

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA8244

Project Name	Piauí Service Delivery and Public Sector Management Project (P129342)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (15%), General public administration sector (15%), Secondary education (40%), Health (20%), General water, sanitation and flood protection sector (10%)
Theme(s)	Public expenditure, financial management and procurement (15%), Education for all (25%), Health system performance (15%), Rural policies and institutions (15%), Rural services and infrastructure (15%), Other rural development (15%)
Lending Instrument	Investment Project Financing
Project ID	P129342
Borrower(s)	Government of Piauí
Implementing Agency	SEC. DE PLANEJAMENTO-SEPLAN
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	23-Oct-2015
Date PID Approved/Disclosed	23-Oct-2015
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	18-Dec-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

1. Over the last two decades, Brazil has made significant advances with regard to economic management, poverty reduction and social development. Growth in employment and labor income, relative price stability and the implementation of targeted social assistance programs have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R\$70 a month from nearly 10 percent in 2001 to 4 percent in 2013 and to the reduction in inequality as reflected in a fall in the Gini coefficient over the same period.

2. However, Brazil is currently undergoing a deep and widespread recession. Since the turn of the decade, the country's growth performance has continually declined—from an average of 4.5

percent between 2006 and 2010 to 2.1 percent over 2011-2014. Growth in the past decade was largely based on favorable external conditions, credit-fueled consumption and an expanding labor force. As these drivers were increasingly exhausted, post-2010 structural constraints on potential growth have become binding. Hence, while Brazil still posted reasonable growth of approximately 4 percent in 2011, growth dropped to an average of 2.3 percent in 2012-2013, and to 0.1 percent in 2014. The slowdown has been exacerbated in 2015 by the impact of the Lava Jato corruption investigation, a difficult political environment, and an increasingly unfavorable external environment, which have driven investment and confidence to record low levels. As a result, in the first half of the 2015 the economy contracted at an annual rate of 3.3 percent (seasonally adjusted relative to the second half of 2014).

3. Brazil's medium-term outlook will depend on the success of the ongoing macroeconomic adjustment, as well as tackling structural fiscal pressure points and the adoption of growth-enhancing reforms. In the medium-term, correcting Brazil's fiscal situation will be essential to create the conditions needed to begin a new cycle of growth. The current adjustment will be pivotal to bring the deficit under control. However going forward, addressing the key sources of long term fiscal pressure, notably the social security system, will be crucial to stabilize and reduce the debt and build fiscal space. To achieve higher growth in the medium-term, raising investment and productivity is also a crucial challenge for Brazil. With the growth drivers over the past decade—credit-fueled consumption, labor expansion and the commodity boom—exhausted, growth will need to be based on higher investment and gains in productivity. This requires policies to address the challenges to raising public and private investment in infrastructure, improve the quality of education, simplify red tape and the tax system, increase the effectiveness of public spending and increase competition and market contestability in key sectors of the economy.

4. Piauí presents high levels of poverty and income inequality. With a Gini coefficient of 0.566 in 2013 (above the national coefficient of 0.52), Piauí had the highest rate of inequality among Brazilian States and across Latin American and the Caribbean region, except for Haiti (0.592). In 2013, while the Bolsa Familia Program (BFP) directly benefited 49 percent of the State's population with income support, yet 27.4 percent and 9.12 percent of the State population lived in poverty and extreme poverty, respectively. As of December 2014, the database used for registering poor families in BFP indicated that, without the program benefits, 1,618,068 inhabitants had a monthly per capita income between R\$0.00 to R\$77.00 and 295,519 residents had a monthly per capita income between R\$77.01 and R\$154.00. As a consequence, without the BFP benefits, at least 50.6% of Piauí's population would live in extreme poverty. There is also a difference between the average monthly income of men and women: R\$1,023.02 and R\$826.63, respectively.

5. Poverty deprives a significant proportion of Piauí's population from adequate living standards, income and empowerment to overcome social and productive exclusion. Poor groups has limited access to quality education, health care, water and sanitation. They are also deprived from natural resources – such as land and water resources – and means to improve their productivity and family income.

6. The government's development strategy is based on sector strategies clearly focused on the poorest 40 percent of the state's population. The 2012–15 Multi-year Plan (Plano Plurianual [PPA]) and the 2016-19 PPA prepared by the government of Piauí (GoPi) respond to the state's challenges in social development, productive inclusion and public service delivery. Through the PPAs, the GoPi seeks to support economic growth in a way that is more inclusive and sustainable as a means

to achieve human development with equality of opportunity. The 2012–15 PPA organizes these overarching government objectives in three pillars and identifies the main sectoral challenges under each of them. The pillars include: (a) promoting human development with social inclusion and quality of life; (b) providing the state with the required infrastructure to guarantee sustainable development; and, (c) adopting result-oriented management, focused on enhancing public services. The 2016-19 PPA drafting process began in May 2015 and comprised numerous public consultations, including 39 workshops in the state's 11 Development Territories, in accordance with state participatory planning legislation. The 2016-19 PPA organizes priorities around four pillars: (a) human development with emphasis in education, health and security; (b) diversified economic development with social inclusion and sustainability; (c) infrastructure investments for sustainable territorial development; and, (d) efficient public management with transparency and accountability to improve quality of life, including programs focused on result-oriented management and technological modernization.

Sectoral and institutional Context

Public Secondary Education

1. Public secondary education (SE) in Piauí is characterized by low net enrollment and a high dropout rate. The SE in Brazil comprises grades 10 to 12. In 2014, there were 110,000 students in general public SE and 25,790 students in secondary technical education (STE). Female students represent 55 percent of public SE enrollment. In 2013, national net enrollment in SE was 55 percent, but only 46 percent in Piauí. Therefore, more than half of the youth aged 15 to 17 years were either in fundamental education (FE) or not in school. Piauí has the fourth highest dropout rate in SE among the Brazilian states (16%). Dropout is particularly problematic in the first year of SE (grade 10), among the highest rates in Brazil (20% compared to 11% nationally).

2. The high dropout rate in Piauí is a consequence of reduced school hours, inadequate supply of schools, low quality and lack of relevance of public SE. Many students drop out of SE due to systemic failures of state schools to effectively deliver quality SE and support students. In addition, decision to drop out is often motivated by the need of students from poor families to earn an income. Public SE in Brazil provides four to five hours of instruction per day. In disadvantaged urban and rural areas of Piauí, a high proportion of public SE students attend evening classes, which provide a lower quality of instruction and fewer hours of class time. Another constraint is the shortage of teachers in rural areas particularly in math, science and technical subjects affecting the availability of classes. Students do not perceive publicly provided general SE as relevant for improving their prospects for future employment, as they finish their studies in state schools generally lacking skills demanded by the labor market. The low quality of SE is captured by the Index of Basic Education Development (Índice de Desenvolvimento da Educação Básica), which in 2013, remained below the regional and national averages for SE (3.0 for Piauí compared to 3.4 nationally).

3. Reducing the SE dropout rate is a key priority for the GoPi. The state Secretariat of Education and Culture (Secretaria da Educação e Cultura do Estado do Piauí [SEDUC]) is implementing four programs aimed at reducing the SE dropout rate. The SEDUC is expanding the number of full-time schools (FTS), which allow extended instructional time for students and a more diverse and enriched curriculum, including additional lessons, more laboratory hours to apply classroom learning, and extracurricular activities to enhance the learning experience. Similarly, the SEDUC is expanding STE, providing access to a more diversified SE curriculum with improved prospects to

enter the labor market. Additionally, the SEDUC has re-launched the Youth Savings Program (Poupança Jovem, or YSP), which is targeted at the poorest municipalities and provides yearly financial rewards to SE students who successfully complete the academic year. Another initiative is Education with Technological Intermediation (ETI), an alternative mode of general SE delivery for students in remote rural areas, meeting a demand for subjects with teacher shortages, such as math and science.

Health Care Services for Poor Households

4. Contrary to the transition from infectious diseases to chronic diseases in many developed countries, both groups of pathologies coexist in Piauí. Circulatory diseases, cancer and external causes are the main reasons for death in the state. At the same time, many of Piauí's municipalities are also considered priority areas for treatment of poverty-linked and neglected tropical diseases, such as Hansen's disease (leprosy), leishmaniasis, trachoma, tuberculosis, soil-transmitted helminthiasis, Chagas disease and schistosomiasis.

5. Despite recent progress, the health network at the state and municipal level does not meet the needs of the population, particularly for the diagnosis and treatment of chronic diseases. The correlation between low socioeconomic status and higher mortality from preventable chronic illnesses has been clearly demonstrated in several studies in Brazil. In Piauí, this can be attributed to variations in access to health services, exposure to risk factors and low awareness about preventative behaviors, mostly in rural areas. Suitable facilities are not accessible and staffing is insufficient, which affects the public health system to deliver both diagnostic and treatment to patients, particularly the poor in rural areas. Management and coordination of patient flow are weak, and too many patients are transferred to or seek care in the capital, Teresina. Many patients are not receiving adequate medical follow up and/or preventative procedures. Of the screened adult population, 20 percent reports having received a diagnosis for hypertension and 5 percent for diabetes, but only a small portion of that is registered for care at health facilities. Some die prematurely and many are unable to work due to their illness.

Water Resources Management (WRM)

6. Inadequate and inefficient WRM has had a significant negative impact on Piauí's population, especially the poorest groups living in the semi-arid region who depend on rain-fed agriculture. The rural poor are the most vulnerable to extreme weather events, because of their high dependence on natural resources, and their limited capacity to deal with shocks. The extreme water shortage in Piauí's eastern portion, specifically in the semi-arid sertão and caatinga biomes contrasts with the relative well-watered lands in the rest of its territory. The annual rainfall average reaches less than 800 mm in the Semi-arid region. During severe droughts, small farmers lose crops and herds, and are hesitant to request funding from subsidized credit lines (for example, the National Program to Strengthen Family Agriculture), due to their perceived risk of not being able to produce and, consequently, not being able to repay loans should the drought continue. The drought situation may worsen in the future due to the effects of climate change, particularly on the hydrology of the river basins and water availability.

7. Despite their scarcity, water resources have been used without restrictions. State Secretariat of Environment and Water Resources (Secretaria de Meio Ambiente e Recursos Hídricos do Estado Piauí [SEMAR]) lacks institutional capacity to enforce water resources regulations and to implement interventions envisaged in the State Water Resources Plan. None of the state water basins has management plans and SEMAR relies on information provided by the

applicant and/or federal agencies for analyzing water use applications. These requests must be submitted to SEMAR, which maintains a registry of applications and subsequent decisions since 2006—when the registry was established. However, no database exists that includes unregistered entities and those registered prior to 2006. Moreover, as the information was based on the requirements for water use rights, the available data in SEMAR’s registry does not allow a thorough analysis of water resources demand and supply in specific water basins. SEMAR has issued permanent water use rights to less than 10 percent of the 28,391 deep wells installed in the State. Therefore, more than 90 percent of state groundwater users have neither a license nor an authorization as of August 2015. For the surface water, SEMAR has limited information on the number of users because no research has been done so far. For example, the water level of the Serra Grande aquifer in the semi-arid region has lowered by approximately 22 meters in the last 40 years. In that area, SEMAR identified approximately 5,000 drilled wells, of which only 16% are officially registered. On top of that, the State has energy subsidies that contribute to the inefficient use of water, especially for irrigation purposes of large-scale crops. This situation causes serious economic, environmental and social consequences, such as: (i) wasteful and excessive water use that monthly cost millions of dollars to the GoPi; (ii) limited access to water in some regions, which impair rural production by small-scale and subsistence farmers; (iii) aquifers degradation, river flows reduction, and lake salinization; and, (iv) limited access to and low quality of water resources for human consumption, causing water-borne diseases, malnutrition and other health and development impacts.

Strengthening Real Property Rights

8. Modernizing state land administration is essential to formalize land tenure, control the acquisition of state land, and break the rural poverty cycle in Piauí. Small-scale farmers account for 90 percent of the state’s agricultural establishment, but control only a small fraction of the land, often without formal proof of ownership. Tenure informality also extends to medium- and large-scale farmers who dominate the Cerrado (savanna) region and contribute significantly to the state’s agricultural growth. The fact that so many farmers lack formal real property rights has significant socioeconomic implication, as it exposes them to unfair dispossession, makes access to credit and subsidized financing lines more difficult, and prevents subsistence farmers from adopting more productive agricultural practices. Since 2011, the Piauí State Land Institute (Instituto de Terras do Piauí [INTERPI]) has been implementing a land tenure regularization program [LTRP] whereby state land is granted to small-scale farmers. The introduction of this program was followed by the adoption of a series of measures that are expected to trigger a massive land tenure regularization process that will aid thousands of land reform beneficiaries, thousands of small farmers who have been peacefully occupying state land for more than five years, and dozens of Quilombola communities. However, progress has been limited by INTERPI’s lack of capacity and difficulties in coordinating with the judiciary. As of early 2015, only 2,946 families and three Quilombola communities have had their real property rights formalized.

Support of Productive Chains for Poor Farmers

9. Extreme poverty in Piauí is higher in rural areas, where poor farmers derive their income from subsistence and small-scale agriculture. Small-scale family farming usually takes place in non-titled land areas and often relies on outdated techniques that hamper productivity. These activities also contribute little to the state’s economy and families’ income, are highly vulnerable to climate hardships and may contribute to environmental degradation.

10. From 2012 to 2015, the GoPi implemented the first phase of the State Program for Employment

and Income Generation in Rural Areas (Programa Estadual de Geração de Emprego e Renda no Meio Rural [PROGERE]) to strengthen family farming and associated productive chains. The State Secretariat of Rural Development, Secretaria de Desenvolvimento Rural do Piauí [SDR]) coordinates PROGERE, which encompasses interventions in a broad cross-section of rural activities such as: (a) funding business initiatives and strengthening family farming and production chains; and (b) supporting program beneficiaries through technical assistance, business mentoring and educational campaigns to ensure sustainability. The program's first phase operated in 112 municipalities. Except for some successful examples, such as honey-production projects, the impact results of PROGERE's first phase were not fully documented. When the program was launched in 2011, it did not register the baseline information required for an ex ante and ex post evaluation. It also lacked clear rules of procedure establishing the criteria for selecting projects and beneficiaries, as well as a results-based monitoring framework.

11. Considering the constraints faced by PROGERE's first phase, the GoPi has decided to refocus the program on the poorest and most vulnerable groups, while ensuring economic, social and environmental sustainability of subsistence and small-scale rural production. This will be achieved through greater emphasis on productivity-enhancing activities and income-generating opportunities for participating farm families. PROGERE II will prioritize women, Quilombola communities, poor youth who concluded SE in agriculture technical schools, and the poorest producers of Piauí. PROGERE II will initially focus on a smaller number of projects. For the first time, the GoPi will use a computerized management system to receive applications, select and supervise implementation of rural development projects. After systematically recording and evaluating the projects' impacts on income growth and social inclusion, the GoPi will select the ones to expand and the ones to restructure and will include a results-based monitoring and evaluation system to ensure that the program is fulfilling its goals of reducing rural poverty.

Public Sector Management

12. The ability of the GoPi to target and deliver services to the most vulnerable is hampered by its poor institutional capacity to plan, monitor, and evaluate programs and the limited information on program performance and results evidence available to support decision-making. Although the PPA guides planning, investment programs are highly fragmented and driven by sectoral considerations and budgeting decisions are made in an ad hoc manner. The recent surge in capital spending, which more than doubled between 2011 and 2014, has not been accompanied with an equivalent enhancement in practices to allocate and manage such investments. Importantly, weaknesses remain in the financial management (FM) and procurement practices of the state. As a result, management capacity and the efficiency of capital spending remain low.

13. In recent years, Piauí adopted new mechanisms and models for improving public management. However, challenges remain in implementing and scaling up the system. The introduction of the Integrated Monitoring System (Sistema Integral de Monitoramento [SIMO]) has constituted an important initial step toward addressing the identified gaps and moving toward a cross-sectoral, results-based monitoring methodology. However, many of the problems identified during project implementation are generated earlier in the investment cycle and result from the weak link between monitoring, evaluation and decision-making. Furthermore, the coverage of the monitoring system remains limited to only a share of the GoPi's program and the capacity of line secretariats to track their projects is still low.

Mainstreaming Gender-Smart Policies

14. Gender gaps remain considerable in Piauí, particularly in labor market opportunities, income levels and productive inclusion. The share of female-headed households more than doubled from 2000 to 2010 (from 17% to 38%) and is significantly higher among low-income families. As women continue to earn much less than men, the more a household relies on woman's income, the more likely it is to be poor. The fact that the share of women's income contributing to family income has increased throughout the state indicates the increasing vulnerability of these families, particularly in rural areas, where the proportion of women's incomes to household incomes has increased faster than in urban areas.

15. Until recently, there were no systematic actions to support inclusive growth for women in the state of Piauí. In 2013, the GoPi created the State Coordination of Policies for Women (Coordenadora Estadual de Políticas Para Mulheres do Piauí [CEPM]). The CEPM is responsible for: (a) developing and planning gender policies to empower women and consequently promote gender equality; (b) planning and implementing educational campaigns to combat all forms of discrimination against women; (c) articulating, promoting and implementing programs aimed at implementing policies for women through cooperation agreements between public and private organizations (at the state, federal and international levels); and (d) implementing and coordinating protection policies for women living in vulnerable situations. As the CEPM is a relatively new institution, it is in the early stages of identifying its main policy actions and activities.

II. Proposed Development Objectives

The objectives of the project are to: (a) reduce dropout of students in public secondary education; (b) increase access to diagnosis and treatment for patients with chronic diseases; (c) expand the registration of groundwater users in rural areas and land tenure regularization; and (d) increase the participation of poor rural women and Quilombola communities in productive value chains.

III. Project Description

Component Name

Component 1: Implementation of eligible Expenditure programs in public secondary education, chronic diseases, water resource management, land management and rural productive chains

Comments (optional)

Component Name

Component 2: Technical Assistance for public sector management

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	483.93	Total Bank Financing:	120.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			363.93
International Bank for Reconstruction and Development			120.00
Total			483.93

V. Implementation

A. Overall Risk Rating and Explanation of Key Risks

Table 4. Overall Risk Ratings

1. Political and Governance	M
2. Macroeconomic	S
3. Sector Strategies and Policies	M
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environmental and Social	M
8. Stakeholders	M
9. Other	
Overall	S

Overall implementation risk of the Project is rated as Substantial. The most relevant risks and mitigation measures are discussed below.

1. Brazil is experiencing a severe and widespread recession, which is amplified by contractionary fiscal and monetary policy. Heavy dependence on transfers from the Federal government by Piauí poses a substantial risk to the achievement of the PDO as declining Federal transfers as well as state own revenues may hamper the implementation of the GoPi's reform program supported by the project. In addition, the finances of Piauí are also vulnerable to ongoing price adjustments at the national level, specifically exchange rate and interest rate adjustments. These risks are mitigated by the level and composition of the GoPi's debt which remains low and with a small share of foreign currency denominated debt (23% of the total or 16% of Net Current Revenue, as of end 2014). Fiscal consolidation measures – to be incorporated in the program of the project supported by the Bank – should however help strengthening the fiscal position of Piauí and ensure sustainability of results.

2. There is a risk that the SEDUC may not be able to recruit enough teachers with the specialization necessary to work in the FTS and STE. To mitigate these risks, the SEDUC will carry out a school mapping exercise to determine the location of the new FTS and STE schools, which will also take into account the availability of teachers to redeploy and hire teachers. Furthermore, the SEDUC will use its ETI program for general SE to compensate for lack of teachers.

3. Regarding the SCCDs, there is a risk that some patients with chronic diseases will not be admitted or adequately attended to. However, access to the SCCDs will have centralized regulation units, which will use protocols to ensure diagnosis and treatment of those in need and rational use of resources. A regulation plan for access to these centers and other facilities will be developed to ensure that these centers receive the patients most in need and also that their time under care does not last more than they really need.

4. There is a risk that notaries refuse to modernize their work practice and enforce the new federal and state regulations, hindering land tenure regularization. Notaries are private entities, but they are responsible for registering and managing land tenure titles. To mitigate these risks, the project will provide technical assistance to increase the capacity of the CGJ, which is responsible for overseeing the work of notaries. The Integrated Real Estate Registration System for notaries, also supported

through technical assistance, is expected to reduce possible bottlenecks and opportunities for corruption. Training programs and access to a new online database will be provided to notaries to digitize records and make their work processes more efficient.

5. New farming practices will be supported by the PROGERE II; however, there is a risk that farmers will not adopt these new practices. To mitigate this risk, the design of the PROGERE II has taken into account lessons learned from the first phase. The POM will be reviewed and found acceptable by the Bank before program implementation. Each project supported will be carefully evaluated and the GoPi will decide how to expand the program most effectively, with the guidance of the Bank's technical team.

6. The GoPi's institutional capacity is relatively inadequate. Some secretaries and agencies do not have the organizational structure needed to carry out their functions. To mitigate institutional capacity risks, the project will finance programs focusing on the agencies that need the most support and will provide technical assistance activities to strengthen institutional capacity in key institutions (for example, SEMAR, INTERPI and the SDR in charge of implementing activities. In addition to providing training and capacity building, the technical assistance component will be key in supporting consultancies and studies necessary to ensure the execution and technical quality of project activities. The project's Implementation Support Plan has taken these weaknesses into consideration and allocates sufficient Bank resources to provide continuous technical, fiduciary and safeguards support throughout all stages of project implementation. The GoPi's performance on the DLIs will be closely monitored to make course corrections and adjustments during implementation to reach desired project outcomes.

7. The FM risks were identified due to the complex implementation arrangements, involving several budget executors and a large volume of transactions. The FM arrangements have mitigated these risks by centralizing coordination responsibilities in SEPLAN and using the state's integrated FM system (Sistema /integrado de Administração Financeira [SIAFEM]). The SEFAZ will allocate dedicated FM specialists to carry out various FM tasks detailed in the POM.

8. The main procurement risk for the operation is the lack of capacity of the state to assume additional procurement tasks beyond ongoing operations and the lack of an information system to manage procurement data. To mitigate this risk, the project will create at least two special bidding committees inside the Procurement Department (Diretoria de Licitações [DL]) to process the technical assistance and all the EEPs involving International Competitive Bidding (ICB). The project will also finance the design and implementation of a new procurement information and contract management system (under Componente 2) to improve public procurement performance in the state.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)**VII. Contact point****World Bank**

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