equity in access to health care. It entails a process of linking SUS managers, units, referral and counter-referral systems and professionals, thus integrating actors and resources from across the health care system for a more efficient, cost-effective and adequate delivery of services to the population. This involves flows of information (referrals), provision of capacity; infrastructure and the return of this information to the basic level of service (counter referral). These systems formalize the control and rationalization of expenditure and provision of health services thus improving the decision-making process and improve access to the state health system. This change seeks to redress the problem of unequal access to care, but it also requires heavy investment in the hospital sector so that the extension of primary care coverage is not stripped down to a basic package of services.

27. Project activities under this subcomponent will thus contribute to:

- (a) The development of a referral and counter-referral system able to operate efficiently and provide quality health care, (essential to strengthening of both the Infant and Maternal, as well as Emergency Health Services networks prioritized by the Government);

- (b) The development of a network of Referral Centers on Cancer Diseases, with emphasis in early detection and timely treatment; and
- (c) Ensuring qualified antenatal care for all pregnant women in Rio Grande do Norte (for low risk, as well as high risk pregnancies), covering appointments and lab tests.

28. Investments in infrastructure (renovations and construction) and equipment will be undertaken by the Project in the context of the process of implementing the three thematic health care networks; maternal and infant, urgency and emergency and oncological care. All investments were defined to meet part of the demand for infrastructure of these networks, based on the low capacity of the state to make new investments and gaps in federal financing. With regards to the maternal and infant health care network, the construction of a Maternal and Infant Health Hospital in Mossoró is foreseen, which will be the referral hospital for intermediate and specialized care in the region, the structuring of two milk banks in municipalities where they do not exist, and renovations and equipment for the State's 23 maternity centers. These investments are complimentary to those foreseen by *Rede Cegonha*²⁶ and PMAQ²⁷, as are Project investments in the emergency network. Regarding investments in renovation and equipment for the labs for breast and cervical cancer tests, these are needed to ensure adequate conditions for conducting biopsies with a sufficient degree of reliability.

Priority I – Infant and Maternal Health Care

29. The Project's Health subcomponent will support GoRN policy and social development objectives including its Family Health Strategy program, which provides a comprehensive package of reproductive and maternal health care interventions, among others, e.g., special counseling for female victims of violence, breast cancer patients and pregnant teenagers, to improve women's health status. Indirectly, it also provides jobs and training that favor women,

²⁶ With the proposal to establish a healthcare network which guarantees women the right to reproduction planning and humanized care during pregnancy, delivery and postpartum, the Ministry of Health created in June of 2011 the *Rede Cegonha*. The *Rede Cegonha* also aims to guarantee children the right to safe arrival and healthy growth and development. The network, comprising four components – prenatal, delivery and birth, postpartum and full attention to the child's health and logistics system (patient transportation and regulation), is expected to be performed in five phases: adherence and diagnosis, regional design of the network, contracting of the attention points, qualification and certification of the components.

²⁷ PMAQ - National Program for Improving the Access and Quality of Primary Care (*Programa Nacional de Melhoria do Acesso e da Qualidade da Atenção Básica*) was created in 2011 to support the introduction and achievement of access and quality standards by primary care teams. PMAQ scope and goals include the following: (i) build comparison parameters among primary health care teams in response to diverse health challenges; (ii) stimulate continuous and progressive improvement in the access and quality standards and indicators involving the management, work process and results achieved by the primary health care teams; (iii) create transparency in all of the steps, enabling the continuous monitoring of participants' actions and the societal outcomes; (iv) engage, mobilize and empower federal, state, and municipal managers, as well as primary health care teams and users in a process of change in management culture and primary care qualification; (v) develop a culture of negotiation and contracting, involving the management of resources on the bases of commitments and results that are agreed upon and achieved; (vi) stimulate effective change of the attention model, worker development and services guidance depending on the needs and satisfaction of users; and (vii) operate on a voluntary basis for both the primary health care teams and the municipal managers, based on the assumption that the program's success depends on the motivation and proactivity of the subjects involved.

who constitute the majority of the health care personnel contracted by primary health care units. In particular the Strategy aims to (i) reduce inequalities in health outcomes by improving access to and quality of primary health care by low-income populations; (ii) strengthen social risk management by providing counseling and health promotion interventions to vulnerable groups such as women and teenagers to address specific issues such as early pregnancy, injuries, and violence against women; and (iii) enhance gender equity through prioritizing of maternal and infant care.

30. The Project's 'health' subcomponent supports the GoRN strategy to increase the coverage of Family Health Strategy in the municipalities, raising the technical quality of and patient satisfaction with primary care and improving the efficiency and effectiveness of Family Health deliveries. The objective is to integrate and scale-up the current network of facilities, human resources and technologies in light of the restructuring of local antenatal health care systems, and of efforts to define role-sharing between the participating municipalities and the State. This will be achieved through the identification and implementation of organized flows, as well as through strengthening the referral and counter-referral system, and by means of restructuring of available Intensive Care Unit (ICU) beds (general, maternal and neonatal). At the high complexity level of care, hospital facilities will undergo a qualification process to reduce maternal and neonatal morbidity and mortality, improving their capacity to provide high complexity health services by means of modernizing technological structures and training of human resources to properly handle major morbidities. Thus, the proposed maternal and infant health care network aims to provide quality health services to pregnant women at low and high risk, linking primary care units to the diagnosis centers and hospitals.

Priority II – Oncological Care

31. Similarly to what's happening nationally, the incidence of cancer in Rio Grande do Norte is increasing together with life expectancy. The growing global burden of non-communicable diseases in poor countries and poor populations has been neglected by policy makers. Among the leading causes of female deaths in Rio Grande do Norte related to the NCD, the cardiovascular diseases is the major one, accounting for 30 percent of all deaths in the latest years, followed by cancer and accidents. Additionally it is relevant to highlight the significant increase in deaths with regard to the circulatory disease, cancer, diabetes and respiratory diseases. Cardiovascular diseases, neoplasm (breast and cervical cancer) and injuries account for the three leading death causes in the State. Notably, breast cancer represents the single most significant mortality cause among women, increasing from 5.7 to 8.6 deaths per 100,000 women between 1997 and 2007.

32. Despite strong evidence of the magnitude of this burden, the preventability of its causes, and the threat it poses to already complex health care systems, national and local actions have been inadequate, especially with regards to early detection. Indeed, local health systems struggle to meet the need for diagnosis, control, and treatment services. Currently, cancer is the second cause of overall mortality in the State, yet resources have not been allocated accordingly. Hence, strong investment in technology, clinical processes (guidelines and protocols), physical structure, and professional standards are needed to guarantee access and treatment (with emphasis in early detection).

33. In this perspective, Rio Grande do Norte is re-structuring the state health care network to provide services on a regional basis and to ensure comprehensive cancer care, covering access to appointments, tests, diagnosis, and treatment. In the first instance, referral centers for early detection will be implemented linked to public laboratories to support cancer diagnosis and further treatment. Additionally, the State Secretariat of Health plans to establish a systemic framework to monitor and evaluate cancer diseases, especially breast and cervical cancers, as well as to implement a continuous education program on cancer diseases for professionals and state managers. The Project would support the implementation of a State Cancer Control Program to increase the capacity for early diagnosis and timely treatment. The Program, still under development, has suffered from a lack of sufficient resource allocation, coordination of multi-sectoral policy interventions, and insufficient attention to chronic disease management within the health system.

Priority III - Emergency Services

34. The demand for emergency services has increased in recent years, mainly due to the higher incidence of cardiovascular diseases, as well as of accidents and violence, the first and third leading causes of deaths in the state, respectively. The Emergency Health Services Network designed for the State of RN is meant to develop and implement the pre-hospital urgency and emergency system in all State's health regions, given the current stage of Federal Program for Mobile Emergency Services (*Serviço de Atendimento Móvel de Urgência – SAMU*) deployment.

35. The State's programs seek to enhance: i) in-service management training on improving management capacity for hospital/facilities with focus on scaling-up, care deliveries flows, logistics, and managerial processes; ii) technical care training on developing and implementing care protocols and guidelines grounded on scientific evidence; iii) investment in pre-hospital facilities focusing on safe patient access to referral hospitals and including the expansion of trauma care, aero medical transport, and specialized teams for treating multiple trauma, myocardial infarction and stroke; and v) results-based contracts with providers to ensure the implementation and maintenance of qualified staff in agreement with the emergency regulatory framework.

Health Sector Institutional and Implementation Arrangements

36. The entire Project will be coordinated by the State Planning Secretariat. The health component will be carried out through the State Secretariat of Health (SESAP), including the proposed activities related to state and municipal interventions in secondary and tertiary health care activities. It will include financing construction/renovation, medical equipment and furniture, and training, consulting and non-consulting services. In this case, the State Health Secretariat will implement the proposed activities on behalf of the municipalities to scale up procedures and implementation timelines.

37. Brazil's unified public health system (SUS - *Sistema Único de Saúde*),²⁸ comprises all health care and services provided by public institutions of the three levels of government, as well

²⁸ SUS is Brazil's publicly funded health care system created to fulfill the obligation under the 1988 Constitution establishing health care as a "right of all and an obligation of the State".

as private institutions that provide services under contract. In principle, the whole population is entitled to universal health care, regardless of specific groups/minorities. Responsibility for SUS is shared by the three levels of government - the Ministry of Health and the state and municipal councils, as well as their respective secretariats, which comprise an equal representation of providers and users. Integration between the different levels of government is carried out through an inter-management commission, composed of authorities from each. All priorities are decided after submission to the commissions.

38. Social participation in the definition of health policies and in the control of their implementation is one of the founding principles of the SUS. Participation is a prerequisite for resources to be transferred from the federal level to state or local governments. Community participation occurs in health councils, which exist at the three levels of government, have a deliberative character, and are based on parity of membership (members of the government and of society, including users and providers of health services).

39. Under SUS, functions at the state level involve service coordination, distribution of financial resources, and decisions related to complex specialized technological interventions. These state-level functions are still evolving because so far the decentralization process has predominantly focused on the municipal level. The municipalities are responsible for handling the delivery of goods and services involved in health promotion, preventive care, health care, and rehabilitation.

40. To ensure smooth implementation of action under Sub-component 2.1, SESAP's roles and responsibilities encompass: i) assisting the State Secretariat of Planning in the coordination and supervision of the activities carried out by SESAP's technical subsectors; ii) coordinating the planning and financing of health component activities and services; iii) carrying out the fiduciary procedures under its responsibility; iv) monitoring and evaluation the health subcomponent activities, indicators and outcomes; v) coordinating state policies and activities related to SUS decentralization; and vi) ensure the time and proper project implementation, maintaining the political and technical dialogue with participating municipalities receiving primary or tertiary health care incentives or interventions. Given the complexity of establishing health care networks, the Health Secretariat will finance and maintain a small group of full-time consultants to provide technical assistance to the participating municipalities and supervise the hospitals implementation.

41. In order to deliver Project activities, the State would work closely with municipal secretariats of health to ensure that municipalities get adequate support to strengthen and organize the provisions of health services. Technical assistance would be part of the package that municipalities would receive by state, especially to weak municipalities and institutions. Additionally the state would work closely and continuously with state/municipal coordination committees to minimize the risk of coordination and encourage state cooperation.

42. The SESAP staff has had experience managing Bank-funded projects. Project management and technical capacity exist, but it is variable and insufficient at the State level. It will be necessary to provide training to the teams on the preparation of technical proposals and implementation activities supported by the project. An extensive technical assistance must be

provided, especially to weak municipalities and institutions to improve management and technical capacity.

43. ***Subcomponent 2.2: Education (US\$ 68.8 million, of which US\$ 61.9 million IBRD financing).*** The objective of this Subcomponent is to support the State integrated regional development agenda, and the educational performance of students and schools. The Subcomponent will support quality improvements to a series of activities most of them already developed by the State under the PAR (*Programa de Ações Articuladas*) supported by MEC. Special attention will be given to the regions with the lowest educational achievements for which targeted investments will be made to increase the performance of students and schools in the most deprived regions. The subcomponent will support two groups of activities as follows: (i) Group 1- activities directly supporting the State's regional development strategy; and (ii) Group 2- activities for improving the teaching-learning processes that will impact not only the target areas, but also the educational achievements of students and schools in the whole State.

44. The Project supports quality improvements in a series of activities, most of them already developed by the State and considered in the State's 2011-2014 Education Articulation Action Plan (*Plano de Ações Articuladas- PAR*), a multi-dimensional, integrated national policy planning instrument for states and municipalities in Brazil that is partially financed by the National Education Development Fund (FNDE). All the activities supported by the Project are originated from national policies and are part of the National Plan of Education. Education Sub-component activities are linked to State's regional development strategy though alignment with the National Education Policies, e.g. the new MEC programs: *Mais Educação*, which seeks to establish the Integral Education Program in the state's fundamental schools (fundamental education – grades 1 to 9); *Ensino Médio Inovador*, which seeks to establish the Integral Education Program in the state's secondary schools (secondary education – grades 10 to 12) *Pronatec*, which seeks to improve the vocational-technical skills of youth and young adults and *Pronacampo*, which seeks to improve knowledge and skills of those living and working in the rural areas.

45. Improvements in education supported by the Project would benefit over 310,000 students enrolled in through Rio Grande do Norte's 700 State-run schools (589 urban and 111 rural) representing 40 percent of the total student population enrolled in basic education in RN. In addition, specific activities under this subcomponent would provide benefits to vulnerable groups; namely, family farmers, who would benefit from literacy training and access to institutional buyers (through the National Schools Feeding Program); as well as young people and women in marginal economic areas who would benefit from increased access to labor-market oriented technical and vocational training programs.

Group A: Education support to the State's regional development agenda.

46. This group of activities will complement activities already developed through two national programs: PRONACAMPO (*Programa Nacional de Educação do Campo* –National Program for Education in the Rural areas) and PRONATEC (*Programa Nacional de Acesso ao Ensino Técnico e Emprego* – National Program for Employment and Technical Training), which

are important elements in the State education strategy to support regional sustainable development. This group of activities will include the following:

- (a) **Construction of rural schools.** This activity will finance the construction of six schools with up to six classrooms in selected communities to meet the needs of the communities. These schools will be built following the standard established by the PRONACAMPO. These schools may also offer vocational training programs and will be equipped with computer equipment, with the so-called 'Land lab', and other materials and equipment necessary to the development of activities in the agriculture field or in other productive activities. The schools would contribute to the sustainable development of the communities acting as center of professional training for those engaged in productive activities in the region.
- (b) **Linking literacy to productive inclusion.** This program will provide literacy opportunities for 12 500 young and adult farmers who live and work in the municipalities that have the highest illiteracy rates. Literacy is a key factor for developing the productive agricultural potential of the communities. Priority enrollment in the program will be given for those engaged in productive activities. Also the program will intend to identify, through the *Cad Unico*, women beneficiaries of the *Bolsa Familia*, who are illiterate and motivate them to engage in the literacy program. Annually 100 literacy classes will be offered with 25 students per class. The methodology of the program will follow the MEC's *Saberes da Terra* Program. The project will finance educational coordinators for monitoring and mentoring the literacy monitors. Following recent policy, SEEC will be responsible for selecting and paying the literacy teachers, through the FNDE/MEC funds. The councils and cooperatives linked to family farming should be involved in the implementation strategy of the literacy program.
- (c) **Linking technical-vocational education to productive inclusion,** The Secretariat of Education together with the other agencies developing productive activities will define the centers and the type of programs to be delivered under the regional sustainable development agenda. SEEC is working on a plan to offer professional education in the state following MEC's guidelines and financial support. SEEC will provide the various PRONATEC modalities such as (i) FIC courses (initial and continuing training); and (ii), integrated high school program (program that offers general and vocational education). The training courses will be offered according to demands of the regional development poles. Partnerships with Federal Institutes Technological System and the 'S System'²⁹ should be organized accordingly as established by PRONATEC.
- (d) **Linking National School Meal Program (PNAE) with small farmers,** school principals, DIREDs, Municipal Councils in the perspective of compliance with the Law No. 11.947/2009, which establish the purchase of products from family farms for the school meal program. According to MEC, schools should spend, at least 30 percent of the funds from the school meal program in purchase of products from the family agricultural program. However, the products should be legally accredited. This activity intends to

²⁹ Brazilian Agency for Micro- and Small-Business (SEBRAE), National Service for Rural Apprenticeship (SENAR), Industrial Federation of Rio Grande do Norte (FIERN)

disseminate to school principals the requirements of MEC but also to support the producers of the agriculture family program to obtain the accreditation of their products to be eligible to sell them to schools. This activity will be jointly developed by SEEC, through the DIREC and DRAE, with support of SAPE / EMATER and SETHAS. The SEEC will be responsible for providing information to the school principals for compliance of the Law No. 11.947/2009. SETHAS and SAPE / EMATER, will be responsible for working with family farmers, unions, councils and municipalities in obtaining certification of the products of the family agricultural program, which will enable the purchase of products by schools.

Group B: Strengthening the education system to improve teaching - learning processes in Basic education

- (a) **Development of curricular guidelines for public schools** This activity will : (i) review and update the curriculum guidelines for each level and type of education (fundamental education –grades 1 to 9, secondary education –grade 10 to 12 and adult education) ; (ii) develop materials to support the implementation of the new guidelines, (ii) training of teachers for applying the new curriculum. The Secretariat of Education (SEEC) expects that the municipal school will adopt the same curriculum used by the state-run schools. Teachers from the municipalities that adopt the new curricula guidelines will be trained by SEEC under the regime of state-municipality collaboration. The curriculum guidelines are currently under preparation and are expected to be completed by 2013. During the implementing of the new curriculum the SEEC will use the Education Observatory as a tool for supporting teachers` continuous education and training.
- (b) **Development of Education Innovation Program**–This activity seeks to increase school efficiency and accountability by giving the school community more autonomy and responsibility in managing their schools and selecting better interventions to solve their major pedagogical issues. In addition, it seeks to make schools more inclusive and culturally relevant to their students, by giving them the autonomy to diagnose their own situation and address deficiencies. It is necessary to involve all teachers and school principals and the school community represented by the school council to align strategic actions towards achieving better learning outcomes for students. The Education Innovation Program will include the implementation of School PDEs (School Development Plans) for strengthening public school management in state run schools. The Program intends to ensure that basic education (fundamental and secondary schools run by the State have the necessary funds to develop innovative pedagogical activities proposed in the school development plans (*Planos de Desenvolvimento das Escolas*, PDEs). The PDE uses a strategic planning tool to support the school in the identification of key challenges and corresponding actions to improve school performance (as defined in the PDE operational manual). SEEC will prepare the operational manual for the program defining the steps of preparation of the PDEs, the criteria for transferring the funds and the monitoring system to support PDEs’ implementation and results.
- (c) **Improving Monitoring and Evaluation of Basic Education.** To monitor and evaluate the quality of basic education, the SEEC / RN intends to establish and implement the State Basic Education Evaluation System (SAB-RN), including the evaluation of technical-

vocational education programs. Following several states in the NE Region and in other parts of the country, the evaluation system will assess students and schools' performance for supporting improvements in policies and programs. In addition, to monitor the daily performance of students and school activities, SEEC already developed a monitoring system called SIGEDUC (Education Management System) and intends to complement this instrument with the establishment of the Observatory of the Students of Basic Education - *Observatório da Vida do Estudante da Educação Básica* – OVEEB. This observatory will be developed following the model adopted by the UFRN- Rio Grande do Norte Federal University (www.comperve.ufrn.br).

- (d) **Ensuring Minimum Operational Standards at Schools.** Improving the quality of education also requires that schools provide a minimum of quality of their infrastructure, human resources, equipment and furniture according to the level of education offered by them. It is estimated that about 70 percent of school infrastructure in RN is inadequate, with some schools operating in rented buildings and most without adequate furnishing and equipment. Data for 2011 show that 23 percent of the public schools in RN have sanitary facilities only outside school building(s), less than 9 percent have a science or computer laboratory, and only 37 percent have libraries. With the support of this project SEEC intends to guarantee the minimum operational standards to all state-operated schools, with priority to those offering secondary education. The model of minimum operational standards consists of a predetermined set of essential inputs such as library books and students' materials, school furniture such as desks, chairs, and shelves, and physical facilities, ensuring access to disabled students, and sanitary facilities. It also should determine the human resources needed to the adequate implementation of the educational activities. SEEC will establish an incentive program for school to maintain the investments made by the government and continue to improve their facilities and equipment in subsequent years. A manual will define the minimum operational standards of schools according to the level and type of education offered by the school. Under this subcomponent the project will also support the construction, refurbishing and equipment of selected urban schools.
- (e) **Improving coordination between State and Municipal education Systems.** The education sector in Rio Grande do Norte suffers from inadequate coordination between the State and the Municipalities. Despite the requirements of the National Education Law in 1996 (*Lei de Diretrizes e Bases da Education National* -- LDB), which specifies roles and responsibilities in the delivery of education for each level of government. The distribution of education functions and responsibilities among sub-national levels of government is still quite variable across the different systems in most of Brazil. In the case of RN, grades 1 through 5 are largely provided by the Municipal network, while grades 6 through 12 are provided by the State network. But significant overlap between the two systems still remains. The lack of coordination and clear division of responsibilities between SEDUC and the Municipal Secretariats of Education makes the administration of education unnecessarily inefficient in responding to the system's demands and challenges. Considering also that the fragility of the municipalities have a direct impact on educational performance across the state measured by the national evaluation systems, and also following the LDB by which SEEC should provide technical support to municipalities

improve their education results, the Government will establish better mechanisms for providing technical assistance to municipalities.

47. Thus, Subcomponent 2.2 will finance: (i) training of trainers, teachers and school councils, (ii) scholarships for teachers attending the training, (iii) operating costs for training, including for teachers of the municipal schools; (iv) design and publishing of curricula guideline and pedagogical materials, (v) consultancy services for various activities in the subcomponent; (vi) design, preparation and publishing of the Manual of the PDE, (vii) resources for financing the innovative activities through the PDEs (school subprojects); (viii) construction of secondary and rural and urban schools, including (a) the preparation of the respective executive projects (b) repair of schools; (c) equipment and furniture to all schools constructed or rehabilitated; (ix) organization of the program of vocational courses according to the nature of the target population and productive chains, and didactic materials for technical- vocational courses; (x) publishing of school operation standards Manual; (xi) monitoring of the literacy program, including payment of pedagogical coordinators; (xii) booklets guidelines on PNAE; and (xiii) workshops to disseminate the rules of purchase from family agricultural program.

48. **Subcomponent 2.3: Public Security (US\$ 16.3 million of which US\$ 14.6 million IBRD financing).** This subcomponent seeks to improve public security services in RN by providing support to (i) strengthen integrated management processes within the *Secretaria de Segurança e da Defesa Social* (SESED), (ii) improve public security information systems, and (iii) strengthen specific programs focused on violence prevention and education, as well as support to victims. Activities to be supported under this component include:

- (a) *Improving SESED management systems* - Investment in technologies to strengthen public security management by SESED. This activity comprises (i) the introduction of IT tools and resources to improve SESED management systems; (ii) improved service to citizens through the establishment of an electronic bulletin to report security incidents; and (iii) improved quality and integrity of official (civil registry and criminal justice) records and document services through investment in technology for their digitalization at the Technical-Scientific Institute (ITEP) responsible for issuing these documents and providing forensics services.
- (b) *Improving public security information systems* – Support to strengthen the Integrated Center for Public Security Operations (CIOSP), which has well designed internal mechanisms to control the information obtained; and to improve the state capacity to collect and analyze crime related data. Specifically, this activity includes (i) investments in technologies (computers, software) to improve response to citizens through the emergency call-in system “190”; and (ii) acquisition of video-surveillance monitoring equipment to improve citizens’ security, particularly oriented to the World Cup 2014. This would help RN to comply with the federal governments’ requirement that all capitals that will host the World Cup have a strong integrated information center with a broad coverage of video-surveillance monitoring.
- (c) *Strengthening RN State violence prevention efforts* – Support two programs that focus on education to prevent drug-related violence and on the protection of women, the elderly and minorities (including LGBT) victims of violence. Specifically, the activity includes: (i)

investments to support the drug prevention education program (PROERD) which has had significant impacts in RN due to its strong structure and positive leadership. The Project would finance the purchase of teaching materials and equipment that would strengthen the program and allow for its expansion to other areas in the State; (ii) investments to strengthen the Coordination for the Defense of the Rights of Women and Minorities (CODIMM) through the acquisition of equipment and hiring of a consultancy to design a communications strategy for the program.

49. Investments under this Sub-Component will benefit the population generally, by supporting Public Security management in the State to improve its capacity to respond to criminal incidents, citizen security monitoring and the registration and filing of official civil and criminal records and documents. The project will also benefit particular groups most at risk of suffering negative effects of increasing violence and insecurity, such as youth and minorities. Specific activities to be implemented (i.e. support to Program for the Resistance Against Drugs, PROERD and the Coordination for the Defense of the Rights of Women and Minorities, CODIMM) will benefit children and youth at school and women, elderly and gays, lesbians and transsexuals that are victims of violence.

50. **Component 3: Public Sector Management (US\$ 65.5 million, of which US\$ 58.9 million IBRD financing)** would provide support for the modernization of the State's public sector management in strategic sectors in order to strengthen the efficiency and effectiveness of central budget, finance and planning processes and management, as well as in service delivery in health, education and public security sectors. The Government of RGN has shown strong commitment to improvements in public sector management areas and has committed to delivering results before the State Government elections in 2014. This component will require careful sequencing, alignment, and coordination of actions by central and line secretariats to achieve results through measures grouped around the four subcomponents as follows:

51. ***Subcomponent 3.1: Integrated and Results-oriented Planning, Budgeting and Finance Management (US\$26.2 million, of which US\$ 23.6 million IBRD financing).*** Strengthening planning capacity, monitoring, evaluation and policy making will also be supported under this subcomponent. The new administration has already initiated efforts to revamp its planning capacity and use the multi-year plan (PPA) as a tool for expressing the State's policy intentions, as per the available fiscal space. These efforts have made clear that some sectors will need additional help in clarifying their key goals and strategies, as well as defining intermediate and results indicators. Activities to strengthen the budgeting procedures and to allow for strategic allocation of resources to policy priorities will also be supported. Activities under this sub-component include:

(a) Assistance with the preparation and implementation of the necessary organizational, procedural and human resource reforms needed to develop a focus on results linked to priorities derived from strategic goals. The implementation phase, which would follow a detailed diagnostic process, might include the establishment of institutions such as situation rooms and a project office to monitor the management of strategic programs and projects, and organizational changes and improvements in the State's financial system (SIAF), to ensure that management information is easily

available in an accessible format. In the implementation phase assistance would include (where necessary) technical assistance to design the software for implementing the budgetary and financial control management, and the contracts and commitment controls, comprising managerial information and strengthening of SIAP (SEPLAN); technical assistance for the development and implementation of the procedures auditing.

(b) The provision of support to SEPLAN for: (i) the development of the project management, monitoring and evaluation system and mechanisms, and (ii) the development of a monitoring and information system and mechanisms for the social protection programs. The State is also examining the opportunities to use Balanced Score Card tools to enhance performance measurement and increase accountability for results.

52. These activities will be implemented in two phases. The first phase, of approximately one year and a half, will include the diagnosis of the current situation and the conceptual design of the of possible organizational and institutional models for both activities, while the second phase, commencing in about 2015 will comprise the final agreement on and development of the models, and any required supporting systems.

53. ***Subcomponent 3.2: Modernization of State Institutions and Administrative Systems (US\$ 17.1 million, of which US\$ 15.4 million IDRD financing).*** would support functional reviews of State institutions in order to identify the key roles of its agencies and promote alternative service delivery modes Modernization efforts will focus on updating administrative structures, procedures and processes, with the aim of increase efficiency and alignment with the new integrated results-based management systems introduced under Subcomponent 2.1, with special focus in SESED, SESAP and SEEC, including sectoral investment addressed to improve management. The State is also interested in a review of the role and administrative structure of government entities which can inspire a rationalization of the current structure of the same Government. Activities under this subcomponent will include:

- (a) Identification and revision of macro-processes and processes of the Secretariats of Education, Health and Public Security and Social Defense, with the objective of maximizing administrative effectiveness, activity led by SEPLAN in cooperation with the three mentioned sectoral Secretariat to guarantee the coherence of the model. This activity, which would be initiated as soon as possible, comprises (i) technical assistance to identify and revise the mentioned processes and macro-processes.
- (b) Diagnosis for the State's Government on the suitability of structures and distribution of competences of all the State Secretariats, to identify possible dis-functionalities proposing corrective measures. This activity comprises (i) technical assistance to elaborate the mentioned diagnosis. This diagnosis will be made during the Government's current term so that it can be implemented at the start of the next period of Government.

- (c) A package of sectoral investments coordinated for logistic reasons by SEPLAN to improve infrastructure and management of diverse Secretariats. This activity comprises (i) Technical assistance for the design and implementation of the management system of SEEC/DIRED; (ii) Technical assistance for the situational diagnosis, study on logistics (procurement, storage, distribution of medicines, sanitary transportation) and for the development and implementation of an integrated management system of public health (hospital costs, PRONTUARIO ELETRONICO, governance and outsourcing); (iii) technical assistance for the [project of the new physical structure of SEEC; (iv) purchase of furniture and equipment for SEEC and DIRED; (v) purchase of furniture and equipment for SESAP; and (vi) purchase of technological equipment for the situation room of SESAP and equipment or the regional units of Health.

54. ***Subcomponent 3.3: Efficient Human Resources, and Asset Management (US\$ 22.1 million, of which US \$19.9 million IBRD financing).*** A more effective and efficient public administration would require strengthening the State's workforce more strategically by focusing on attracting and retaining professional personnel, in particular in the center-of-government institutions. The State also needs to establish an integrated assets management (including planning purchases, register, management, maintenance, and defense) to optimize the use of its patrimony according to an advanced model more complex than the traditional simple register and assets accounting. Finally, the State administration's information and communication technology system (INFOVIA) shall also be optimized, in order to improve connectivity and information flow between all administrative units.. Activities under this subcomponent will include:

- (a) Improvement of HR management through the implementation of management and payroll auditing modules, planning of HR resources and design of a result-oriented model (including a gender and minorities approach) and its implementation through a contractual system. While the preparation of an auditing model for the payroll should be done before as soon as possible, its implementation and the planning of HR resources should be done at the beginning of the next term of Government. The design and implementation of a result-oriented management will be the last step in the field of HR management. This activity comprises (i) technical assistance to design and implement in all the central and sectoral units HR management and payroll auditing modules; (ii) technical assistance to identify and evaluate careers, positions and salaries within the State, propose adjustments, defining a HR Management Policy, comprising the result-based management contracts model, results assessments and re-formulation of the legal framework on these issues; and (iii) technical assistance to implement the result-oriented management contracts model.
- (b) Implementation of the integrated assets management system, including the register of all the assets³⁰. This activity comprises (i) technical assistance for the design and implementation of an integrated management tool to control purchases, fleet, assets, costs, phones, and perishable goods; (ii) technical assistance to revise the legal framework of the State's public management about logistic processes, taking into

³⁰ This activity will be initiated before the state's elections.

account the new management tools; and (iii) identification and register in an assets management tool all the State's assets (real state and movables), including controls of responsibilities.

- (c) Modernization of the State's Archive for a better treatment of its content and its digitalization³¹. This subcomponent also comprises all the training activities needed for the implementation of its activities. This activity comprises (i) technical assistance for the implementation of a pilot-virtual process, comprising digital certification and organization of the State's Public Archive; (ii) create the infrastructure for the virtualization of the pilot-process, modernizing the State's Public Archive (ICT equipment); and (iii) purchase of equipment (archives, furniture and other support equipment) for the State's Public Archive.

55. Component 3 – Public Sector Management reforms would particularly benefit users of health, education and public security services, through: (i) improvement in public sector management leading to more efficient and effective delivery of public services; and (ii) increased availability of public resources - for social policies and investments - as a result of reduction in human resources expenditures.

³¹ This activity will be the last of this subcomponent, after the modernization of the other systems.

Annex 3: Implementation Arrangements

BRAZIL: Rio Grande do Norte Regional Development and Governance Project

Project Institutional and Implementation Arrangements

1. The proposed IPF is a multi-sector Project, which would be jointly implemented by nine State Secretariats/Departments drawing largely on existing Government capacities and systems. The State Secretariat of Planning and Finance – SEPLAN, through a dedicated Project Management Unit (PMU), will be responsible for the overall management, coordination, planning, and monitoring and evaluation of all Project activities both at central and regional levels. Sectoral State Secretariats will be responsible for operational execution of the different Project Components and Sub-Components (see Table 1).

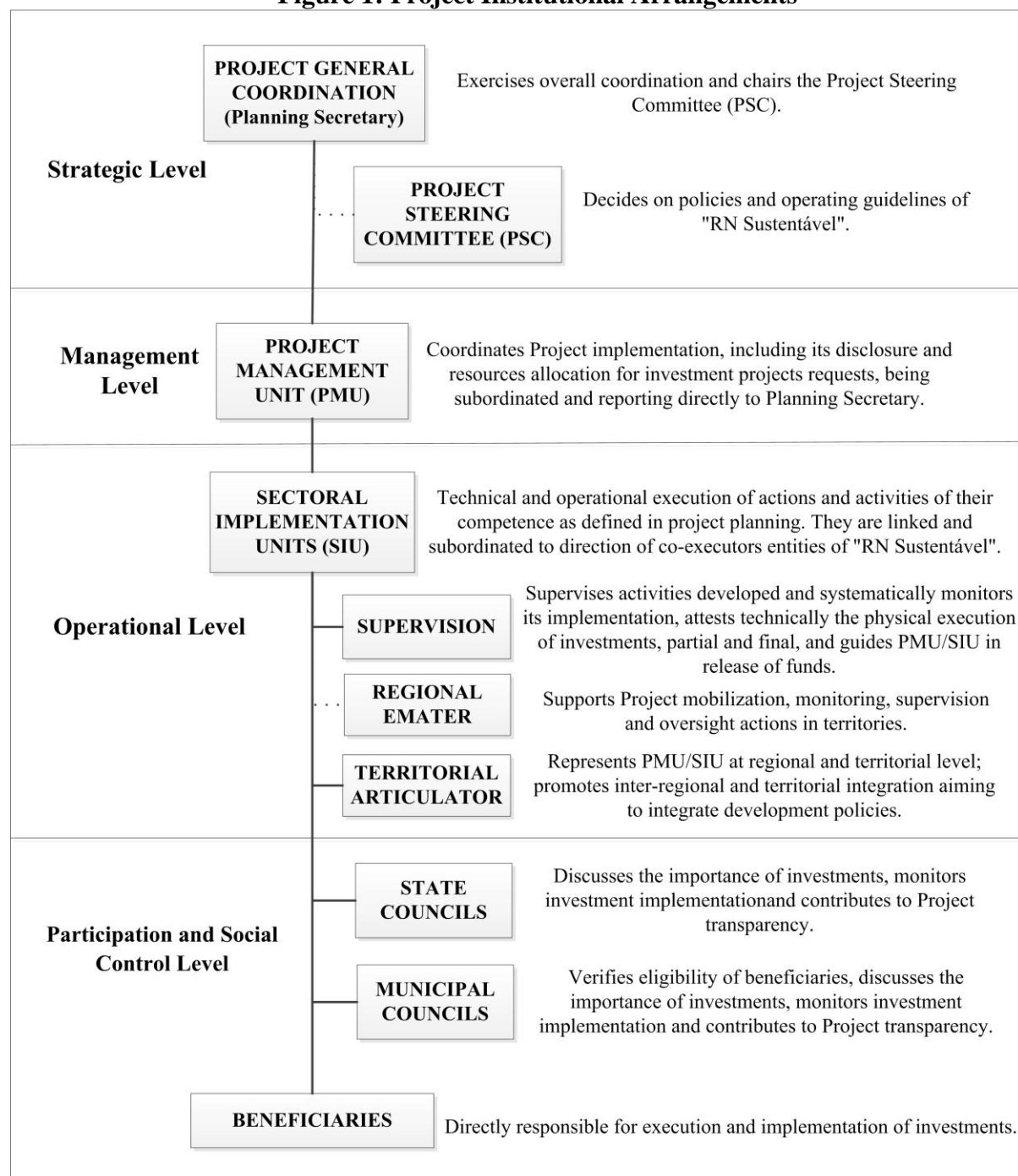
Table 1: Implementation Arrangements

Component/Subcomponent	Overall Coordination	Implementing Secretariats and Departments	Executors/recipients
Component 1. Sustainable Regional Development and Productive Inclusion			
Subcomponent 1.1.Strategic Investments and Local Governance Strengthening	SEPLAN	SAPE, SETHAS, SEDEC, SETUR, DER	
Subcomponent 1.2 Productive and Socio-Environmental Subprojects		SAPE, SETHAS	Municipalities Producer Organizations (POs) Social Organizations (SOs) Network of SOs (NSOs)
Component 2. Improving Public Services			
Subcomponent 2.1. Health	SEPLAN	SESAP	Municipalities and Health Service Providers
Subcomponent 2.2. Education		SEEC	Municipalities
Subcomponent 2.3.Public Security		SESED	
Component 3. Public Sector Management			
Subcomponent 3.1. Integrated and results-oriented planning, budget and finance management	SEPLAN	SEPLAN	
Subcomponent 3.2. Modernization of State institutions and administrative systems		SEPLAN	
Subcomponent 3.3. Efficient Human Resources and Asset Management		SEARH	

2. A Project Steering Committee chaired by the Secretary of Planning and Finance, and composed by representatives from key secretariats and organizations, as defined in the

Operational Manual, responsible for providing general oversight and guidance on the strategic and multisectoral aspects of the Project. (See Figure 1). The other Secretariats and Departments involved in Project Implementation would be supported by their respective *Unidade Executora Setorial* (UES). The UES will assist the Secretariats and Departments in the execution of technical, administrative, financial and procurement procedures. State employees and consultants working within the PMU and UESs are receiving financial incentives (salary top-ups) made possible through the amendment of on the basis of Decree 23308 of 22 March 2013.

Figure 1: Project Institutional Arrangements



3. As it has been during Project preparation, SEPLAN will be the Bank's main interlocutor during Project implementation and responsible for project's financial management, procurement, disbursements and accounting, as well as for implementing social and environmental safeguards instruments and for disseminating project results through a proactive communication strategy. As the formal Project coordinator, it will compile all Project-related information furnished by the other implementing agencies and be responsible for all reporting requirements under World Bank policies and described in the Loan Agreement. In addition, SEPLAN will ensure that counterpart resources are foreseen in the State budget.

4. A **Project Operation Manual** was prepared to clarify the implementation and funds flow arrangements that inform the day-to-day implementation of the Project. The Project Operational Manual contains detailed procedures and guidelines for disbursements, payments, approvals, commitments and payments, accounting, and IFRs and it will be prepared by SEPLAN and supervised by the Bank's FM team. It will also include a specific manual on the sub-projects to be financed by the Project (e.g. type of sub-projects, eligibility, process, etc.).

Financial Management, Disbursement and Procurement

Financial Management Assessment Conclusion

5. According to the Risk Assessment Matrix presenting the potential project FM risks, the residual overall FM risk associated with the Project is rated as **Substantial**. The funds flow, disbursements, monitoring, auditing and supervision arrangements have been designed in a way to respond to the project's implementation multi-agency arrangements. The major risks identified are that (a) staff at the 9 participating entities may be unfamiliar with Bank processes, resulting in the need for increased inter-institutional coordination, (b) the funds flow mechanism may be complex as a result of the need to transfer funds to a wide area geographically; (c) the internal controls may not be sufficient to address the needs of the new operation, thus requiring their review and strengthening; (d) the *Sistema Integrado de Administração Financeira (Plano Interno – PI)* may not be sufficiently tailored to the project's needs; and (e) the Project Monitoring and Reporting System (PMRS) *Sistema de Monitoramento e de Informações (SMI)* may not be sufficiently customized to record the transactions of the operation.

6. Specific mitigating measures are as follows: (a) the project has prepared a Project Operational Manual (POM) that contains detailed procedures and guidelines and a definition of the roles and responsibilities of FM staff in PMU and the nine implementing entities, (b) the World Bank FM Specialist will provide support and training to the nine implementing entities, (c) the project will adopt the same internal control procedure used by the state, which includes the prior review of expenses by the *Controladoria Geral do Estado - CONTROL* for all state expenditures and their post review by the PMU. The CONTROL's staff will receive specific instruction in order to streamline this procedure (d) the PMU will streamline and simplify payment procedures; (e) the PMU team will establish a strict control of transfer of financial resources and supporting expenditure documents (*prestações de contas*) for Market-orientated Productive Subprojects, Socio-Economic, Social and Environmental Sub-projects and School Sub-projects and ensure the sub-project beneficiaries maintain investments satisfactorily; and (f)

the Bank will conduct regular FM site supervision missions to review the continuing adequacy of the FM arrangements.

Institutional Arrangements, Executing Agency and Staffing

7. The Project general oversight and coordination responsibilities will be carried out by the SEPLAN. No separate project implementation unit is contemplated in any of the implementing agencies to the extent possible, it is expected that the activities will be implemented using existing Government capacity, staff and systems. SEPLAN would be supported by a PMU, which would be in charge of carrying out fiduciary and administrative tasks associated to the Project's implementation. The PMU will manage the project financial resources, coordinate the execution of activities, perform monitoring and evaluation and assist the Secretariats in the execution of technical, administrative and financial procedures.

8. The other Secretaries and involved in the program would be supported by their own respective UES. The UES is an internal control unit created within each Secretariat and will assist the Secretariats in the execution of technical, administrative, financial and procurement procedures. In effect, most Project tasks will be developed by the regular staff and units of the line in all involved sectors and areas. Project implementation will be completed by 9 government secretariats and agencies (outlined above) and the PMU will have the responsibility to coordinate most operational activities, and prepare and/or coordinate fiduciary and technical reports to the Bank.

9. The Project will be implemented using the state's public financial management system. Both coordination of the program and the financial management is managed jointly by the SEPLAN. The design of this program is such that the day-to-day financial management operations, including budget execution and transaction processing will be undertaken by the regular staff and units of the line in all involved sectors and areas.

10. The primary fiduciary responsibilities for the Project would be carried out by PMU, and these include: (i) preparing of Project FM arrangements; (ii) submitting disbursement requests and documentation of expenditures to the Bank; (iii) preparing and submitting Project financial reports (IFRs) to the Bank; (iv) preparing and providing all financial documentation and Project reports requested by external auditors and Bank staff; and (v) preparing, updating and ensuring that all Participating Entities are in compliance with the POM. The POM will contain a documentation of the financial management procedures and guidelines that will be followed during Project implementation. These procedures and guidelines will be in respect of disbursements, approvals, commitments and payments, accounting and the preparation of financial reports (including IFRs). It was prepared by the PMU and submitted to the Bank for review prior to Negotiations.

11. The SEPLAN's professional staff is considered adequately skilled. The other Secretaries involved in the program have an adequate financial management staff number and also previous experience in the use of the Public State Financial Management System – SIAF procedures.

Flow of Funds and Disbursement Arrangements

12. The disbursements of project funds will be processed in accordance with normal Bank procedures, and as stipulated in loan agreement and disbursement letter. Such funds will be used for eligible expenditures incurred or to be incurred under the Project. During project implementation, the following disbursement methods will be available for use: reimbursements, advances, and direct payments. Disbursements will be made primarily on the basis of advances. PMU will request such advances to be made in BRL. In this case, the Loan funds will flow from the World Bank to a segregated³² Designated Account. It will be denominated in BRL and maintained at the *Banco do Brasil*, in Natal – RN in name of the SEPLAN, identifying the Project. The Designated Account will have a Fixed Ceiling of BRL 120,000,000.

13. Counterpart funds will be disbursed directly from the state Treasury's single account, to contractors, service providers and beneficiaries according to the schedule of the POA (Annual Budget Plan). Project funds will be made available and released through SIAF system. After PMU approval, the SEPLAN will make payments to providers of goods, services, training and works incurred by the PMU and co-executors using the State SIAF system.

14. Overall, the Bank will finance 90 percent of all Project activities and the remaining 10 percent will be financed with Counterpart funds directly from the Single Treasury account. Retroactive financing will be available for this Project up to the amount of US\$72 million (20 percent of loan) for payments made prior to the signing of the loan agreement on or after March 7, 2012, but in no case more than one year prior to the date of the signing of the loan agreement.

15. The documentation of the uses of advances and reimbursement requests will be through Statement of Expenditures (SOE's) and/or Summary Sheets (SS) with Records. Direct payments will be documented by Records. The PMU will be responsible for preparing and sending withdrawal applications to the Bank. The Project will also have a four month Grace Period to document expenditures incurred prior to the Closing Date. Project expenditures will be reported on after they are approved by PMU and fully documented, ensuring that the loan proceeds were exclusively used for eligible expenditures. The frequency of presentation of documentation on eligible expenditures paid out from the Designated Account is at least quarterly. The Minimum Application Size will be US\$ 10,000,000 equivalent.

16. In addition, for the Market-oriented Productive Subprojects, Socio-Economic, Social and Environmental Sub-projects and School Sub-projects, a selection committee will be established that will assess and approve the subproject requests. The implementation details of those requests will be described in the Operational Manual and the evaluations will be based on a policy of approval that shall include:

- (a) The eligibility criteria of participants;
- (b) The limit of grant/funding and terms and conditions for payments;
- (c) Definitions and obligations (including financial management);
- (d) Schedule of results reporting (financial and progress);

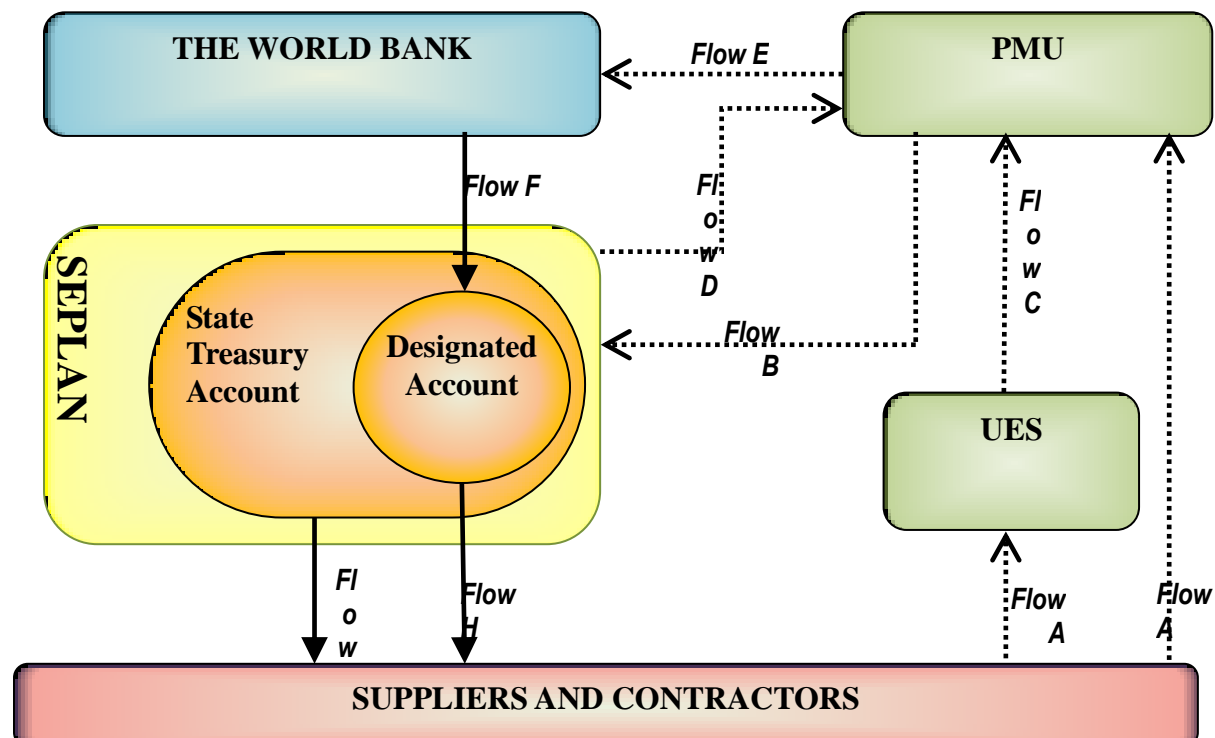
³² The Designated Account will form part of the State's Single Treasury Account. A separate accounting ledger will be maintained for the Designated Account (Bank funds only), and for this reason it is considered "Segregated".

- (e) Basic conditions for acquisitions, and
- (f) Accountability.

17. The disbursement mechanism for sub-project will operate as following: After the conclusion of a sub-project agreement, the PMU will advance the funds in installments to the sub-project beneficiaries based on limits to be established in the Operational Manual depending on the type of the sub-project and would be deposited into the beneficiary's bank account. The beneficiary's would submit the documentation on the expenditures and based on documentation of the first installment received and as they present the documentation they would receive the second and so on. Payments will thus be made on a lump-sum basis. The Project Monitoring and Reporting System (PMRS) *Sistema de Monitoramento e de Informações* (SMI) should be capable to monitor individually, by beneficiary, the funds advanced, its purpose and status of project implementation. All sub-project activities would also need to be completed prior to the Closing Date. With the funding made on a lump-sum basis as described in the paragraphs above, the Bank accounts for the eligible expenditures (i.e. records that the eligible expenditures are documented) when the lump-sum is paid, so long as there are mechanisms in place by the PMU, with oversight by the Bank, that the sub-projects are being implemented as intended . The SMI, will be used for this purpose by the PMU.

18. Before payments are made in respect of the non-subproject activities financed under the loan, the PMU will undertake the verification of the expenditures incurred by itself and Participating Entities. All such expenditures will be documented in withdrawal request transmitted to the World Bank office in Brasilia.

19. The following diagram illustrates the flow of funds arrangements for the project.



<u>Key</u>	
—————→	- Flows involving the movement of funds
.....→	- Flows involving documentation or supply of goods and services
Flow A	- Suppliers provide goods and services, and related invoices or <i>prestações de contas</i>
Flow B	- Sector agencies submit payment requests to SEPLAN
Flow C	- Sector agencies submit support documentation to PMU.
Flow D	- SEPLAN provides bank statements to PMU
Flow E	- PMU submits IFRs and Requests for disbursement to the World Bank
Flow F	- Disbursements of funds from the World Bank to the designated account
Flow G	- Payments for counterpart financed activities
Flow H	- Payments to suppliers for Bank financed activities
<u>Note</u>	
1 – The Designated Account is part of the State’s Single Treasury Account that is managed by SEPLAN.	

20. The PMU will be responsible for the reconciliation of bank accounts. Such reconciliation will be prepared monthly and should be available within 15 days after the end of the month.

Allocation of Loan Proceeds

<u>Category</u>	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures <u>to be financed</u>
(1) Goods, works, Non-consulting Services, and consultants’ services required for Subprojects	91,076,000	Up to 100% of the amount disbursed under a Matching Grant.
(2) Goods, works, consultants’ services, non-consulting services, Operating Costs and Training	268,024,000	100%
(3) Front-end Fee	900,000	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	-0-	Amount due pursuant to Section 2.07(c) of the Loan Agreement
TOTAL AMOUNT	360,000,000	

Accounting Policies and Procedures, FM system, and Internal controls

21. The Project’s budgeting and accounting arrangements are part of the overall State FM system and therefore all transactions and accounting records will be maintained using the State

accounting system (SIAF), following accounting procedures stipulated in the prevailing Law (*Lei* n.º4.320/64). All payments will be made after compliance with existing requirements for commitment (*empenho*) and verification (*liquidação*). Planned transactions will be documented in a Work Plan (*Programa de Trabalho*) that will be recorded in the SIAF. Once incurred, all Project costs will be recorded using the State Chart of Accounts which will be customized for the Project using the state chart of accounts (*Plano Interno*).

22. The Project's accounts will be maintained on a cash basis, and the same basis will be used for the preparation of the financial reports and statements. The IFRs will reflect the project's transactions in Brazilian Reais (R\$), and expenditures will be stated by quarter and accumulated for the year and for the Project's life. IFRs will be submitted to the Bank within 45 days after the closing of each quarter.

Reporting and Monitoring

23. The PMU will prepare the financial statements for the project using information provided by the SIAF. In doing this, the PMU will develop a chart of accounts that will properly reflect the sources and uses of funds in accordance with the loan agreement. The following quarterly IFRs will be prepared for management purposes and submitted to the Bank :

- 1) IFR 1 – Source and application of funds by cost category, cumulative (project-to-date, year-to-date),
- 2) IFR 2 – Uses of Funds by project components, cumulative (project-to-date, year-to-date) and for the period, showing budgeted amounts versus actual expenditures, (i.e., documented expenditures), including a variance analysis,
- 3) IFR 3 – Disbursements reconciliation with the Bank's Client Connection site (attached with latest Bank Statement),
- 4) IFR 4 – Disbursement Forecast (prepared in dollars (US\$));
- 5) Contract above Thresholds (attached with copy of the invoices); and
- 6) Notes to the Financial Statements (only for the last year – end quarterly IFR).

24. The counterpart fund contribution for the Project will be specified in the Project Document and the Project Operational Manual and reported in the project's IFRs. The format of the IFRs was agreed during negotiations between the Borrower and the Bank. The POM will contain detailed procedures and guidelines for disbursements, payments, approvals, commitments and payments, accounting, and IFRs and it will be prepared by the PMU.

External Audit

25. The Project's financial statements will be audited in accordance with the Bank's audit policy and guidelines³³. The audit report should be delivered to the Bank within six months after end of each calendar year, as stated in the Bank's Financial Management Audit Guidelines (June 2003) and the Loan Agreement. The audit will be conducted in accordance with Terms of Reference (ToR) prepared by the PMU and judged acceptable to the Bank. The latter will provide its no objection to these TOR, within two months after signing of the loan and it will be

³³ Issued by the FMSB on June 30, 2003 and in accordance with International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC)

attached as an annex to the POM. The scope of the audit report will include a full review of the fourth IFR (for each calendar year), and of the PMU's transactions in SIAF. The audit report will include an opinion on the Project financial statements and a management letter on the internal control structure. The auditors should have access to all supporting records and be able to make and onsite examination, including sub-projects.

26. The Project's auditors will be selected to meet Bank's criteria on independence and competence. The TCE/RN is the state's supreme audit institution, and it has the mandate to audit all state expenditures, including those that will be financed under the project. The TCE/RN has preliminarily expressed their interest in conducting the audit, and will formally communicate their final decision to the PMU. The Bank will review the capacity of the institution to carry out the audit, concluding this within 6 months after Negotiations. In case the capacity of the institution is deemed insufficient, the PMU will contract auditors the Bank procedures.

27. All supporting records will be maintained at the PMU for at least (i) two years after the Closing Date; or (ii) one year after the World Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made, whichever is later.

Financial management supervision during implementation

28. Financial management supervision will take place at least twice a year and will include, among others, (i) a review of the IFRs; (ii) a review of the auditors' reports and follow-up of issues raised by auditors in the management letter, as appropriate; (iii) a follow up on any financial reporting and disbursement issues; and (v) an update of the financial management rating in the Implementation Status and Results Report (ISR); and (iv) a discussion with project management on other related matters.

Action Plan

Activity	Responsible	Date
Budgeting will be improved through budget preparation from each of the beneficiaries, identifying the sources of funds and the project components and disbursement categories, using common chart of accounts, specific for the Project. The budget will be based on the Annual Operational Plan and procurement plan, showing the project estimated expenses on a quarterly basis.	PMU	Completed prior to negotiations
Completion of the POM. Submission of draft Manual to the Bank for review	PMU	Completed prior to negotiations
Completion of sub-project subsidiary agreement (<i>Convênios</i>)	PMU	Completed prior to negotiations
Customization of the Chart of accounts in SIAF (<i>Plano Interno- PI</i>)	PMU	Completed prior to negotiations
Completion of the preparation of the IFR format	PMU/ World Bank	Completed prior to negotiations
Prepare and approve the Terms of Reference for the audit of the project	PMU/ World Bank	Completed prior to negotiations

Procurement
General

29. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011, and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure category is described below. For each contract, the different procurement methods or consultant selection methods, estimated costs, prior reviews, and time frame are agreed between the Borrower and the Bank project team 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.

30. Procurement of Works: Under Sub-component 1.2, works would be procured by producers' organizations (POs) following community participation practices (par. 3.13 of the Guidelines, and detailed below) and would include only small works to expand or adapt production facilities, as required to implement the respective business plans. Works would also be procured by social organizations (SOs) or network of social organizations (NSOs) implementing subprojects under Sub-component 1.2, following Community Participation in Procurement, whose procedures are outlined in the Project Operational Manual, and would include small-scale infrastructure investments in water supply and sanitation, environmental revitalization and conservation, and sorting of recyclables. For Sub-components 2.1 and 2.2, larger works such as road paving and rehabilitation and hospital and school construction would be procured following International Competitive Bidding (using the Bank's SBDs) or National Competitive Bidding procedures (using SDBs agreed with the Bank); smaller works such as health unit and school expansion and other health, production, or laboratory facilities would be procured following Shopping procedures. If the requirements of par. 3.7 are met, Direct Contracting may also be used for the procurement of works.

31. Procurement of Goods: Under Sub-component 1.2, goods would be procured by POs following community participation practices (par. 3.13 of the Guidelines) and would include, inter alia, production inputs, farming, storage, and processing equipment, as required to implement the respective business plans. Goods would also be procured by SOs or NSOs implementing subprojects under Sub-component 1.2, following Community Participation in Procurement, whose procedures would be outlined in the Project Operational Manual, and would include construction material and equipment required for small-scale infrastructure investments in water supply and sanitation, environmental revitalization and conservation, and sorting of recyclables. Other goods required under Component 1 would include vehicles, and office and IT equipment. Under Sub-component 2.1, goods required by the project would include medical, hospital and laboratory equipment. Under Sub-component 2.2, goods required by the project would include IT equipment and school furniture and didactic equipment. Under Component 3, goods required by the project would include IT and office equipment, management software, and office furniture. All those goods could be procured following International Competitive Bidding (using Bank's SBDs), National Competitive Bidding, Shopping or Framework Agreement (using

SDBs agreed with the Bank), depending on the contract amount. If the requirements of par. 3.7 are met, Direct Contracting may also be used for the procurement of goods.

32. Procurement of non-consulting services: Under Sub-component 1.2, non-consulting services would be procured by POs following competitive practices (par. 3.13 of the Guidelines, and detailed below) and would include, *inter alia*, unskilled labor and equipment installation, repair or maintenance services. Non-consulting services would also be procured by SOs and NSOs implementing subprojects under Sub-component 1.2, following Community Participation in Procurement, whose procedures would be outlined in the Project Operational Manual, and would include mainly unskilled labor contracted from among community members. Under the other Sub-components, non-consulting services would include printing, logistics for events, advertisement and marketing campaigns, and video and photography production, and they would be procured by the PIU, following International Competitive Bidding (using Bank's SDBs), National Competitive Bidding, Shopping or Framework Agreement (using SDBs agreed with the Bank), depending on the contract amount. If the requirements of par. 3.7 are met, Direct Contracting may also be used for the procurement of goods.

33. Selection of Consultants: Under Sub-component 1.2, consulting services from firms and individuals would be selected by POs associations, under subprojects, following competitive practices (par. 3.13 of the Guidelines, and detailed below) and would include pre-investment activities to: (i) elaborate value chains business plans; (ii) support technical, extension and training services to create and consolidate value-added arrangements among community producers' associations and other commercial stakeholders; (iii) identify potential business opportunities and prepare business proposals; (iv) prepare related business plans; (v) build capacity among technical service providers to enhance the quality of their services in support of POs' competitiveness; and (vi) provide demand-driven value-added technical assistance to support the implementation by community producers' associations of viable business plans. Such technical assistance would include, *inter alia*: (i) diversification and improvement of production/farming systems; (ii) agro-processing; (iii) support to meet legal environmental and sanitary requirements for market access; (iv) marketing and logistics; and (v) promoting linkages for vertical productive articulation as network of suppliers attached to an anchor medium, large company or producer associations.

34. Other consulting services from firms and individual consultants required by the project would include: subproject implementation support and supervision; environmental subproject implementation support and supervision; information and monitoring system development; engineering design preparation for school, hospital and road construction; project mid-term review; project impact evaluation; project physical performance; productive groups' economic potential study; PEFA model application; independent financial audit; HR management system customization; public archive virtualization; state budget, financial, procurement, and contract management system; touristic potential study; payment for environmental services model development; process and workflow redesign; education secretariat management system; public health integrated management system development; health supply logistics study; business plan preparation; career and salary grading reform study; state basic education evaluation system; marketing plan preparation; state-wide administrative reform; transport logistics state plan preparation; and state asset and real estate control and management system preparation.

Consulting firms would be selected either following Selection Based on Quality and Cost, Selection Based on Quality, Selection under a Fixed Budget, Least-Cost Selection, Selection Based on the Consultant's Qualifications (par. 3.7 of the Guidelines) or a Single-Source Selection (par. 3.8(c) of the Guidelines). Consulting services from individual consultants would be procured following the procedures specified in Section V of the Guidelines.

35. 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.

36. Training related expenditures would include contracts for event logistics, transportation, catering, material preparation, course enrollment fees, and per diem. These contracts would be procured following the agency's administrative procedures, which were reviewed and found acceptable by the Bank.

37. Operational Costs which would be financed by the Project include incremental costs of the technical and administrative management staff of the proposed project (including incremental salaries), office equipment, supplies, and maintenance, air tickets, updates to the project management information system for use in project monitoring, printing services, telecommunication costs, and travel costs (transportation, per diem, accommodations), leasing of facilities, utilities, maintenance of office facilities; rentals of vehicles and other equipment required for project support, and logistics services. These expenditures would be incurred following the agency's administrative procedures, which were reviewed and found acceptable to the Bank.

38. Others: working capital, grants, scholarships, prizes, needed for the Project would be described in the Operations Manual.

Guidelines for use of Community Participation Practices under Component 1

39. Component 1.2 would finance subprojects for sustainable business subprojects, following business plans (BPs) proposed, developed and implemented by beneficiary POs. The sub-grant to such an association in support of a business plan would be, on average, US\$100,000 equivalent, with an upper limit of US\$200,000. Business plans are evaluated by the Technical Committee for compliance with environmental, financial, institutional, social, technical, and fiduciary guidelines (per the Project Operational Manual).

40. The provisions described under Section I of the Guidelines apply to all procurement methods used under the Project, that is, all principles, rules, and procedures outlined in the Guidelines apply to all contracts financed in whole or in part from Bank loans. To comply with such requirement, four main considerations should guide the use of competitive practices by the community producers' associations: the need for economy and efficiency; the need for quality services; giving all eligible bidders the same information and equal opportunity to compete in providing goods, works, and services; the importance of transparency.

41. POs, as private sector enterprises, would often meet these concerns by following procedures other than formal open bidding for their procurement that are acceptable because

when such associations seek a supplier, the really important considerations include quality, performance, price, delivery, capacity, and assurance of supply. Market forces would ensure a fair and reasonable price while competitive markets would be the driving force leading to those associations having efficient internal operations. In addition, those associations would buy-to-sell a product or service to raise revenues. POs are for-profit and have the threat of bankruptcy, which force efficiencies into their procurement process.

42. As such, the business plans would include a built-in mechanism to prevent them from paying too much for goods and services. If they do not buy wisely, the market place is unforgiving. As actual community participation practices may vary significantly from industry to industry, one size would not fit all. Therefore, being able to accommodate terms and conditions for good procurement would be an important aspect of the business plans, requiring sound technical understanding of products, services, and industries. Therefore, business plans must contain specific criteria to measure performance of the community participation practices used.

43. Component 1.2 would also finance socio-environmental subprojects.

Guidelines for use of Community Participation in Procurement under Sub-component 1.2

44. The procedures for the procurement under these subprojects would normally include the comparison of at least three price quotations. However, building on the experience from projects implementing similar CDD operations in other Northeastern States (*Ceará, Bahia, Paraíba, and Pernambuco*, for example), direct contracting would also be permitted when circumstances indicate this method offers an advantage over local Shopping. This advantage should be assessed on the basis of economy, efficiency, and transparency.

- (a) Economy could be assured by the PMU, at the time the subprojects are reviewed and final cost estimates are defined. To come up with these final figures, PCU should survey the regional market, in the case of goods, works, and services, or to consult official price databases, such as ORSE (ORSE is also used by CAR in Bahia to calculate subproject amounts) or SINAPI, for works, to establish the grant amounts required to finance the contracts under the subprojects.
- (b) As the community associations would not be required to compare price quotations for works contracts, for instance, or to request prices from suppliers from out of state to which they do not have easy access, the direct contracts would be less time consuming and more efficient than the “competitive” process.
- (c) The associations would, however, ensure that transparency of all procurement, purchase, and/or contract decisions. To this end, it should meet collectively at the “*assembleias*”, where all issues would be publicly discussed and the democratic decisions by the majority would be duly recorded in the meeting minutes. Additional recommended actions would include using regular advertisement tools that are available at the communities, such as notice boards at schools and public buildings, local radios, municipal councils, etc.

Assessment of the agency's capacity to implement procurement

45. Procurement activities will be carried out by the PMU. The agency is staffed by sixty technicians and the Procurement unit is staffed by five procurement officers.

46. An assessment of the capacity of the PMU to implement procurement actions for the project has been carried out by the Procurement Specialist on April 10, 2012. The assessment reviewed the organizational structure to carry out the procurement under the project. Most of the issues and risks concerning the procurement component for implementation of the project that have been identified are: lack of clarity on who is accountable for which procurement decisions; CDD subproject procurement records are incomplete or unsafely kept; improper implementation of procurement activities under the project; poor contract management; potential for political patronage; poor procurement planning; lack of a good comparator to establish reasonableness of bid prices; poor qualification of bidders and consultants; project delays due to unfinished bidding documents/RFPs; poor technical specifications/TORs; reduced competition; inadequate criteria and potential for manipulation of bid evaluation; No control over project pace, delays; increased contract costs to cover legal risks and costs which discourages competition and/or delays the closing of contracts; and insufficient oversight of procurement and lack of compliance with Bank fiduciary obligation. The corrective measures which have been agreed are: to set up an interagency bidding committee; to create define a decision making framework in the Manual; to strengthen CDD subproject executors' capacity to keep procurement records; to acquire the necessary procurement expertise; to agree on a training program; to develop and implement formal recruitment system that ensures competition; to ensure adequate independence to bidding committee; to prepare the procurement plan; to hire project management and procurement support from a firm; to prepare acceptable sample bidding documents for NCB; to define which e-procurement system to use; to augment advertisement of bidding opportunities; to hire competent consultants to draft TS/TORs; to increase due diligence of winning bidder prior to awarding; to agree on selection criteria for members of the evaluation committee, including technical expertise; to establish CM system; to include procurement aspects in the audit TOR.

47. **The overall project risk for procurement is Substantial.**

Procurement Plan

48. The Borrower, at appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on March 7, 2013 and is available at SEPLAN/PMU. It will also be available in the Project's database and in the Bank's external website. The Procurement 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.

Frequency of Procurement Supervision

49. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the PMU has recommended annual supervision missions to visit the field to carry out post review of procurement actions.

Details of the procurement arrangements involving international competition

50. Goods, works, and non-consulting services.

(a) List of contract Packages which will be procured following ICB and Direct Contracting:

Contract description	Estimated cost	Method	Prior/Post Review	BD issued	Bid opening	Contract signing	Duration
Acquisition of equipments for the <i>Hospital Materno Infantil</i> and <i>Banco de Leite de Mossoró</i>	\$ 5,198,020	ICB	Prior	11/10/2015	12/10/2015	2/8/2016	120

(b) ICB contracts and NCB contracts for goods and services estimated to cost above US\$350,000 per contract and all Direct Contracting will be subject to prior review by the Bank. Works contracts estimated to cost above US\$5,000,000 and all direct contracting will be subject to prior review by the Bank.

Consulting Services

Contract description	Estimated cost	Method	Prior/Post Review	Bid issued	Bid opening	Contract signing
Implementation and investments follow up of 10 collective-PINS, 100 Individual PINS and 50 PSA – 4 annual contract; 1 contract per year	640,960	QCBS	Prior	3/30/2013	5/4/2013	7/27/2013
Implementation and follow up of 135Collectives –PINS - 4 contracts, 1 per year	2,517,817	QCBS	Prior	3/30/2013	5/4/2013	7/27/2013
Elaboration and implementation of the Student Life Observatory System	1,514,356	QCBS	Prior	3/30/2013	5/4/2013	7/27/2013
Study on Project Impact Evaluation	544,554	QCBS	Prior	3/30/2013	5/4/2013	7/27/2013
Project External Auditing within 5 year project	519,802	QCBS	Prior	3/30/2013	5/4/2013	7/27/2013
Customization and Implementation of people management instrument, with management modules development and payroll auditing	742,574	QCBS	Prior	4/27/2013	6/1/2013	8/24/2013
Consultancy for pilot-activity implementation of an electronic system of the <i>Arquivo Público</i> documentation	1,732,673	QCB	Prior	4/27/2013	6/1/2013	8/24/2013
Software development for the public budget and financial management of agreements and contracts	1,863,866	QCBS	Prior	4/27/2013	6/1/2013	8/24/2013
Study for the State strategic planning and processes management para definição do processo de planejamento e gestão estratégica do Estado	717,327	QCBS	Prior	5/24/2013	6/28/2013	9/20/2013
Re-design the prioritized Secretariats organizational processing systems (macro and micro processes)	4,950,495	QCBS	Prior	5/24/2013	6/28/2013	9/20/2013
Digitalization of the citizens identification documentation (ID files) at ITEP	1,732,401	QCBS	Prior	6/23/2013	7/28/2013	10/20/2013
Design and implementation of an electronic integrated system and tools for public acquisitions and storage control (goods, office gadgets, equipment and materials, transportation, telephones costs, and related expenses)	1,336,634	QCBS	Prior	6/27/2013	8/1/2013	10/24/2013
Design and implementation of an electronic integrated system for the public health services management	1,980,198	QCBS	Prior	7/24/2013	8/28/2013	11/20/2013
Preparation of the Business Plans for 135 PINS (beneficiaries groups investments) (Year 2)	503,563	QCBS	Prior	7/28/2013	9/1/2013	11/24/2013
Assessment and redesign of the Staff Management Policy and Plan (selection process, roles and responsibilities, career development, salaries, inter alia)	2,376,238	QCBS	Prior	7/28/2013	9/1/2013	11/24/2013
Design and implementation of the a system for evaluation of the basic education (<i>Sistema de Avaliação da Educação Básica do RN - SABRN</i>)	7,213,125	QCBS	Prior	8/22/2013	9/26/2013	12/19/2013
Technical support for supervision of local access roads improvement execution	1,146,287	QCBS	Prior	11/27/2013	1/1/2014	3/26/2014
Preparation of the Business Plans for 135 PINS (beneficiaries groups investments) (Year 3)	503,563	QCBS	Prior	7/28/2014	9/1/2014	11/24/2014
Preparation of the State Logistic Plan (PELT - RN)	518,069	QCBS	Prior	7/28/2014	9/1/2014	11/24/2014
Trainings courses for technicians for dissemination and management of the agro-business plan	4,932,713	QCBS	Prior	4/27/2013	6/1/2013	8/24/2013
Literacy courses, social and professional training courses for the Project beneficiaries, by productive arrangements	978,476	QCBS	Prior	4/27/2013	6/1/2013	8/24/2013
Training courses and workshops for the beneficiaries of tourism productive cluster (04 courses and 20 workshops)	851,485	QCBS	Prior	7/28/2013	9/1/2013	11/24/2013
Training courses for public management enhancement	2,648,699	QCBS	Prior	10/28/2013	12/2/2013	2/24/2014

- (a) Consultancy services estimated to cost above US\$100,000 per contract, all Single Source selection of consultants (firms and individuals), and all individual consultants' assignments estimated to cost above US\$50,000 will be subject to prior review by the Bank.

51. 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.

Environmental and Social

52. SEPLAN will be responsible for ensuring that all Bank safeguards triggered by the Project are complied with and that all works under implementation apply the ESMF, RPF and IPPF. The PMU will also provide support to the beneficiary agencies on the preparation of specific social assessments, public consultations and preparation of resettlement / indigenous peoples plans, whenever they may be required. To do this, the PMU has hired qualified social and environmental specialists to support project implementation. To better address issues that arise from the ESIA, the Borrower prepared a set of mandatory Implementation Manuals to be applied for all types of interventions: Works Environmental Manual, Social Communication Plan, Environmental Education Plan, and also a Natural Disaster Prevention Plan (Annex 1 of ESIA). The Bank team will also continue to work closely with State counterparts to ensure adequate adherence to all Brazilian and Bank social and environmental standards (Refer to ISDS for further information).

Monitoring and Evaluation

53. The Project will be monitored and evaluated through the existing Management Information System (MIS) developed by SEPLAN based on previous Bank-supported operations (PCPR and Potiguar Semiarid Project). The MIS will be updated and integrated with the Financial Management Information System (SIAF), which is widely used within the State administration. The PMU will be responsible for managing and compiling the information provided by each co-executor of the Project. Project's co-executors will be responsible for data collection and reporting to the PMU according to the agreed project chronogram.

54. A framework for monitoring and evaluation of project outcomes and results was fully-developed and under implementation by beginning of project year 1 (see Table 2 below). It provides specificity in data collection methodology, reporting responsibilities and frequency of M&E activities. Indicators were selected to monitor projects major activities to achieve: (a) the Project Development Objective (PDO) and (b) intermediate outcomes expected from implementing each individual project component, which all in turn contribute to the achievement of the PDO. The regular management of the M&E framework is critical to ensure timely and successful implementation of the project, and to enhance its impact for the beneficiaries by the systematic and periodic analysis of lessons learned, and their effective dissemination. Performance indicators, baseline, and targets have been established for the Project and its components, and are presented in the Results Framework and Monitoring in Annex 1. Project

design includes baseline determinations and performance (milestones) indicators to monitor implementation of proposed plan. Monitoring will consist of an internal evaluation at the component level, and one at the Project level. Evaluation will be based on periodic reports, Project Monitoring Reports(PMRs), prepared by the PMU in order to keep track of potential problems identified and will be appropriately addressed.

55. To ensure that M&E will be sustainable and an integral part of project activities, the importance of the following issues will be emphasized during the project launch workshop(s) and later during the supervision missions: (i) early involvement of co-executors of the project in M&E discussions, (ii) data collection arrangements, including data sources and the reliability of the information provided and associated costs and responsibilities; and (iii) human and institutional capacity, including extent of local capacity for M&E and the need for capacity building and the associated costs.

56. The Project will also conduct impact evaluations to determine whether and to what extent the interventions under Components 1 and 2 lead to improved outcomes for beneficiaries. Preliminarily, impact evaluation strategy seeks to measure the project's contribution to the: (i) implementation of new curricula and programs for basic education, (ii) investments focusing on gender issues, and (iii) sustainability of productive investments. For the latter two, the objective of the impact evaluation will be to rigorously estimate the impact of these input subsidies on production, productivity, incomes, and food security. The PMU will track this evaluation and provide support to ensure collection and analysis of the gender-disaggregated impacts of the Project. Other specific investments such as those proposed in health and education will be assessed through quasi-experimental and qualitative methodologies.

Annex 4: Operational Risk Assessment Framework (ORAF)

Brazil: Rio Grande do Norte: Regional Development and Governance (P126452)

Stage: Board

Project Stakeholder Risks							
Stakeholder Risk	Rating	Substantial					
<p>Description:</p> <p>Loss of political support for the project from municipal government. Latest municipal elections resulted in changes of municipal administration. These changes would reduce commitment to the Project Development Objective and methodology. Management and coordination of a multi-sectoral approach, with significant community-level participation / commitment (Component 1) jeopardized by difficult consensus building among multi-sectoral stakeholders (State Secretariats and Agencies), Private Sector, POs, SOs, NGOs.</p>	Risk Management:						
	Project design is aligned with the consensus state development strategy as reflected in the State Multi-Year Investment Plan (PPA 2012-2015)						
	Continuous consultation with project stakeholders during preparation, as well as during implementation, to build consensus on PDO and methodology.						
	Ongoing communication results obtained during implementation.						
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly	
	Risk Management:						
	Continuous dialog/consultation with project stakeholders during preparation as well as during implementation to build consensus on PDO and methodology, in addition to a well-designed institutional arrangements and an information and monitoring system for implementation.						
	Resp: Bank	Status: Completed	Stage: Both	Recurrent ✓	Due Date:	Frequency Monthly	
	Implementing Agency (IA) Risks (including Fiduciary Risks)						
	Capacity	Rating	Substantial				
<p>Description:</p> <p>Lack of familiarity with World Bank procedures (fiduciary and safeguards), on most of the project collaborators agencies and complexity of dealing with multiple sectors and counterparts impose additional burden on the implementing agencies and may affect project implementation. This risk is relevant at project startup but is expected to decrease over time.</p>	Risk Management:						
	During preparation, procurement and FM assessments were carried out, and generated action plans. The state fiduciary team has participated in fiduciary training provided by the Bank and the Bank will provide training and assistance with key Terms of Reference. Clear coordination mechanisms were defined during project preparation, as well as key roles and responsibilities determined.						
	Resp: Bank	Status: Completed	Stage: Preparation	Recurrent ✓	Due Date:	Frequency Monthly	
	The PMU (UGP) does have the installed capacity to carry out all procurement required						

for the Project.

The Bank conducted a financial management assessment for the proposed Project during preparation and the results of the assessment of the executing agencies indicates that the financial management arrangements, as set out for this Project, satisfy the Bank's minimum fiduciary requirements and will be considered adequate as soon as the proposed mitigation measures are implemented.

The FM risk associated with the Project is based on (i) the project activities involve a large number of entities; (ii) the internal control structure at the PMU needs to be strengthened and amplified, and (iii) certification of the SIAF MIS system.

The key financial management risks for the project include the following: (i) lack of familiarity with Bank processes by all participating entities, resulting in the need for increased inter-institutional coordination, (ii) transfer of financial resources for schools and target beneficiary organizations through subprojects; (iii) the Sistema Integrado de Administração Financeira - SIAF (Plano Interno – PI) should be considered and needs to be customized to the project's needs; (iv) the need to customize the Project Monitoring and Reporting System (PMRS) Sistema de Monitoramento e de Informações (SMI); and (v) assignment of regular staff as specialists to the project's FM activities within the co-executing entities.

The likelihood that the risks above will materialize is assessed as low, mainly because CONTROL (internal auditing agency of the State) has a functioning internal control system that will be used to monitor the financial transactions of the participating public and private entities receiving Project funds. These were evaluated and have been found to be in compliance with Bank guidelines. FM supervision missions will review both the controls systems and compliance to the systems.

However, due to the large size of the loan and volume of financial transactions that may be involved, it could have a high impact. As a result, the FM risk is rated High.

Health Sector: There is insufficient staff enabled to implement the reforms at the state and municipal levels.

Governance

Risk Management:

Training and consulting services to provide technical assistance and operational support on procurement and financial management implementation as needed. Improve the capacity of new Implementing Agency to execute large number of Project activities. Adoption of a strong an comprehensive internal control system, close monitoring of SIAF MIS system and provide FM fiduciary training to regular State entities staff specialists. Ensure the customization and close monitoring of SIAF and PMRS systems.

Adoption of a strong an comprehensive internal control system. It is needed to have a FM arrangement with clearly defined role and responsibilities at each level led by a core team in project and guided and supported by SEPLAN. The PMU team should establish a strict control of transfer of financial resources and supporting expenditure documents ("prestacoes de contas") for school and productive subprojects and ensure the beneficiaries maintain investments satisfactorily.

Provide training on financial management to school and productive subprojects staff.

Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
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Risk Management:

Technical assistance should be part of the package that state and municipalities will receive. An extensive technical assistance must be provided, mainly to the weaker municipalities and institutions to improve management and technical capacity, focusing on the health system management.

Contract professionals and develop mechanisms and incentives to retain the physicians in the municipalities.

Resp: Client	Status: Not Yet Due	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
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Risk Management:

SESED has a limited capacity for investment, with most of its budget coming from the federal government. Strategic State Plan for Public Security that will promote a results-based management approach, focusing on the integration and coordination of the military and civil police work around specific public security areas (RISPs). Investments in technologies to improve SESED's management and information systems

Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
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Rating Substantial

<p>Description:</p> <p>Changing RN-Government priorities throughout project implementation may divert attention from project activities.</p> <p>Political differences between municipalities may interfere with the regionalization process.</p> <p>The objective evaluation of proposed business plans (Component 1) could be co-opted by competing agendas to distribute political patronage in the targeted area</p> <p>Political and budgetary commitment to the program not preserved over time.</p> <p>Absence of regulatory mechanisms, including guarantee of access to medical care and management of hospital beds.</p>	<p>Risk Management:</p> <p>The project focuses on key government objectives around which there is a consensus within the State Government. Nonetheless, a midterm review could be conducted to enable adjustments, if necessary.</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Work closely and continuously with state/municipal coordination committees to minimize the risk caused by affiliation to different parties, and encourage state coordination</p> <p>Transparency of business plans selection through public calls; Project Operational Manual (agreed at appraisal) and widely disseminated through official channels.</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
	<p>Risk Management:</p> <p>Family Health Program has received strong commitment from municipal and state assemblies as well as from key institutional and civil society stakeholders, but it works independently of the state health system and its quality and monitoring are unsatisfying. The further state incentive programs associated are temporary. Ensure the associated budgets in the multi-annual planning and development of a strong system for monitoring and evaluation</p> <p>Hold workshops and seminars with Ministry of Health, Health State Secretariat and existing medical schools to provide training and implement regulatory mechanisms to implement the program satisfactorily.</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
<p>Project Risks</p>	<p>Risk Management:</p> <p>1. the Operational Manual must contain an adequate procurement section;</p> <p>2. the lowest level responsible for procurement must have adequate capacity to do so (e.g., through training or outsourcing/centralization of the procurement function) and guidance is given to PMU on how to verify compliance with procurement rules and identify red flags;</p> <p>3. the PMU must provide some assurances that supervision is undertaken, serious issues are being flagged, and action taken;</p> <p>4. bidders and other local stakeholders must receive information on procurement procedures, sanctionable practices, and on the sanctions imposed by the World Bank and the government</p>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
<p>Design</p>	<p>Rating</p>	<p>Substantial</p>				
<p>Description:</p> <p>The multi-sectoral nature of the operation causes fragmentation in project implementation.</p> <p>Matching grants to finance business plans implementation (Component 1) could “crowd-out” possible financial intermediation, notwithstanding the thin formal rural finance supply</p>	<p>Risk Management:</p> <p>Explore alternatives to guarantee financial risk of rural producers' organizations to improve their creditworthiness</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent ✓	Due Date:	Frequency Quarterly
<p>Social and Environmental</p>	<p>Rating</p>	<p>Moderate</p>				

<div>Description:</div> <div>Safeguard capacity - the project interventions comprise mainly small-scale infrastructure and productive investments that may cause positive or neutral impacts. However, a few may produce direct negative impacts to the surrounding environment. The implementation of productive arrangements heavily relies on the management capacity of rural producer's organizations, which varies widely. Traditional patterns of the social division of labor may hamper women's participation in productive economy and restrict their access to market-related job opportunities.</div>	<div>Risk Management:</div> <div>During project implementation, the Bank team will review the institutional capacity of the PMU and the other state agencies which will carry out project activities at the management level to identify what kind of additional support for institutional capacity building and strengthening might be needed to assure good implementation of Bank safeguard policies.</div>					
	Resp: Bank	Status: Not Yet Due	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<div>Risk Management:</div> <div>An Environmental and Social Management Framework and a Resettlement Policy Framework address safeguard compliance and propose actions, where needed, to ensure adequate technical capacity.</div>					
	Resp: Client	Status: Completed	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	<div>Risk Management:</div> <div>A social assessment review will address the main risks and restrictions that may hinder the participation of these most vulnerable social groups and proposes mitigation measures. Additionally, the project will provide capacity building to women on participation in project production investments</div>					
Program and Donor	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Quarterly
	Rating	Low				
<div>Description:</div> <div>Not applicable</div>	<div>Risk Management:</div>					
	Resp:	Status:	Stage:	Recurrent	Due Date:	Frequency
Delivery Monitoring and Sustainability	Rating	Substantial				
<div>Description:</div> <div>Continuous technical capacity at SEPLAN (PMU) and UESs to adequately implement M & E systems could inhibit assessment of results and associated impact</div>	<div>Risk Management:</div> <div>Bank team support to impact evaluation design: M&E specialists on Bank team (LEN and SPN); SEPLAN to contract M&E specialist under Terms of Reference reviewed by the Bank.</div>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent ✓	Due Date:	Frequency Monthly
Overall Risk						
Implementation Risk Rating: Substantial						
<div>Comments:</div> <div>For implementation, the most significant challenges will be to (i) clear management and coordination to ensure adequate implementation; (ii) clearly identify eligible expenditures under the matrix of investments, procurement plan and their respective procurement requirements (to set clear procedures and requirements from the outset of the project); (iii) follow up on output and outcome indicators and their annual targets; and (iv) review the implementation capacity of each of the agencies involved and how this may impact the project's implementation schedule.</div>						

Annex 5: Implementation Support Plan

BRAZIL: Rio Grande do Norte Regional Development and Governance Project

Strategy and Approach for Implementation Support

I. Support for Implementation

1. The strategy for implementation support (IS) draws on the risk profile of the project (i.e., ORAF, Annex 4) and aims to enhance the Client's quality delivery of the proposed project interventions. As such, the IS focuses on: (i) risk mitigation measures detailed in the ORAF; and (ii) standard Bank supervision, including technical, institutional, safeguards (environment, social) and fiduciary aspects (financial management and procurement).
2. Bank support to project implementation and supervision (including field visits to investments financed under Components 1 and 2) would concentrate in the following areas:
 - **Strategic:** To the extent possible, supervision missions would meet with the Project Steering Committee (*Comitê Gestor do Projeto*), as well as with the State Secretariats to: (i) review, monitoring project activities; (ii) reconfirm strategic alignment of the project's multisectoral aspects; and (iii) ensure the necessary coordination across the respective stakeholders.
 - **Technical:** Supervision would concentrate on the implementation of the investment cycle with regard to Components 1 and 2, as well as on ensuring SEPLAN's and all Secretariats and State Agencies ability to provide quality assurance for the project's interventions, both centrally in Natal and throughout their territorial offices. Randomized field visits would serve to verify compliance with the Project Operational Manual and encourage adjustments to project design, as needed, given results on the ground. Market-chain/private-sector specialists (Component 1); education, health and public security specialists (Component 2) and public management specialists (Component 3) would complement the permanent Bank supervision team through short-term cross-support of Bank staff and, as warranted, targeted engagement of external technical experts. Ongoing support by Bank specialists for M&E and contracted evaluation expertise, as needed, would continue to strengthen SEPLAN's ability to both monitor project progress and assess the impact of interventions.
 - **Safeguards.** The Bank worked with and advised SEPLAN staff on the preparation and consultation of the ESMF for the proposed project. This support would continue throughout project implementation with regard to the investments financed under Components 1 and 2. The Bank also worked closely with the Client's team in the preparation and consultation of the IPPF, as well as the RPF, and would continue to do so during project implementation.
 - **Fiduciary:** The Bank would provide timely, targeted training to POs, SCs, SOs, SEPLAN and all Secretariats and State Agencies involved in the Project execution, prior to project effectiveness and through periodic supervision during project implementation. These training courses and supervisions would: (i) prepare SEPLAN, SAPE, SETHAS and SEEC staff to work with POs, SOs and SCs in conducting procurement under their respective investments,

in compliance with the Procurement and Anti-Corruption Guidelines and the Project Operational Manual; (ii) ensure the capacity of POs, SOs and SCs to manage the flow of funds and simple accounting procedures, in line with FM guidance; and (iii) work with SEPLAN and co-executor agencies in building their overall financial management and procurement capacity to improve and facilitate project management. Supervision of the project's financial management arrangements would be conducted semiannually and as needed in response to client needs. Procurement supervision would also be carried out semiannually during regularly scheduled Bank supervision.

- **Client Relations:** The Task Team Leader (TTL) would: (i) coordinate Bank supervision to ensure consistent project implementation, as specified in the legal documents (i.e., Loan Agreement, Project Appraisal Document, Project Operational Manual); and (ii) meet regularly with the Client's senior representatives (i.e., SEPLAN, SAPES, SETHAS, SEEC, SESAP, SETUR, SEARH, SESED and others state agencies) to gauge project progress in achieving the PDO and address implementation roadblocks, as they may arise.

II. Skills Mix Required

Skills Needed	# Staff Weeks per FY	#Trips per FY	Comments
Task Team Leader (Supervision)	8	4	Country-based
Procurement Specialist	3	2	Country-based
Financial Management Specialist	3	2	Country-based
Environment Specialist	3	2	Country-based
Social Specialist	3	2	Country-based
Gender Specialist	5	3	Country-based
Legal Counsel	3	1	HQ-based
Health Specialist	3	2	Country-based
Education Specialist	3	2	Country-based
Economic and Financial Specialist	2	2	FAO/CTIO
Market-Chain/Private-Sector Specialist	5	3	Country-based and FAO/CTIO
Monitoring/Evaluation Specialist	3	2	Country-based
Natural Disaster Management Specialist	2	1	Country-based
Irrigation Specialist	2	2	FAO/CTIO
Public Sector Specialist	3	2	HQ-based
ICT Specialist	3	2	HQ-based
Public Security Specialist(s)	3	2	HQ-based and Country-based
Water and Sanitation Specialist(s)	5	2	Country-based

III. Partners

Name	Institution/Country	Role
Private-Sector	Various/TBD by	Commercial partners with POs in the

Partners	participating POs	preparation and implementation of viable business plans.
Financial Institutions	Banco do Brasil; Banco do Nordeste; Micro-financing institutions	Linkage with market; complementary financing of proposed business plans (Component 1).
Health	Ministry of Health, FUNASA, Cooperatives	Collaborate on design and management of services-related investments (Component 2).
Education	Ministry of Education	Collaborate on design and management of services-related investments (Component 2).
Public Sector		
Knowledge and Learning; Technical Assistance	EMATER, MAPA, EMBRAPA, MDA, ITF, SEBRAE, UFRN, MDA, MDS, SENAR	Collaboration with knowledge sharing, training courses, specialized technical assistance, research, studies. (Components 1, 2 and 3)

Annex 6: Economic and Financial Analysis

BRAZIL: Rio Grande do Norte Regional Development and Governance Project

Introduction

1. The Project expects to achieve its objectives through interventions grouped into three main Components with several Sub-components. Table 1 summarizes the investments planned under each.

Table 1 – Summary of planned investment per Component

Component/Sub-component	Total IBRD Investment (USD)
Component 1 – Sustainable Regional Development	180,295,760
Component 2 – Improved Public Services	116,936,063
2.1 – Health	40,432,585
2.2 – Education	61,865,516
2.3 – Public Security	14,637,962
Component 3- Public Sector Management	58,918,177

Ex-ante evaluation of Component 1 – Sustainable Regional Development

2. Given that Component 1 will mostly support opportunities to be identified during implementation as subproject proposals, it does not lend itself to detailed ex-ante cost benefit analysis. The methodology for the financial and economic analysis varies according to the project implementation approach. The sections below illustrate possible subprojects to be financed by the project.

Productive subprojects embedded in strategic value chains

3. In the case of productive subprojects, it will be the interested Producer Organizations (POs) that will ultimately determine the product, scope and mix of supported subprojects. Indicative production models were constructed to obtain an indication of the financial soundness of the types of investments likely to be supported by the project. The results of the analysis are shown in Table 2. Financial indicators to assess the attractiveness of the businesses to potential participating families are presented in Table 3.

4. Indicative PO subproject models include:

- *Honey production and marketing*: major investment items comprise beehives, and honey collection equipment and a unit for honey extraction and packaging.
- *Cashew production improvement*: increase in tree density in existing 100 ha of cashew orchard and improved crop management practices.
- *Production and marketing of irrigated fruit and vegetable crops*: introduction of fruit and vegetables in newly irrigated 24 hectares of land previously used to sow rain-fed maize and beans.
- *Aquaculture (Tilapia production and marketing)*: Two types of subprojects were analyzed: (i) Tilapia in floating cages; (ii) Tilapia in excavated ponds.
- *Handicraft quality improvement and marketing*: equipment and technical assistance (namely in design) to an existing group working with sisal and talc.

Table 2 – Financial indicators – productive investments

	Total Investment (R\$)	Incremental NPV ¹ (R\$)	IRR (%)	Switching Value Output Prices/quantities	Switching Value of Running costs (%)	#rural households benefited
Honey	240,400	104,000	19	-24% R\$5 /kg (average price) 30 kg honey/hive	90%	30
Cashew	183,096	205,300	31	-21% 477 kg/ha	>100%	12
Fruit and vegetables	268,300	686,800	40	-29%	53%	12
Aquaculture (pond)	119,800	82,200	21	-13% 1740 kg/pond/cycle (two cycles per year)	21%	6
Aquaculture (cage)	67,400	324,066	52	-27% 294 kg/cage/cycle (three cycles/year) R\$3.7/kg of fish	41%	12
Handicrafts	81,500	192,600	45	-13%	>100%	26

¹ Discount rate of 12% for a period of 15 years

Table 3 – Financial indicators for the examples of subprojects (per household)

	Total Investment (R\$)	Incremental Return to family labor (R\$/month) (Labor requirement)	Return to family labor with project (R\$/month) (Labor requirement)	Incremental Annual Financial Net Revenue (R\$) ¹	Annual Financial Net Revenue with project (R\$)	Incremental Working capital requirement (\$R - 1 st year)
Honey	8,000	5,700 (7 person.month/yr)	5,700 (7 person.month/yr)	650	650	252
Cashew	15,260	1,140 (6 person.month/yr)	3,023 (45 person.month/yr)	4,700	8,300	1,300
Fruit and vegetables	22,360	402 (127 person.month/yr)	2,380 (131 person.month/yr)	25,440	25,670	6,500
Aquaculture (Ponds)	19,970	1,660 (24 person.month/yr)	1,660 (24 person.month/yr)	6,100	6,600	2,450
Aquaculture (cage)	5,620	3,100 (37person.month/yr)	3,100 (37person.month/yr)	9,450	9,450	389
Handicrafts ²	5,930	187 (7person.month/yr)	435 (35person.month/yr)	1,033	1,253	n/a

¹ Once the project reaches maturity. All costs except family labor were deducted from gross revenue.

² All labor is hired. The results concern return on labor and net annual financial revenue (all costs deducted).

(ii) Social and Environmental subprojects

5. Social and Environmental subprojects will support POs in investments in water supply and sanitation, environmental revitalization and conservation, and sorting of recyclables. Investments in these sectors have proven to result in economic gains, as well as increased unquantifiable wellbeing.

6. A case study of a water supply subproject presented in the Implementation Completion and Results (ICR) report for the Rural Poverty Reduction Project (RPRP) of Rio Grande do Norte – a precursor of this project – estimates an IRR of 30 percent for the investment. A study performed by Binswanger et al. (2009) reports a significant improvement in health in families which benefited from water supply and improvement of housing conditions in Rio Grande do Norte: infant mortality fell by 38 percent and the incidence of diarrhea fell by 70 percent. Similar initiatives in the Northeast of Brazil have also shown positive results. ICR reports of the RPRP projects of Ceará (2009) and Pernambuco (2010) show IRRs above 12 percent for water supply and home sanitation subprojects.

7. With regards to the net benefits of environmental conservation, these are difficult to quantify. Nevertheless, environmental conservation assures the sustainability of most economic activities in rural areas and is paramount to sustainable economic development.

Ex-ante evaluation of subcomponent 2.1 - Health

Sector issues and proposed interventions

8. The project sets three priorities in the health sector: (i) maternal and child care; (ii) cancer care (iii) improvements in emergency care. Expected changes in mortality rates are summarized in Table 4.

Table 4 - Expected impact of the project in death rates and number of averted deaths

	2011	2013	2014	2015	2016	2017 onwards
Maternal death rate (per 100,000 live births)¹						
Estimated rate	46.9	46.9	45.9	43.8	41.8	40.1
Number of averted deaths		0	1	3	4	5
Newborn death rate (per 1,000 live births)						
Estimated rate	15.0	15.0	14.6	14.1	13.5	12.9
Number of averted deaths		0	18	22	66	92
Infant death rate (per 1,000 live births)						
Estimated rate	28.6	28.6	28.0	27.2	26.0	25.1
Number of averted deaths			18	22	66	92
Cervical cancer death rate (per 100,000 women)¹						
Estimated rate	5.10	5.10	5.00	4.80	4.60	4.50
Number of averted deaths		0	2	5	8	10
Breast cancer death rate (per 100,000 women)						
Estimated rate	10.50	10.50	10.10	9.70	9.40	9.10
Number of averted deaths		0	6	13	17	22
External Causes death rate (% of hospitalizations)¹						
Estimated rate	11%	11%	10%	9%	8%	4.5%
Number of averted deaths		0	23	47	70	93

¹Estimated life births: 47,668 (adjusted every year according to estimates of birth rates); Female population: 1,584,014; hospitalizations due to external causes per year: 4,673. Data source: IBGE

Costs and Benefits

9. Investment costs total USD 44,900,000. Incremental annual operational costs are assumed to total 15 percent of the investment.

10. The estimation of benefits in a intervention aimed at saving lives does not result easy. Economic and social benefits from health care are innumerable and difficult to quantify. Rather than estimating the full benefits of the planned intervention, this section provides a conservative indication of the quantifiable economic benefits that could be expected.

11. Benefits were quantified estimating the present value of the number of years of economic active life that are saved with the intervention. The GDP per capita of Rio Grande do Norte was used as a proxy for the value of one year of active economic life.

Results

12. A cost-benefit analysis was undertaken for a period of 20 years using a discount rate of 6 percent.

13. Table 5 presents the analysis' results with switching values for the level of influence of the project on the improvement of health indicators. The analysis shows that the project would achieve positive results even if it contributes with less than 50 percent to the achievement of the proposed decrease in death rates.

Table 5 - Summary of the results and sensitivity analysis

	% of the targets achieved with project	% of the targets achieved without project ¹	Net Present Value (USD)	Internal Rate of Return
Maternal and infant care	100%	30%	28,305,000	22%
	100%	56%	0	6%
Cancer care	100%	30%	404,000	7%
	100%	32%	0	6%
Emergency care ²	100%	30%	\$22,664,000	22%
	100%	56%	0	6%
Overall results	100%	30%	\$51,374,000	20%
	100%	57%	0	6%

¹It indicates the percentage of the progress that would be made on the proposed indicator targets in a situation without project

²The benefits were estimated considering only the municipalities where the project will intervene.

Ex-ante evaluation of subcomponent 2.2 - Education

14. The Government of Rio Grande do Norte aims at improving the quality of basic instruction in the state in a way that it gradually increases the population's level of education as well as the pupils' acquired knowledge and skills at the end of each schooling year.

Benefits

15. The model built for this analysis considered as main benefits the increase in labour income brought by higher education levels. The increase in education level and the number of pupils finishing school every year was based in the assumption that every year the same number of pupils enrol in the first year of primary school as well on the targets established by the State Secretary of Education and Culture (SEEC) shown in

16. Table 6. The estimate of incremental labour income brought by each additional schooling year was based on a recent study made by the Institute of Economic Research and strategy of Ceará (IPECE, 2012) on this matter.

Table 6 - Targets for main indicators in the education sector in Rio Grande do Norte

Indicators	2010		Target 2013		Target 2015		Target 2017		Target 2019	
	Primary + lower second.	Upper second.	Primary + lower second.	Upper second.	Primary + lower second.	Upper second.	Primary + lower second.	Upper second.	Primary + lower second.	Upper second.
Dropout rate	9.0%	23.1%	7.5%	20.0%	6.0%	15.0%	5.0%	15.0%	3.5%	15.0%
Transition rate	72.8%	73.2%	75.0%	78.0%	80.0%	82.0%	85.0%	86.0%	92.0%	92.0%
Repetition rate	18.2%	6.4%	17.5%	6.0%	14.0%	6.0%	10.0%	5.0%	4.5%	3.0%

Costs

17. Investment costs total USD 68,7 millionspread over 7 years. It was considered that each pupil costs the state USD 1,370 per year in primary and lower secondary school and USD 1,928 in upper secondary school.

Results

18. Table 7 presents the cost benefit analysis results with a sensitivity analysis for a period of 20 years considering a discount rate of 6 percent. The sensitivity analysis is conducted for two variables, the achievement of targets in the situation with project and the achievement of targets in the situation without project. Taking as example scenario C, should be read as follows: a situation with project would only achieve 50 percent of the targets projected by SEEC, while a situation without project would achieve only 80 percent of the results considered in the situation with project for this scenario.

Table 7 – Summary of the results and sensitivity analysis

	Percentage of targets achieved with project	Percentage of the situation with project targets achieved without project	Net Present Value (USD)	Internal Rate of Return
Scenario A	100%	50%	\$500,000,000	15%
Scenario B	50%	50%	\$147,000,000	10%
Scenario C	50%	80%	\$30,000,000	8%
Scenario D	40%	80%	\$4,000,000	6%

Fiscal Sustainability of Subcomponents 2.1 and 2.3

19. In the case of health, the increase in annual spending (approximately US\$ 7 million) should correspond to 1.1 percent of SESAP's annual budget and 0.2 percent³⁴ of the state's annual revenue. For education this value fluctuates with time as the initial fall in the dropout rate creates a peak period with a large number of pupils in the system. Incremental expenses peak at 6.3 percent (approximately US\$ 38 million) of SEEC current annual budget – 1 percent of state's annual revenue – to then decrease to 2.8 percent (approximately US\$ 17 million).

20. In the case of Public Security Subcomponent 2.3, the Secretariat of Security and Social Defense already has limited funds, relying mostly on funding from the federal government. In 2010, resources with public security represented 7.9 percent of the total amount of government spending, divided between policing, civil defense and "others". There were no estimated resources allocated to information systems and intelligence. Improving the efficiency of SESED's spending is therefore key for a better prioritization of resources, strengthening those destined to violence prevention efforts, including better data collection, analysis and improved information systems that would assist informed decision making in the evaluation of preventive strategies and public security policies.

Component 3 – Public Sector Management

21. While cost-benefit analysis was not done on individual subcomponents or actions under this Component, its overall objective is to improve the efficiency and effectiveness of public spending and thus increase fiscal space for increasing budget allocation to support State policy priorities of poverty reduction and of sustainable and inclusive economic growth. It is difficult to attribute the benefits of improvements in public sector management to specific activities or investments as by their nature these will be dispersed throughout improved service delivery in all areas of government activity. Nevertheless the evidence is that in States and Countries which have undertaken such investments and supported them with the necessary political leadership the benefits in terms of social outcomes can be very high.

³⁴ This value remains the same even considering an increase of 4% on real GDP in the next 5 years.