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Report No. 100559-BR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
PROGRAM DOCUMENT FOR A PROPOSED LOAN
IN THE AMOUNT OF US\$200 MILLION TO
THE STATE OF PIAUÍ
WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL
FOR THE
PRODUCTIVE AND SOCIAL INCLUSION DEVELOPMENT POLICY LOAN

November 16, 2015

Environment and Natural Resources Global Practice
Education Global Practice
Brazil Country Management Unit
Latin America and the Caribbean Region

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BRAZIL GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 16, 2015)

Currency Unit = Real (R\$)

R\$ 3.83 = US\$1

ABBREVIATIONS AND ACRONYMS

BNDES	National Bank for Social and Economic Development (<i>Banco Nacional de Desenvolvimento Econômico e Social</i>)
BRL	Brazilian Real
CAR	Rural Environmental Registry (<i>Cadastro Ambiental Rural</i>)
CEPRO	Center for Social and Economic Research of Piauí Foundation (<i>Fundação Centro de Pesquisas Econômicas e Sociais do Piauí</i>)
CFAA	Country Financial Accountability Assessment
CGE	State General Auditing Agency (<i>Controladoria Geral do Estado</i>)
CGJ-PI	State of Piauí General Judicial Inspectorate (<i>Corregedoria Geral de Justiça do Estado do Piauí</i>)
CNARH	National Water Resources Users Registry (<i>Cadastro Nacional de Usuários de Recursos Hídricos</i>)
CNR	Current Net Revenue
CPS	Country Partnership Strategy
DPL	Development Policy Loan
DSA	Debt Sustainability Analysis
EMBRAPA	Brazilian Agency for Agriculture and Livestock Research (<i>Empresa Brasileira de Pesquisa Agropecuária</i>)
ENEM	National Secondary School Exam (<i>Exame Nacional do Ensino Médio</i>)
FDI	Foreign Direct Investment
FPE	State Participation Fund (<i>Fundo de Participação dos Estados e do Distrito Federal</i>)
FRL	Fiscal Responsibility Law
GDP	Gross Domestic Product
GoPi	Government of Piauí
IBGE	Brazilian Institute of Geography and Statistics (<i>Instituto Brasileiro de Geografia e Estatística</i>)
IBRD	International Bank for Reconstruction and Development
ICMS	State Value-Added Tax
ICR	Implementation Completion and Results Report
IDEB	Index of Basic Education Development (<i>Índice de Desenvolvimento da Educação Básica</i>)
IEG	Independent Evaluation Group
IMF	International Monetary Fund
INCRA	National Institute for Colonization and Agrarian Reform (<i>Instituto Nacional de Colonização e Reforma Agrária</i>)
INPEG	National Registry of Prevalence of Schistosomiasis Mansoni and Geohelminthiasis (<i>Inquérito Nacional de Prevalência em Esquistossomose Mansoni e Geo-Helmintoses</i>)
INTERPI	Piauí State Land Institute (<i>Instituto de Terras do Piauí</i>)
IPF	Investment Product Financing
IPSAS	International Public Sector Accounting Standards
JMAP	Joint Management Action Plan
LDP	Letter of Development Policy
LOA	Annual Budget Law (<i>Lei Orçamentária Anual</i>)
LRF	Fiscal Responsibility Law (<i>Lei de Responsabilidade Fiscal</i>)
MDS	Ministry of Social Development (<i>Ministério do Desenvolvimento Social</i>)
NCD	Net Consolidated Debt
NCR	Net Current Revenue
NEEDN	State Center for Responding to and Controlling Neglected Diseases (<i>Núcleo Estadual de Enfrentamento e Controle das Doenças Negligenciadas</i>)
NTD	Neglected Tropical Disease
OGE	Ombudsperson Office of the State of Piauí (<i>Ouvidoria Geral do Estado do Piauí</i>)

OPM	Governmental Organization on Policies for Women (<i>Organização de Políticas para Mulheres</i>)
PCPR	Rural Poverty Reduction Program (<i>Programa de Combate à Pobreza Rural</i>)
PFM	Public Financial Management
PNHR	National Program of Rural Housing (<i>Programa Nacional de Habitação Rural</i>)
PPA	Multiyear Plan (<i>Plano Plurianual</i>)
PRD	Poverty-related Disease
PROGERE	State Program of Employment and Income Generation in Rural Areas (<i>Programa Estadual de Geração de Emprego e Renda no Meio Rural</i>)
PRONAF	Program for the Strengthening of Family Farming (<i>Programa Nacional para o Fortalecimento da Agricultura Familiar</i>)
PSIA	Poverty and Social Impact Analysis
RBM	Results-based Management
REER	Real Effective Exchange Rate
RNR	Real Net Revenues (<i>Receita Líquida Real</i>)
SAM	Social Accounting Matrix
SDR	Secretariat for Rural Development (<i>Secretaria do Desenvolvimento Rural do Estado do Piauí</i>)
SE	Secondary Education
SEDUC	Secretariat for Education (<i>Secretaria de Educação do Estado do Piauí</i>)
SEFAZ	Secretariat of Finance (<i>Secretaria da Fazenda do Estado do Piauí</i>)
SEMAR	State Secretariat for Environment and Water Resources (<i>Secretaria do Meio Ambiente e Recursos Hídricos do Estado do Piauí</i>)
SEPLAN	State Secretariat of Planning (<i>Secretaria do Planejamento do Estado do Piauí</i>)
SESAPI	State Secretariat of Health (<i>Secretaria Estadual de Saúde do Estado do Piauí</i>)
SIAFEM	Integrated Financial Administration System (<i>Sistema Integrado de Administração Financeira</i>)
SIAGAS	Information System for Aquifers (<i>Sistema de Informações de Água Subterrânea</i>)
SIMO	Strategic Actions Monitoring System (<i>Sistema de Monitoramento de Ações Estratégicas</i>)
SINAN	Information System for Case Reporting (<i>Sistema de Informação de Agravos de Notificação</i>)
SCCDs	Specialized Centers for Chronic Diseases
STE	Secondary Technical Education
STN	National Treasury Secretariat (<i>Secretaria do Tesouro Nacional</i>)
SUS	Single Health System (<i>Sistema Único de Saúde</i>)
SUTEF	Office of Technical and Financial Cooperation (<i>Superintendência de Cooperação Técnico-Financeira</i>)
SWAp	Sector-wide Approach
TCE	State Audit Court (<i>Tribunal de Contas do Estado do Piauí</i>)
US\$	American Dollar
WB	World Bank
YSP	Youth Savings Program (<i>Programa de Incentivo Educacional Poupança Jovem</i>)

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STATE OF PIAUI
WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL
PRODUCTIVE AND SOCIAL INCLUSION DEVELOPMENT POLICY LOAN
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SUMMARY OF PROPOSED LOAN AND PROGRAM
STATE OF PIAUI
WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL
PRODUCTIVE AND SOCIAL INCLUSION DEVELOPMENT POLICY LOAN

Borrower	State of Piauí, with the guarantee of the Federative Republic of Brazil
Implementation Agency	Piauí State Secretariat of Planning
Financing Data	IBRD Loan Terms: IBRD Flexible Loan with a variable spread, commitment-linked amortization, with level repayments of principal, with payment dates on May 15 and November 15, and a total loan term of 20 years, including 3 years of grace period with all conversion options selected. The Front-End Fee will be financed out of the loan proceeds. Amount: US\$ 200 million
Operation Type	Single-tranche Development Policy Loan
Pillars of the Operation and Program Development Objective(s) (PDO)	The PDO is to support the GoPi's key policy reforms for: (i) improved performance of secondary education students in state public schools and expanded coverage of public health services; (ii) expanded access of targeted vulnerable groups to productive chains and natural resources management services; (iii) strengthened systematic monitoring of priority investments, and (iv) strengthened institutions for gender mainstreaming and channeling the citizens' voice in strategic programs.
Result Indicators	<p>Pillar 1: Improved performance of secondary education students in state public schools and expanded coverage of public health services</p> <ul style="list-style-type: none"> -Increase from 0.4 to 3 percentage points the difference between the pass rate in the municipalities targeted by the “<i>Poupança Jovem</i>” Program and the average pass rate of state public SE schools (excluding Teresina). -Increase by 5 percentage points the proportion of patients cured of tuberculosis and hanseniasis in priority targeted municipalities. -Increase from 70% to 83% the proportion of captured vectors examined to detect the Chagas disease parasite. <p>Pillar 2: Expanded access of targeted vulnerable groups to productive chains and natural resources management services</p> <ul style="list-style-type: none"> - Increase from 194 to 1,500 the number of groundwater users whose information is registered in the State Water Users Registry. - Quarterly update and public disclosure of a list of the state groundwater users not complying with the legislation related to the state water-users registry and the grant of water-use rights. -Increase from 0 to 100% of new applications submitted by small-scale and subsistence farmers who are jointly processed by INTERPI and SEMAR. -Increase from 0 to 100% of selection and implementation process of PROGERE-financed projects through a computerized management system and public disclosure of relevant information. <p>Pillar 3: Strengthened systematic monitoring of priority investments</p> <ul style="list-style-type: none"> - Increase from 21% to 40% the number of agreements (<i>convenios</i>) for targeted activities financed through federal grants that are monitored through SIMO. <p>Pillar 4. Increased accountability and responsiveness through gender mainstreaming and citizen oversight of strategic programs</p> <ul style="list-style-type: none"> -Threefold increase in the number of strategic thematic programs included in the state's Multiyear Plan (PPA) with gender-based indicators. -At least five priority sectors of the state government have OGE representatives.
Overall Risk Rating	The overall risk rating is moderate.
Operation ID	P146981

**IBRD PROGRAM DOCUMENT FOR A PROPOSED
PRODUCTIVE AND SOCIAL INCLUSION DEVELOPMENT POLICY LOAN
TO THE STATE OF PIAUÍ
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1. INTRODUCTION AND STATE CONTEXT

1. **This document describes a single-tranche Development Policy Loan (DPL) in the amount of US\$200 million aimed to support the State Government of Piauí (GoPi) in Brazil in adopting key policy reforms** for better provision of public services associated with productive and social inclusion.

2. **Piauí faces high levels of inequality and poverty.** The monthly per capita income of the 20 percent richest (R\$1,349) represents more than 15 times the monthly income of the 20 percent poorest (R\$85.70) in the state. Piauí's Gini coefficient was 0.566 in 2013—above the national coefficient (0.52 in 2013) and the highest among Brazilian states. In rural areas, almost 40 percent of households have a monthly income below the minimum wage. In 2013, 27.4 percent and 9.12 percent of the state population lived in poverty and extreme poverty, respectively. These numbers would be worse without the support given by the conditional-cash transfer program *Bolsa Família*, which benefited 449,313 families in Piauí (equivalent to 49 percent of the state's population) that same year.

3. **The proposed DPL will support the GoPi's efforts aimed at improving human capital and creating opportunities for improving the income of Piauí's poorest and most vulnerable groups.** Through the policies supported by the DPL, poor families will benefit from (i) financial incentives to encourage students in state public schools to complete secondary education (SE) and participate in extracurricular activities; (ii) enhanced health care to prevent, control and respond to neglected diseases, which impair labor productivity and social inclusion; (iii) better planning and management of water resources, the scarcity and inefficient use of which have hampered production among subsistence and small farmers; and (iv) financial and technical support to improve productivity through a more adequate and efficient use of natural resources. With the support of the proposed DPL, the GoPi will institutionalize its results-based monitoring framework to oversee the implementation of strategic programs associated with productive and social inclusion, including actions funded by the federal government and external financing institutions. The GoPi will also mainstream a gender perspective into its strategic policies, such as income generation programs, and will facilitate the access of poor citizens to grievance redress mechanisms in sectoral agencies whose actions are key to reduce poverty.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS IN BRAZIL

4. **Following years of economic slowdown, Brazil is currently undergoing a deep and widespread recession.** Since the start of this decade, the country's growth performance has continually declined—from an average of 4.5 percent growth between 2006 and 2010, to 2.1 percent between 2011 and 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, structural constraints on potential growth have become binding.¹ 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 2015, the economy contracted at an annual rate of 3.3 percent (seasonally adjusted relative to the second half of 2014).

5. **While the decline in economic activity has been broad based, it has been driven particularly by contractions in investment and industry.** Growth of investment spending declined (from an average of 9.3 percent in 2006–2010, to 1.9 percent in 2011–2014), while private consumption growth slowed from 4.8 percent in 2011, to 0.9 percent in 2014. The initial decline in investment in 2011 and 2012 was associated with a deteriorating external backdrop and a steady loss of competitiveness. Since then, other domestic factors have become more important—notably, increased uncertainty about policies and, more recently, the ongoing investigations of corruption at Petrobras, which have paralyzed a large swath of the construction sector. Growth in the services sector cooled significantly to 0.7 percent in 2014. However, the industrial sector saw the most pronounced slowdown—moving from growth of 10.4 percent in 2010, to contracting by 1.2 percent in 2014 and another 3.0 percent in the first half of 2015. More recently, the decline in economic activity in 2015 has become broad based, affecting all major sectors of the economy. On the production side, manufacturing, construction, and services declined by 9.1, 7.6, and 6.5 percent, respectively, seasonally adjusted relative to the second half of 2014, with only the extractive and agricultural sectors growing by 9.0 and 8.7 percent.

6. **Unemployment has been increasing rapidly, due primarily to job losses in a recessionary economy.** Formal sector job creation has moderated from the creation of 2.5 million jobs in 2011 to 0.15 million in 2014, and to a loss of 1.1 million jobs in the 12 months preceding August 2015. Job losses are widespread among most sectors of the economy and across all demographic groups. Industry, construction, and commerce dismissed the largest numbers of workers in 2015, while the only sectors that created a modest number of jobs were agriculture, education, financial and medical services. Unemployment has remained low at around 5 percent until the end of 2014, masked by shrinking labor-force participation² but it has surged in recent months standing at 7.6 percent in August 2015³.

7. **Because of weak GDP growth and job creation, progress in poverty reduction has slowed.** Brazil has made significant advances in poverty reduction and social development since the 1990s. Growth in employment and labor income, as well as the implementation of targeted social assistance programs, contributed to a significant reduction in the share of Brazilians living below the extreme poverty line. However, because of the economic slowdown in recent years, it is estimated that the number of Brazilians living in extreme poverty grew from 7 million in 2012 to 7.6 million in 2013, the first increase after 10 consecutive years of reductions.

8. **Notwithstanding the slowdown, inflation has increased far above target and is currently close to double digits, largely driven by the realignment in administered prices.** Since 2011, inflation has been at the upper limit of the 4.5 ± 2 percent target range, ending 2014 at 6.4 percent, and reaching 9.5 percent in September 2015—the highest rate since 2003. From 2010 to 2014, inflation largely reflected demand-pull pressures from fiscal expansion and high household spending, in the face of capacity constraints and low unemployment. It also reflected cost-push factors such as automatic minimum wage adjustments. In 2015, while demand pressures have subsided, the adjustment in administered prices (of fuel, energy, water, and public transport), as well as food price shocks and the sharp exchange rate depreciation, have resulted in a spike in inflation.

9. **The Central Bank has significantly tightened monetary policy to control inflation.** Since April 2013, the Brazilian Central Bank has tightened monetary policy, raising the policy interest rate (SELIC) by a cumulative 7 percentage points through July 2015, to 14.25 percent in October 2015. The tightening cycle has so far not brought inflation to target. Its effectiveness was

to an extent reduced by significant increase in lending by state-owned banks since 2009. In 2014, the loosening of reserve requirements also counteracted the tightening. However, the Central Bank has been successful in reducing inflation expectations to within the target band, since they currently stand at about 5.9 percent for the end of 2016.

10. The fiscal stimulus introduced in 2011 in response to the deceleration in economic activity continued through 2014, resulting in a steady deterioration of fiscal balances. Combined with less favorable revenue performance, expansionary fiscal policy from 2012 to 2014 resulted in rising fiscal deficits. The primary balance declined from a surplus of 2.1 percent of GDP in 2012, to a deficit of 0.6 percent in 2014, while the overall fiscal deficit deteriorated to 6.2 percent of GDP in 2014, given the debt-interest bill of 5.6 percent of GDP. Since early 2015, the authorities have been trying to bring the deficit under control with austerity measures that have reduced expenditures, mainly in public investment, but also in discretionary and nondiscretionary current expenditures, notably through the tightening of eligibility for unemployment benefits and survivor pensions. Nonetheless, despite these efforts and a series of revenue-raising measures, the primary and overall fiscal deficits have widened to 0.8 and 9.2 percent of GDP, respectively, in the 12 months preceding August 2015. The deterioration in the primary balance is mainly because of the deterioration of tax revenues resulting from the economic recession, and the difficulty in finding significant fiscal savings given the rigid budget, and weak political support for fiscal adjustment in Congress. In addition, the bill for debt interest has increased drastically in 2015, and stands at 8.4 percent of GDP over the 12 months ending in August, because of rising interest rates and significant losses under the Central Bank's currency swap contracts (which are accounted for under interest expenditure).⁴

11. In September 2015, owing to the fiscal deterioration amidst a challenging political environment, Standard & Poor's downgraded Brazil's long-term sovereign currency rating to BB+ with a negative outlook, stripping Brazil of its investment grade. The severity of the fiscal challenges facing Brazil was evident in early September when the Government submitted a 2016 budget to Congress envisioning a fiscal primary deficit of 0.5 percent of GDP in 2016. This represented a departure from the primary fiscal surplus target, which had already been revised downwards from 2.0 percent of GDP to 0.7 percent in July, and triggered the downgrade by S&P. Following the downgrade in mid-September, the Government submitted an additional package of fiscal measures to achieve the 0.7 percent of GDP primary surplus target in 2016⁵. Many of these measures will require congressional approval, however, and are likely to encounter severe resistance.

12. The deterioration of fiscal policy has reversed the declining trend in public debt observed throughout the 2000s. General government gross debt rose from 51.8 percent of GDP in 2010 to 58.9 percent at the end of 2014, and further up to 65.3 percent of GDP in August 2015⁶—relatively high for an emerging market country. Net debt remains significantly lower, but has increased to 35.5 percent of GDP in August 2015, following a downward trend from 38.5 to 32.2 between 2010 and 2013. Nonetheless, characteristics of the debt profile limit the risks associated with the debt level. These characteristics include the low foreign-currency exposure, an increasing share of fixed-rate domestic debt, and a comparatively low share of foreign-held government debt. As of the end August 2015, foreign currency denominated debt of the nonfinancial public sector accounted for only 5 percent of the total, representing close to 4 percent of GDP. Moreover, despite a significant increase in foreign holdings of government debt since 2007, domestic investors hold most (81 percent) of the local debt.

13. In line with the deceleration of the economy and the tighter monetary policy, credit markets have slowed. Following a period of rapid credit expansion, nominal credit growth has

slowed down considerably to 9.6 percent year over year in August 2015. Moderated credit growth has stabilized the ratio of credit to GDP this year, at 54.6 percent. The credit slowdown is in line with the weak evolution of domestic demand, rising interest rates (the average lending rate reached 29 percent in August, from 25 percent in January), the high degree of uncertainty, and the Government's decision to significantly reduce the use of subsidized credit through public banks as a countercyclical mechanism. Household and corporate leverage have increased over the past decade. Household indebtedness (as a percentage of disposable income) has risen to 46 percent in mid-2015; however, households' debt service has remained stable since 2012, on account of the rising proportion of mortgages in household borrowing, which has lengthened average maturities. Corporate debt as a share of GDP increased 15 percent since 2007, mirroring developments seen in other emerging countries. Offshore issuance by foreign-incorporated subsidiaries, thus raising foreign exchange exposure, explains a significant share of this increase. While foreign exchange debt accounts for about 30 percent of the total, it is largely hedged. However, the prospect of a rise in interest rates, potentially triggered by monetary tightening in the U.S., has raised concerns about the ability of corporates to service their debt. This vulnerability has important implications for the financial system, in part because corporate debt constitutes a significant share (31 percent in 2014) of Brazilian banks' assets.

14. The banking system's soundness indicators remain positive, but the deteriorating economic situation and the impact of the ongoing scandals on the corporate sector may affect asset quality adversely. Despite the rapid expansion in public banks' portfolios, reported asset quality indicators have remained broadly stable. However, these indicators appear to be weakening at the margin this year, given the recessionary economy and rising interest rates. The reported average delinquency rates on all loans reached 3.1 percent in August, up from 2.9 percent on average in 2014. Nevertheless, the banking system appears to be well cushioned to withstand losses, with aggregate capital buffers comfortably above OECD averages, and loan loss provision coverage at 130 percent of nonperforming loans. Moreover, the solvency ratio remains considerably above the 11 percent minimum regulatory requirement, at 16.7 percent.

15. Brazil's external position has undergone rapid adjustment in 2015, following a deterioration in 2014. The current account deficit widened from 2.7 percent of GDP in 2011 to 4.4 percent in 2014 (US\$104 billion), largely reflecting worsening terms of trade and declining exports of manufactured goods (especially to Argentina). In 2015, weakening domestic demand and the exchange rate depreciation have narrowed the current account deficit to 4.1 percent of GDP (US\$46.2 billion), as of August. While the deficit remains financed largely by FDI inflows, these inflows have declined significantly this year (by 36 percent in US\$ terms over the first 8 months) while portfolio flows have been volatile, highlighting vulnerabilities to capital flow reversals. Moreover, concerns about the stability of FDI flows have risen, because of growing offshore debt issuance by foreign subsidiaries of Brazilian parent companies (mentioned above).⁷

16. Brazil's currency depreciated sharply in 2015, especially since July, as the economic outlook deteriorated. After weakening gradually since 2011, the Brazilian real lost about 34 percent of its value with respect to the US dollar in 2015, amid domestic uncertainties and the strengthening of the US dollar (Table 1). The depreciation accelerated in September, with the exchange rate peaking at a record low of R\$4.18 per US\$, amidst significant volatility. The depreciating real, combined with the widening current account deficit, have resulted in a steady increase in total external debt (including private sector debt and intercompany loans) to GDP from 19.6 percent in 2012 to 28.5 percent as of August 2015. However, this percentage is still relatively low in comparison to other countries. Ample international reserves, at US\$368 billion (15 months of imports) as of August 2015, continue to provide a buffer against external turbulence. However,

they are partially offset by a short position in currency swaps (US\$108 billion in August 2015), which the Central Bank has been offering since May 2013 to support the real.

Table 1 Brazil: Selected Economic Indicators and Projections, 2008–2017

	2008	2009	2010	2011	2012	2013	2014	2015f	2016f	2017f
Real gross domestic product (percent change)	5.0	-0.2	7.6	3.9	1.8	2.7	0.1	-2.7	-0.7	1.4
Private consumption	6.4	4.2	6.4	4.8	3.9	2.9	0.9	-3.4	-2.3	1.1
Government consumption	2.1	2.9	3.9	2.2	3.2	2.2	1.3	-0.9	0.6	0.5
Gross fixed capital investment	12.7	-1.9	17.8	6.6	-0.6	6.1	-4.4	-11.6	-2.9	2.5
Statistical discrepancy (% GDP)	1.7	-1.0	0.8	0.7	-0.4	-0.3	-0.1	-0.1	-0.1	-0.1
Exports, goods & services	0.4	-9.2	11.7	4.8	0.5	2.1	-1.1	4.2	3.5	3.1
Imports, goods & services	17.0	-7.6	33.6	9.4	0.7	7.5	-1.0	-10.4	-5.8	1.5
Agriculture	6.3	-3.1	6.3	3.9	-2.1	7.3	0.4	3.4	4.3	3.8
Industry	4.1	-5.7	10.4	1.5	-0.8	2.2	-1.1	-6.5	-1.8	1.5
Services	4.9	2.0	5.6	2.7	1.8	2.0	0.7	-1.7	-0.7	1.2
Output Gap (percent of potential GDP)	2.7	-0.9	2.9	3.6	2.5	2.6	0.6	-2.9	-4.7	-4.7
CPI Inflation (end of period)	5.9	4.3	5.9	6.5	5.8	5.9	6.4	9.2	5.5	4.5
Current account balance, % of GDP	-2.3	-2.1	-2.8	-2.6	-2.6	-3.9	-4.4	-4.1	-3.7	-3.6
Foreign direct investment, % of GDP	1.2	1.9	1.4	2.4	2.6	2.6	3.0	3.2	3.3	3.3
Official reserves (US\$, billion)	194	239	289	352	373	359	364	...	...	...
Gross External Debt* (US\$ billion)	200	247	351	403	436	440	498	...	...	...
Average exchange rate (R\$/US\$)	1.8	2.0	1.8	1.7	2.0	2.2	2.4	...	...	...
Real effective exchange rate (2010 = 100)	86.1	86.9	100.0	104.6	94.5	90.0	89.7	...	...	...
Fiscal Indicators (% of GDP)										
General Government Revenue	36.7	34.8	37.1	36.6	37.7	37.2	34.7	34.4	35.6	36.5
General Government Expenditure	38.3	38.1	39.9	39.2	40.4	40.4	40.9	42.4	42.7	41.3
Interest Expenditure	5.5	5.3	5.2	5.7	4.6	5.0	5.6	7.7	7.8	6.0
Primary Balance	3.9	2.0	2.4	3.1	2.1	1.9	-0.6	-0.3	0.7	1.2
Fiscal balance	-1.6	-3.3	-2.8	-2.6	-2.5	-3.1	-6.2	-8.0	-7.1	-4.8
Gini coefficient of consumption										
Sources: IBGE, BCB, IMF and World Bank staff forecasts.										
Notes: e = estimate, f = forecast, * includes securities issued in Brazil, held by foreign residents										

2.2 BRAZIL'S MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **The short-term outlook for the Brazilian economy is challenging, with a deep contraction of GDP and above target inflation expected in 2015.** Confidence indicators have continued to decline steadily in 2015, reaching record lows and indicating further deterioration of the near-term outlook for consumption and private investment. The Government has moved to address previous policy inconsistencies, but in the short term, these necessary policy adjustments have exacerbated the widespread decline in economic activity while creating inflationary pressures. Fiscal consolidation and rising unemployment will further put the brakes on aggregate demand, while currency depreciation and realignment of administered prices are expected to continue to weigh heavily on inflation. The economy will experience a severe recession in 2015, followed by a lesser contraction in 2016 as economic difficulties abate, and a modest recovery thereafter. Inflation is expected to peak at above 9 percent in 2015 and to remain above the target in 2016 despite the weak economy, as second-round effects of administered price hikes and the weakening of the currency pass through to market prices. In the medium term, inflation should gradually converge towards the target of 4.5 percent, since growth is projected to recover only slowly, leaving a negative output gap.

18. **Prospects for debt sustainability depend on the pace of fiscal consolidation.** Primary surpluses of around 2-3 percent of GDP will be needed to put the gross debt-to-GDP ratio on a downward path. On current projections for the likely path of fiscal policy public debt is expected

to increase in the next few years, with gross debt as a percent of GDP rising to above 70 percent. Public debt should stabilize and decrease gradually in the medium term in line with the authorities announced fiscal adjustment path which aims to bring the primary surplus to 1.3 percent of GDP in 2017 and to at least 2 percent of GDP in 2018 and beyond. This trajectory of gross debt is however sensitive to growth underperformance and fiscal slippage given the pressure arising from high borrowing costs.⁸

19. **The government is pursuing a coordinated macroeconomic adjustment.** Fiscal consolidation to correct the slippage of the last few years and stabilize fiscal trends is underway, although Congress has not approved all measures and the slowdown in economic activity has undermined the achievement of the targets. In parallel, the Central Bank has limited its intervention in the foreign exchange market to episodes of excessive volatility, allowing the exchange rate to play its role as shock absorber, and the convergence of the rate to levels in line with fundamentals, thus boosting competitiveness and exports. At the same time, the Government has committed to strengthen the monetary policy framework and bring inflation to target by end-2016, which has been backed by monetary tightening and a reduction (effective 2017) in the target band to 4.5 ± 1.5 percent (from ± 2 percent previously). In addition, the Government has moved to reverse key distortions. Among these key distortions are domestic price controls (price controls on fuel, electricity rates, and transport tariffs); credit market distortions resulting from subsidized lending by the Brazilian development bank (BNDES); and heavy exchange rate intervention. Lending by public banks has scaled down, which will help alleviate pressures on the fiscal position, while reducing financial distortions and bolstering fiscal credibility. Finally, general subsidies to consumers of electricity have been discontinued, resulting in tariff increases—a positive step for both fiscal and economic efficiency reasons.

20. **Efforts to alleviate supply-side constraints and boost the economy's productive capacity have also continued, but progress has been slower.** On the one hand, the government has focused on its program of concessions—the Logistics Investment Program—to involve the private sector in key infrastructure projects in transportation (roads and airports), energy transmission and generation, and telecommunications. In June 2015, a new phase of the program was announced with planned infrastructure investment totaling R\$198.4 billion, including R\$69.2 billion investment between 2015 and 2018. On the other hand, structural impediments to growth remain significant. In particular, Brazil remains a relatively closed economy compared to its peers, regulatory quality is weak and barriers to competition are widespread, the tax system is uncommonly complex, and unit labor costs are high. Moreover, despite recent initiatives, Brazil's infrastructure and competitiveness indicators have deteriorated in relation to its competitors.

21. **Risks to the outlook tilt significantly to the downside.** The government's fiscal consolidation effort will likely continue to face challenges from the ongoing recession. The government has already reduced its primary surplus targets for 2015 and 2016 (from 1.2 and 2 percent of GDP, respectively, to 0.15 and 0.7 percent) in response to the deterioration of revenues. Achieving even these reduced fiscal targets in a recessionary environment will require further significant spending reductions as well as revenue increases. Political gridlock and growing social discontent also threaten to derail the fiscal consolidation effort and this could have serious ramifications for investor confidence in Brazil. The ongoing investigations into corruption allegations at Petrobras present an additional risk of political, economic, and financial disruptions. Investment may be further hampered and insufficient access to funding by the companies under investigation may result in adverse spillovers to the banking sector. In addition, Brazil remains vulnerable to capital flow reversal. Capital outflows could result from a further deterioration of the domestic economy, further credit downgrades, and tightening of monetary policy in the U.S.⁹ In addition, as mentioned above, a reversal of post-crisis accommodative global financial conditions

could trigger corporate distress and spill over to the financial sector. The high level of reserves and the flexible exchange rate acting as a shock absorber partially mitigate these risks. The risk of water and electricity rationing because of a prolonged drought has receded in the near term, but could return in 2016 if rainfall is insufficient.

22. 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.

23. Brazil's overall macroeconomic framework is currently adequate for the purposes of this operation. Even though policy space has been reduced, Brazil's policy framework continues to provide some flexibility to respond to economic crises. The government has taken strong action in 2015 to address the macroeconomic imbalances. The sharp exchange-rate adjustment is forcing a rebalancing of the economy, and the ongoing fiscal consolidation—albeit subject to political risks—is addressing the fiscal imbalances that had been building up over the past few years. While the continuation of inflationary pressures and the deterioration of fiscal outturns in the low-growth environment complicate macroeconomic management, the administration remains committed to taking the necessary measures to restore a sustainable fiscal path and to keep inflation under control, while seeking to boost investment to restart growth. Under this scenario, public sector debt (gross as well as net) is expected to increase in the short term, but to remain at a manageable level. Moreover, a flexible exchange rate and large foreign reserves will continue to provide Brazil with a buffer in the face of external shocks.

2.3 RECENT SOCIOECONOMIC DEVELOPMENTS AND FISCAL SUSTAINABILITY IN PIAUÍ

2.3.1 State Context and Socioeconomic Developments

24. With a GDP of R\$25.7 billion, Piauí is the fifth smallest state economy in Brazil, contributing 0.6 percent to national GDP. Similar to the rest of Brazil, Piauí's economy is heavily service oriented. The services sector accounts for 77.2 percent of GDP, while industry and agriculture represent 18.6 and 4.2 percent of GDP respectively. Among services, public services—public administration, health, education, and social security—are of major importance (27% of total GDP). In 2014, Piauí's exports (such as essential oils, soybeans, cotton, cashew nuts, crustaceans, and leather) were valued at US\$256 million (0.1% of Brazil's total exports).

25. Over the last decade, Piauí's economy has undergone a strong expansion. Between 2008 and 2012, Piauí registered one of the strongest rates of economic growth in Brazil, achieving an average annual growth of 6 percent (above the national average of 3.6 percent).¹⁰ During this period, growth has been driven by the industrial (average growth rate of 10.4%), and agricultural sectors (8.3%), despite considerable volatility in the latter. Services growth has been stable at an

annual average of 4.7 percent. Notwithstanding the good performance up to 2012, recent high frequency data suggest that the economy may be slowing down, in line with national trends. Data from the monthly survey of services shows a 4.8 percent drop in revenue from services in the period January to August 2015. In addition, net job creation stood at 97 in the first half of 2015, in contrast to 7,066 jobs in the first half of 2014 and unemployment has edged up – from 6.5 percent in 2014 to 7.7 in June 2015, especially in the civil construction sector.

26. **Piauí's socioeconomic welfare indicators are relatively low by Brazilian standards.** At R\$ 8,137 in 2012, the state's GDP per capita is still the lowest among Brazilian states, well below the national average of R\$ 22,044. With a Gini coefficient of 0.566 in 2013 (above the national coefficient of 0.52), Piauí has the highest rate of inequality among Brazilian states and across Latin America and the Caribbean, except for Haiti (0.592). In 2013, while the *Bolsa Família* 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.¹¹ As of December 2014, without the BFP benefits, 1,913,587 inhabitants had a monthly per capita income between R\$0.00 and R\$154.00. There is also a difference between the average monthly income of men and women: R\$1,023.02 and R\$826.63, respectively.

27. **Poverty deprives a significant proportion of Piauí's population from adequate living standards, income and empowerment to overcome social and productive exclusion.** Impoverished groups have limited access to quality education and health care. Piauí's illiteracy rate is 19.72 percent—above the national average (8.52 percent) and the third highest among Brazilian states for people aged 15 years and older. There is a large discrepancy between the net enrollment rates in fundamental education (grades 1–9) and SE (grades 10–12) in Piauí: 93.1 percent and 37.9 percent, respectively. Moreover, the dropout rate in SE is 16 percent, the second highest in Brazil. In 2014, 44.2 percent of SE students were two or more years behind the normal age-grade level in 2014. By having limited access to quality education, poor people are deprived of knowledge, skills and competences needed for employment and, consequently, social inclusion. Poor health conditions also contribute to the vicious cycle of poverty. The child mortality rate is 21.1 per thousand in the state, while the national average is 15 per thousand. Many of Piauí's municipalities are considered priority areas for neglected tropical diseases (NTDs), which are invariably linked to poverty and stigmatizing. For instance, in some municipalities of Piauí the incidence of soil-transmitted helminthiasis reaches 20 percent of the population. NTDs undermine the intellectual development and productivity, drawing poor people into a downward spiral of worsening disease and poverty. The health care system in Piauí has faced challenges to prevent, control and treat NTDs and other poverty-related diseases.

28. **Piauí's poor population is also deprived of access to natural resources — such as land and water resources – and means to improve their productivity and family income. This situation is exacerbated among the rural population, which is characterized by subsistence and small-scale farmers.** Even with the benefits of the BFP, the percentage of households with a monthly income below the minimum wage is almost 40 percent in rural areas. Almost 90 percent of agricultural establishments in Piauí are classified as family farms, which are distributed in only 39 percent of the total area of settlements. The lack of land title constrains access of poor farmers to credit and subsidized financing lines. Moreover, production remains constrained by available natural resources and vulnerable to extreme climate events, especially drought in semi-arid areas. Inadequate and inefficient water resources management aggravates this situation. Water resources have been used at no charge and with limited control in Piauí, especially in large portions of agribusiness-irrigated crops.

29. **In order to improve service delivery, the GoPi has taken important steps to enhance public sector management, including in the area of results-based monitoring.** The GoPi used the Strategic Actions Monitoring System (SIMO) to monitor the physical and financial progress of priority programs linked to the state's Multiyear Plan (PPA) 2012–2015. Notwithstanding, monitoring of results indicators and evaluation of socioeconomic and environmental impacts is still seldom performed. In addition, substantial weaknesses in public investment management remain, especially related to the quality prioritization, planning, and costing of programs. In addition, the General Ombudsperson Office (OGE) has remained largely unknown, understaffed, underfunded, and underused by the population since its creation in 2007, which limits its capability to contribute to public transparency, citizen engagement, and accountability.

30. **Gender gaps remain sizeable in Piauí, particularly concerning labor market opportunities, income levels, and productive inclusion.** Women are the majority of the informally employed and lower-paid workers. Among those who work, the average wage earned by women reached 85.4 percent of the average wage earned by men in 2010. In terms of education, girls tend to stay longer in school, representing 55 percent of total enrollment in SE state schools. Gender-based violence is on the rise and remains largely underreported in Piauí. Until 2013, there were no systematic actions for mainstreaming gender dimensions in inclusive growth strategies.

2.3.2 Fiscal Sustainability

31. **The GoPi has been continuously improving its fiscal and debt situation throughout the last decade.** The debt reduction was achieved by running primary surpluses. The primary surplus was 2 percent of Net Current Revenue (NCR) in 2014, which followed a negative primary balance of 4 percent of NCR in 2013 because of lower revenues and high investments (table 2). Additionally, new credit operations have been kept at low levels since 2014 mainly because of the Brazilian economy's slowdown. Spending on debt service was high in recent years, at an average 13 percent of NCR, but declined considerably in 2013 and reached 5.6 percent of NCR in 2014, following repayment of the restructured debt owed by the state to the National Treasury. Net consolidated debt has fluctuated around 56 percent in the last five years, well below the 200 percent limit established by the Fiscal Responsibility Law.

32. **Revenue growth has performed well in the past few years, helping the state to improve its fiscal position.** From 2007 to 2014, total revenues grew at around 8 percent in real terms, driven mostly by tax revenues, which grew at about 8 percent in real terms over the same period. Piauí's tax revenue grew by 6.3 percent in real terms in 2013, but dropped slightly in 2014, growing at 4.0 percent in real terms. The value added tax (ICMS) is the most important tax levied by the state and represented 83 percent of the state's tax revenues in 2014. In the last few years, important developments were made regarding improvements in tax administration, particularly the introduction of an integrated system of tax administration, simplification of tax procedures, and use of a wide range of verification approaches to enhance taxpayer compliance.

Table 2 Fiscal Projections 2015–2019

Constant prices - R\$ million at 2014 prices	2015	2016	2017	2018	2019
I. REVENUE	8,948	9,006	9,264	9,597	9,946
Taxes	3,450	3,519	3,698	3,922	4,161
Social Contributions	972	992	1,011	1,032	1,052
Transfers (current and capital)	4,367	4,336	4,397	4,485	4,574
Other Current Revenues	168	168	168	168	168
Deductions	-9	-9	-9	-9	-9
II. EXPENSE	8,330	8,524	8,782	9,071	9,370
Compensation of Employees	4,599	4,691	4,785	4,880	4,978
Pensions	1,300	1,365	1,433	1,505	1,580
Interest Payments	114	113	113	112	108
Goods and Services	439	439	439	439	439
Transfers	1,878	1,915	2,012	2,135	2,265
III. GROSS OPERATING BALANCE (I - II)	618	482	482	526	577
<i>(as % of NCR)</i>	10%	8%	8%	8%	9%
IV. TRANSACTIONS IN NON-FINANCIAL ASSETS	607	611	629	651	675
Net acquisition of non-financial assets	571	574	591	612	634
V. NET LENDING / BORROWING (III - IV)	10	-129	-146	-125	-98
<i>(as % of NCR)</i>	0%	-2%	-2%	-2%	-1%
VI. PRIMARY BALANCE (V + Interest Payments)	125	-16	-34	-13	9
<i>(as % of NCR)</i>	2%	0%	-1%	0%	0%
VII. TRANSACTIONS IN FIN. ASSETS AND LIABILITIES	-376	727	-368	-82	217
New Loans	0	1,109	0	290	621
Amortizations paid on debt	376	382	368	372	405
Net acquisition of financial assets	0	0	0	0	0
VIII. GROSS FINANCING NEEDS	365	511	514	496	503

Sources: State Secretariat of Finance, Piauí SEFAZ; World Bank staff calculations.

33. **Transfers from the federal government are at low levels.** The largest source of revenue for the state is transfers from the federal government, especially through the State Participation Fund (FPE). Transfer revenues, of which the FPE accounts for about 70 percent, grew at an average real rate of 4.4 percent between 2007 and 2014. The slowdown in the Brazilian economy has affected the state's income from transfers. The state's total transfer revenue fell by 3.3 percent in real terms in 2013 and remained constant in 2014. Despite this decline, dependence on transferred resources remains high. In 2013 and 2014, federal transfers represented 73 percent of NCR.

34. **The state managed to comply with the Fiscal Responsibility Law in 2014 regarding limits on personnel expenditures.** The share of personnel expenditure in total expenditure was stable between 2007 and 2013 at about 40 percent. The relevant variable for the Fiscal Responsibility Law (LRF) is personnel expense related to Net Current Revenue (NCR), where the limit is 60 percent for overall personnel spending and 49 percent for the executive branch with a prudential limit of 46.6 percent of NCR. However, in 2013 the prudential limit was surpassed and reached 47.7 percent of NCR. The authorities were able to bring the indicator back below the limit by reducing spending on temporary employees. In 2014, the ratios for overall personnel expenditures and for the executive branch stood at 53.4 percent and 44.2 percent of NCR respectively. Even if the state managed to decrease personnel expenditures, it will be important to closely monitor and control these expenditures in the next few years. Overall, GoPi's fiscal accounts also comply with other limits imposed by the Fiscal Responsibility Law (FRL) (see tables 3 and 4 below).

Table 3 Fiscal Accounts, 2006–2014

Constant prices - R\$ million at 2014 prices	2006	2007	2008	2009	2010	2011	2012	2013	2014
I. REVENUE	4,646	4,874	6,925	7,191	7,603	7,886	8,381	8,438	8,585
Taxes	1,803	1,939	2,190	2,359	2,694	2,788	3,009	3,197	3,326
Social Contributions	162	583	628	661	728	736	803	878	896
Transfers (current and capital)	2,978	3,225	3,834	3,829	3,918	4,137	4,358	4,214	4,214
Other Current Revenues	195	178	273	345	264	227	218	158	158
Deductions	-491	-1,052	-1	-2	-1	-2	-7	-9	-9
II. EXPENSE	4,736	5,391	6,050	6,330	6,548	6,915	7,087	7,620	7,739
Compensation of Employees	1,494	2,124	2,177	2,354	2,539	2,733	2,818	3,033	4,238
Pensions	699	734	824	871	915	990	1,066	1,162	1,163
Interest Payments	248	362	285	197	160	158	143	109	115
Goods and Services	1,686	1,353	1,493	1,529	1,432	1,435	1,390	1,539	413
Transfers	608	817	1,271	1,379	1,502	1,599	1,669	1,776	1,810
III. GROSS OPERATING BALANCE (I - II)	-89	-517	874	861	1,055	971	1,294	818	846
(as % of NCR)	-3%	-17%	23%	21%	23%	19%	23%	14%	14%
IV. TRANSACTIONS IN NON-FINANCIAL ASSETS	424	303	571	975	912	589	753	1,155	863
Net acquisition of non-financial assets	424	303	571	975	912	589	753	1,155	863
V. NET LENDING / BORROWING (III - IV)	-513	-819	304	-113	143	382	542	-337	-18
(as % of NCR)	-19%	-27%	8%	-3%	3%	8%	10%	-6%	0%
VI. PRIMARY BALANCE (V + Interest Payments)	-265	-457	589	83	303	539	685	-228	97
(as % of NCR)	-10%	-15%	15%	2%	7%	11%	12%	-4%	2%
VII. TRANSACTIONS IN FIN. ASSETS AND LIABILITIES	-217	-378	-403	-9	-230	-399	54	144	-158
New Loans	19	14	23	718	496	243	1,141	496	69
Amortizations paid on debt	239	329	293	444	491	665	966	219	212
Net acquisition of financial assets	-3	62	133	284	235	-23	122	132	15
VIII. GROSS FINANCING NEEDS (Amortizations paid on debt - V)	752	1,148	-11	557	348	284	424	556	230

Sources: State Secretariat of Finance, Piauí SEFAZ; World Bank staff calculations.

Table 4 Fiscal Responsibility Law: Main Indicators for Piauí

Indicator	Limit % NCR	2009		2010		2011		2012		2013		2014	
		Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR
Personnel expenditure	60%	2,090	51.68%	2,354	52.02%	2,655	52.58%	2,959	53.08%	3,270	56.53%	3,311	53.39%
Executive	49%	1,732	42.83%	1,959	43.28%	2,233	44.21%	2,487	44.61%	2,757	47.65%	2,738	44.15%
Legislative	3%	110	2.73%	131	2.89%	135	2.68%	136	2.44%	144	2.49%	159	2.56%
Consolidated Net Debt	200%	2,435	60.21%	2,443	53.99%	2,867	56.78%	2,816	50.50%	3,390	58.60%	3,776	60.89%
Receipts from Credit Operations	16%	436	10.78%	282	6.23%	260	5.15%	833	14.95%	496	8.57%	73	1.18%
Debt Service	11.5%	506	12.51%	543	12.00%	697	13.80%	1,076	19.30%	326	5.63%	346	5.58%
Net Current Revenue (NCR)		4,043		4,525		5,050		5,575		5,785		6,201.51	

Source: State Secretariat of Finance, Piauí SEFAZ.

35. **Investments have increased at an average of 13.5 percent of NCR between 2006 and 2014 because of a combination of increased revenues and credit operations.** With assistance from the federal government, Piauí has been undertaking an infrastructure modernization and construction program over the past three years, including the (under construction) Trans Northeastern Railway. Besides infrastructure, the state is also focusing its investments on the areas of education and health that require significant enhancements, in line with the main objectives of the 2016–2019 Multi-Year Plan (PPA). Nevertheless, investment growth was slower in 2014, reaching 14.8 percent of NCR in 2014 versus 20 percent of NCR in 2013, because of a decrease in federal disbursements channeled to investments in the state as well as a significant decrease in credit operations.

Piauí's Debt Sustainability Outlook

36. **A Debt Sustainability Analysis (DSA) prepared by the Bank projects a declining trajectory of public debt beyond the medium term** and continued compliance with the FRL debt limit. However, this assessment is subject to a number of risks that could render the outlook less favorable.

37. **Because of the severe economic recession that is affecting federal revenues, a decline in the state's current revenues is expected in the near term.** Total revenues are projected to

contract by 2.1 percent in 2015 and thereafter resume growing, albeit at a lower rate than in recent years, particularly over the past five years. This aggregate revenue growth projection builds on the expected decline in the real growth of tax revenues to 2.7 percent on average between 2015 and 2019. This is because of lower economic growth in the state, and despite recent measures adopted by the state to increase efficiency and management in tax collection, most notably, the recently implemented electronic fiscal note “Nota Piauiense”. The expectation for federal transfers, the state’s largest source of revenue, is equally unfavorable, with a contraction in real terms expected in 2015 and 2016.

38. On the expenditure side, personnel expenses are estimated to continue growing in real terms. Even if the state has managed to decrease personnel expenditures in 2014 and move further away from the limit on total personnel expenditures postulated in the Fiscal Responsibility Law (FRL), slowing expenditures of this type still needs to be a governmental priority in the next few years. Payroll expenditure for active civil servants is expected to continue growing, albeit at a slower pace of 2 percent, in part because of increases in minimum wage and other planned increases in spending mandated by state law. At the same time, pension expenditure is expected to continue growing at 5 percent in real terms because of an increasing number of public servants eligible to retire in the near future. To adjust to the deteriorating fiscal situation, the state is not hiring new public servants in 2015 and is making efforts to control other current spending, mostly on goods and services such as suspending the contracting of temporary personnel. It has also postponed some planned investments.

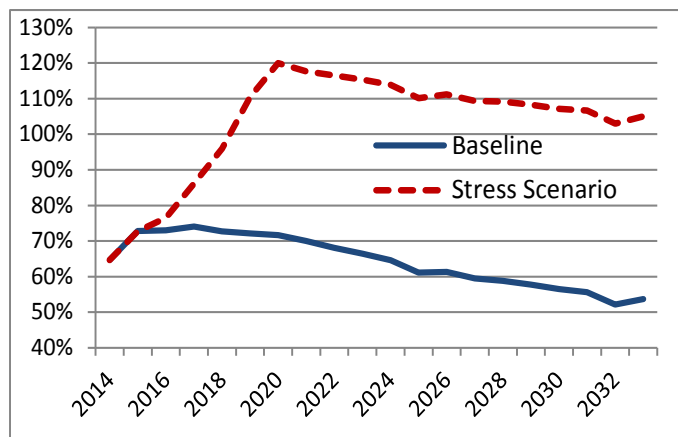
39. Risks for the fiscal outlook originate from the possibility of lower GDP growth in the state as well as at the national level. Because of the Brazilian economy’s steep slowdown since 2014, transfers from the federal government have barely grown over the past two years, falling in real terms in 2013 and 2014. The projected contractions in national growth in the near term will significantly undermine the growth in transfers in this time span. At the same time, lower economic growth in the state, which is historically not strongly correlated with national growth, could result in a deeper and prolonged contraction in tax revenues. On the expenditure side, the most significant risk is failure of the state to control expenditure, especially on personnel expenditure.

40. Despite a rise in indebtedness in the short term, improvements in debt indicators are projected in the long term. Consolidated Debt to Net Current Revenue (NCR) will initially rise to 74.1 percent in 2017, from 64.6 in 2014, but is projected to gradually fall back to about 64 percent over the next 7 years, with a downward trend in the long term. In this scenario, the State of Piauí would be complying with the Fiscal Responsibility Law. In a stress scenario characterized by lower GDP growth (three percentage points lower than in the baseline scenario) and stronger depreciation of the real, the state’s debt is projected to rise sharply. In this scenario, net debt to NCR is projected to increase significantly to about 120 percent by 2020 and then slightly decline afterwards (figure 1).

41. Intergovernmental fiscal relations are adequate. Transfers are mostly rule-based, with the rules being written in the Constitution or laws. The rules are public and known in advance, and the Court of Accounts oversees their application. Under the Fiscal Responsibility Law and complementary Senate resolutions, borrowing by states is prohibited if (i) the Net Consolidated Debt (NCD) twice exceeds NCR in the case of states, or 120 percent in the case of municipalities; (ii) new credit operations exceed 16 percent of NCR; or (iii) debt service exceeds 11.5 percent of NCR. Borrowing is also prohibited if it violates the debt-reduction schedules. Finally, bailouts of subnational governments are prohibited, and none has been registered in over 16 years. The National Treasury Secretariat monitors state government’s fiscal accounts. Revenues and Expenditures assignments are broadly matched, with gaps covered by specific Federal

Government transfers, which are mostly for education and health. The current debate over intergovernmental finance reforms is not expected to change these characteristics in the next few years. Nonetheless, there remains scope to address some shortcomings in the system to strengthen the incentives for subnational fiscal discipline and reform.

Figure 1 Debt Trajectory under Baseline and Stress Scenarios



Source: World Bank staff calculations.

42. **In conclusion, the GoPi's expenditure program and the fiscal arrangements between the federal and state governments are adequate for this operation.** The state has taken measures to adjust to the declining economic context as mentioned above. It is also monitoring economic and fiscal developments closely through its economic commission (*Comissão de Gestão de Finança*) and remains committed to take additional measures if necessary in response to a continued slowdown. Given budget rigidities, additional measures would continue to focus on the control of discretionary current expenditures. Technical assistance to the GoPi's adjustment efforts will be provided by the World Bank through enhanced supervisory missions to support the Government in implementing an adjustment plan that focuses on the long-term sustainability of improved fiscal outcomes.

2.4 IMF RELATIONS

43. **This DPL complies with the guidelines for coordinating with the International Monetary Fund (IMF) on development policy financing. The IMF has not had a program with Brazil since 2005. Annual Article IV missions have been held since then.** The Executive Board of the IMF concluded the latest Article IV Consultation with Brazil on March 16, 2015 (annex 3). The Bank and the Fund teams work very closely on the overall Brazil program. This is consistent with the Joint Management Action Plan (JMAP), which requires Bank and Fund staff to consult at least annually in the preparation of their work programs. However, since the IMF does not work directly with state governments, there has been no direct collaboration with the IMF on this specific operation.

3. STATE GOVERNMENT'S PROGRAM

44. **The proposed DPL will support policies anchored in the government's development strategy, based on its existing sector strategies and ongoing reform agenda, clearly focused on the poorest 40 percent of the state's population.** The GoPi's program is embodied in the PPA 2016–2019, which organizes the overarching government objectives in four pillars: (i) human development, with emphasis on education, health, and security; (ii) diversified economic development, with social inclusion and sustainability; (iii) infrastructure investments for

sustainable territorial development; and (iv) efficient public management, with transparency and accountability to improve life conditions. During the PPA preparation, the GoPi focused on building consensus regarding the proposed plan with public agencies at federal, state and municipal levels, civil society representatives and other key stakeholders (see paragraph 74).

4. PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

45. **The proposed DPL's program development objective is to support the GoPi's key policy reforms** for: (i) improved performance of secondary education students in state public schools and expanded coverage of public health services; (ii) expanded access of targeted vulnerable groups to productive chains and natural resources management services; (iii) strengthened systematic monitoring of priority investments, and (iv) strengthened institutions for gender mainstreaming and channeling the citizens' voice in strategic programs. In its Letter of Development Policy, the GoPi emphasizes how the DPL-supported policies complement its development strategy (annex 2).

46. **The proposed DPL was informed by lessons learned from previous Bank-financed operations in Brazil and in other countries.**¹² These lessons point to the following guidelines.

47. **Sector reforms need to build on solid Bank-client dialogue and borrower's ownership.** The operation has benefited from strong leadership of the state's highest authorities: the former and current governors and the state secretaries had a direct and constant involvement in the operation's preparation. What stands out in the case of Piauí is the overall continuity, stability, and processes for striving for results, monitoring results, and social learning.

48. **For multi-sectoral operations, design and implementation of complex policy reforms require shared ownership by all concerned secretariats from the onset of the design of the program, and strong central steering by reform champions.** The Bank can play a catalyst role in fostering coordination among stakeholders, while its involvement helps ensure that key government agencies cooperate effectively to carry out sector reforms. SEPLAN coordinated all state agencies involved in the program supported by this DPL. SEPLAN's leading role elevated the policy dialogue to public authorities with policy decision-making power—especially the state governor. Furthermore, the Bank's support has given SEPLAN power to both request reports and demand results, while at the same time playing a catalytic role in improving its relations with other executing agencies.

49. **Sector reforms need to build on strong analytical foundations.** The policy areas supported by this operation reflect the government's own policy priorities underpinned by a substantial body of analytical work carried out by the Bank and governmental agencies. A result of the analytical work, the GoPi refined existing policies and incorporated additional policies in the DPL matrix (for example, gender and citizen engagement policies).

50. **Supporting policy reforms as part of a comprehensive strategy that includes a suite of Bank instruments is key to successful program implementation.** The alignment of the DPL, during its preparation and implementation, with the Bank's strategy in Brazil, and particularly in Piauí, will be crucial to better achieve the outcomes of the policy reforms. As some governmental agencies have stressed during program preparation, successful policy implementation can be more effectively supported with complementary investments and technical assistance. This approach is particularly important in countries or states with low institutional capacity to implement the proposed policies.

51. **Policy sustainability represents an important goal.** This operation encourages the GoPi to legally institutionalize its public policies, turning them into state policies rather than mere plans of a particular administration. The PPA 2016–2019 envisions the DPL-supported policies; furthermore, this PPA has its own set of outcome indicators and monitoring mechanisms, such as the SIMO and the oversight of the Territory and State Councils on Sustainable Development. This is crucial to enhance the long-term sustainability and transparency of the reforms embodied in Piauí’s development strategy.

52. **A clear accountability framework enhances the chances of success.** In this operation, the government fully owns the monitoring framework, and measurable outcome indicators have been selected to ensure program monitoring and evaluation. In addition, the GoPi has adopted the Strategic Actions Monitoring System (SIMO) to track priority projects and programs. The DPL supports the GoPi to improve SIMO processes to guarantee that relevant information is collected, shared, and used in a timely manner to improve planning and execution. The DPL also supports to enhance the OGE to promote greater accountability and social learning.

4.2 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

Pillar 1: Improved performance of secondary education students in state public schools and expanded coverage of public health services

Sub-Pillar 1.1 – Improve performance of secondary education students in state public schools

53. **Uneven access and poor quality contribute to decreasing demand, high dropout rates, and overall poor student performance in secondary education (SE) in Piauí—especially for the poorest and most vulnerable populations.** The dropout rate in the first year of SE was 16 percent in 2014, the second highest in Brazil. With regard to quality and student performance, Piauí’s 2013 scores in the Index of Basic Education Development were 3 for the third year of SE, compared to 3.4 for Brazil overall. State standardized tests showed that 47 and 65 percent of students did not achieve basic levels in Portuguese and Math in the first year of SE, respectively, in 2011. Piauí has the second-highest proportion of students in Brazil (39.8 percent) attending SE through evening classes, which are often of lesser quality and provide fewer hours of instruction. Although this is partly due to student preferences (in 2012, 117,860 individuals aged 15 to 22 were both studying and working in Piauí), evening classes are often the only modality offered by state schools in many of the poorest, rural municipalities. Students’ need to work and their relatively weak fundamental skills impede learning and increase the likelihood they will drop out of SE, perpetuating social exclusion and inequality for this youth population.

54. **With the DPL support, the state has created the “Poupança Jovem” Program (Youth Savings Program – YSP) aimed at reducing school dropout and increase pass rates in SE, support better learning through student/school/family strategies, and stimulate student participation in the National Secondary School Exam (ENEM).**¹³ Initiated as a pilot program in 2015, YSP has enrolled approximately 12,000 students in the four municipalities with the highest extreme poverty incidence in each development territory, for a total of 44 (out of 224) municipalities. Under this program, students in participating municipalities will receive an annual financial reward for each of the three years of SE successfully concluded. The beneficiary students must also participate in extracurricular activities, such as good citizenship, criminality prevention and gender equality programs. The GoPi aims to expand the YSP to other municipalities, following the selection criteria of the highest extreme poverty incidence in each development territory.

Prior Action #1	Expected Outcome
The state has created a financial incentive program for students enrolled in state public schools in the poorest municipalities to complete secondary education (SE) and participate in extracurricular activities.	The prior action will lead to a higher proportion of students that finish SE, thus developing more skills to become productive workers. This outcome will be measured by comparing the pass rate in schools that benefit from the financial incentive program with the average of SE schools in Piauí.

Sub-Pillar 1.2 – Expand public health services to control and address neglected diseases

55. **Neglected tropical diseases (NTD) and poverty-related diseases (PRD) remain very relevant and epidemiologically predominant among Piauí’s poorest and most vulnerable groups.** Most of these diseases find their roots in the consequences of poverty and poor environmental quality, such as malnutrition; inadequate housing and hygiene conditions; indoor air pollution; and lack of, or limited access to, proper sanitation, quality water, and education. By impairing intellectual development and productivity, NTDs and PRDs draw poor people into a downward spiral of worsening disease and poverty. Although a large proportion of those illnesses are entirely avoidable or treatable with existing medicines or interventions, they often do not represent the most pressing public health priorities in developing countries.

56. **Many of Piauí’s municipalities are priority areas of neglected and poverty-related diseases.** Between 2010 and 2012, the incidence of geohelminthiasis among Piauí’s population aged 7 to 14 years old varied between 4 and 20 cases per 100 inhabitants. Parasitic worms cause this infection, resulting in anemia, vitamin A deficiency, stunted growth, malnutrition, intestinal obstruction, and impaired development. From 2007 to 2012, 508 acute cases of Chagas disease were reported in Piauí, leading to heart diseases and digestive, neurological, or multiple health alterations. Eighty-three out of 224 municipalities were identified with medium to high infestation of Chagas disease vectors, especially in the semiarid areas in the state’s southeast, which are characterized by precarious housing conditions. Piauí is also a priority area for risk of Hansen’s disease (leprosy), comprising 4.2% out of the total new cases detected in Brazil. The overall case-detection rate of Hansen’s disease in Piauí was 32.5 new cases per 100,000 inhabitants in 2014, while the average case-detection rates were 2.44, 3.75, and 8.12 per 100,000 inhabitants in Africa, the Americas, and South Asia, respectively. In regards to leishmaniasis, Piauí had an annual average of 349 new cases from 2011 to 2013. Finally, the tuberculosis rate in Piauí was 15.4 per 100,000 inhabitants in 2014. Between 2009 and 2012, the rate of healing dropped from 73.1 to 65.9 percent, whereas the percentage of deaths from tuberculosis increased from 2.5 to 3.3 percent.

57. **As part of the DPL, the GoPi created a program to prevent, control, and respond to neglected diseases (SESAPI Ordinance No. 1,870/2015).** In Piauí, health facilities are not easily accessible and staffing is insufficient, especially in rural areas serving the most vulnerable groups; management and coordination of patient flow is weak; and too many patients are transferred to, or seek care in, the capital, Teresina. These geographic inequalities produce a bottleneck and compromise the entire health-care delivery system and, consequently, increase morbidity and mortality rates by NTDs, PRDs, and other illnesses. To address these challenges, the new program aims to promote synergies and augment financial resources, and administrative and medical capacity to support prevention, screening, diagnostic, and treatment initiatives, mainly through cooperative actions by the state government and targeted municipalities. The new program will adopt worldwide best practices on NTDs treatment, focused on the following axes: diagnostic of epidemiological profile of municipalities; screening for new cases in the target population,

diagnosis and treatment, training of health professionals, vector control, and social communication campaigns for prevention. The program will facilitate the distribution of medicines and tools, and will support mapping, surveillance, monitoring, and evaluation. Decreasing the burden of NTDs in Piauí will improve the poorest groups' living conditions.

Prior Action #2	Expected Outcome
The state has established a program to implement strategic actions to prevent, control, and respond to neglected diseases—particularly Chagas disease, hanseniasis, tuberculosis, leishmaniasis, and geohelminthiasis—which mostly affect the poorest groups.	The prior action will result in better health conditions among vulnerable groups, measured as an increase in (i) the share of cured patients for two key NTDs—hanseniasis and tuberculosis, and (ii) the proportion of examined vectors to detect parasite of Chagas diseases.

Pillar 2: Expanded access of targeted vulnerable groups to productive chains and natural resources management services

Sub-Pillar 2.1 – Improve water resources management

58. **Inadequate and inefficient water resources management 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 drought situation may worsen in the future due to climate-change effects, particularly on river-basin hydrology and water availability. Despite their scarcity, water resources have been used without restrictions. In parallel, SEMAR lacks institutional capacity to enforce water resources regulations and to implement interventions envisaged in the State Water Resources Plan. For instance, 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 rights applications. The available data do not allow SEMAR to thoroughly analyze water resources demand and supply in specific water basins. 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. Furthermore, the state has energy subsidies that contribute to inefficient water use, especially for irrigation purposes. This situation causes serious economic, environmental, and social consequences, such as (i) wasteful and excessive water use; (ii) limited access to water in some regions, which impairs rural production by small-scale and subsistence farmers; (iii) degradation of aquifers, reduction of river flows, 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.

59. **With DPL support, the GoPi adopted the first steps towards an enhanced water resources management, by providing the legal basis for the implementation of the State Water Resources Users Registry (CERH), which will be managed by SEMAR using the electronic platform of the CNARH** (State Law 6,474/2013, State Decree 16,142/2015 and SEMAR Ordinance 81/2015). Under the new policy, all users of surface and groundwater shall register information with SEMAR regarding water use, such as location and nature of its source, availability, volume, distribution, and water quality. SEMAR has already notified the users who had applied for water use rights to present additional information needed for the new registry. SEMAR will carry out public calls through multiple communication methods in the priority municipalities (organized in hydrographic regions) in order to reach the largest number of users. After that, SEMAR will conduct an active search of water users in order to identify those that did

not voluntarily register themselves in CERH. According to the water resources regulations, SEMAR will sanction water users who did not register in the CERH by the required deadline and, when applicable, who use water without the required permits. Considering the amount of water used by small-scale producers, most of them are expected to be exempted from water use authorization—not from registering in the CERH. Thus, SEMAR will focus on enforcing the regulations to those users who need water use authorization. As a result of the CERH, SEMAR will have key information to support policy design and implementation, which will contribute to ensuring the availability of water for human consumption, especially in semi-arid regions; to regulating and controlling the use of groundwater and surface water; deciding on the allocation of water resources and preventing conflicts among users.

Prior Action #3	Expected Outcome
The state has established the legal basis to implement a water-users registry in order to improve water resources management by gathering information on water resources use in the state.	The prior action will result in improved water resources management. This outcome will be measured by (i) the number of groundwater users whose information is registered in CERH, and (ii) the regular updating and public disclosure of information on users not complying with registry and water use rights regulations.

Sub-Pillar 2.2: Facilitate the access of family and small-scale farmers to public services associated with natural resources management

60. **One of Piauí’s main challenges is to integrate management efforts from SEMAR and the Land Institute of Piauí (INTERPI) to facilitate the access of small-scale and subsistence farmers to natural resources management services, in order to promote both the land security and the sustainable use of natural resources.** Financial institutions require rural producers to present certificates issued by INTERPI and SEMAR before approving credit applications, including for subsidized programs for poor and family farmers such as PRONAF, and the National Program of Rural Housing (PNHR). Subsistence and small-scale farmers also have to regularize their situation with INTERPI and SEMAR to benefit from the State Program for Employment and Income Generation in Rural Areas (PROGERE). The state land-tenure regularization program (Laws 6,127/2011) requires INTERPI to verify with SEMAR (i) whether the area in question is not environmentally protected by law or of ecological interest,¹⁴ and (ii) require proof of landholder application to the Rural Environmental Registry (CAR) before issuing the tenure title.¹⁵ Within SEMAR, the water resources unit shall consult the environmental unit before granting water use rights. The agencies, however, lack an adequate coordination to expedite these processes while complying with the land and environmental legal framework. For instance, users need to submit three separate copies of documents to INTERPI and SEMAR, when applying for land regularization, environmental licensing and water use rights. In some cases, INTERPI and SEMAR duplicate the geo-referencing of the same area. The average time to process an environmental licensing application before SEMAR exceeds 12 months, which is a disincentive for farmers to regularize their activities. Hence, SEMAR and INTERPI must develop the capability to provide timely services, especially for poor farmers and *quilombola* communities, to avoid delays in land titling and enrollment in federal and state programs aimed at productive inclusion.

61. **Improved coordination between SEMAR and INTERPI will be essential in the coming years, due to extension of the application period for land regularization of subsistence and small-scale farmers who have been occupying and producing on state public lands for at least five years.** Through State Law 6,687/2015, small-scale farmers have until December 2020 to file regularization requests with INTERPI under the grant modality originally envisaged in Law 6,127/2011. This law also envisions that the state will pay the notary fees for the

land-title transfer and registration, provided that the small-scale farmers formally request such support within six months after the land certification from INTERPI. By providing the land title to small holders, who are predominantly subsistence and small-scale producers, the GoPi has consolidated their land rights and promoted socioeconomic inclusion. In Piauí, the land title will facilitate small farmers' access to financial and social programs such as PRONAF and PNHR, and will lead to the adoption of more sophisticated and sustainable agricultural practices.

62. **As part of DPL, the GoPi integrated processes and protocols for applications received by INTERPI and SEMAR for land-tenure regularization, allocation of natural resources and water rights** (State Decree 15,502/14, Ordinance SEMAR/INTERPI No. 3/2015, and State Decree 16,192/15). From now on, applications for land and environmental regularization will follow a single processing flow that involves both agencies, comprising standard procedures, geo-referencing, and automation, including the creation of a State Geo-Processing Laboratory (CGEO). This policy reinforces the compliance with environmental norms to formalize land titles; contributes to monitor and control productive landscapes, vegetation cover in private landholdings, and water rights management, and contributes to improving land planning and promote the orderly occupation of vacant state land.

Prior Action #4	Expected Outcome
The state has adopted the legal basis to facilitate access of small-scale and subsistence farmers to public services associated with natural resources management.	The prior action will result in more-equitable access for small-scale and subsistence farmers to natural resources, by streamlining the public services associated with such resources. This will be measured by the percentage of applications submitted by this category of farmers that are jointly processed by INTERPI and SEMAR.

Sub-Pillar 2.3: Enhance productivity and economic, social and environmental sustainability of subsistence and small-scale farming

63. **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; relies on outdated techniques that hamper productivity; contributes little to the state's economy and families' income; is highly vulnerable to climate hardships;¹⁶ and may contribute to environmental degradation. Targeting poverty alleviation in rural areas, the GoPi created PROGERE to support family farming through interventions in a broad cross-section of rural activities, such as (i) funding business initiatives and strengthening production chains, and (ii) supporting program beneficiaries through technical assistance and business mentoring. 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 because it lacked baseline information and clear rules of procedure.

64. **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** (Decree 15,664/2014 and SDR Ordinance No. 60/2015). This will be achieved through greater emphasis on productivity-enhancing activities and income-generating opportunities for participating farm families. For PROGERE's second phase, the GoPi adopted clear rules of procedure, including transparent criteria and processes for (i) selecting the Program's beneficiaries and projects—prioritizing women, *quilombola* communities, poor youth who concluded SE in agriculture technical schools, and the poorest producers of Piauí; and (ii) ensuring that these interventions are economically, socially, and environmentally sustainable—prioritizing projects

aimed to enhance productivity through environmentally sustainable practices, including climate-smart and other environment-friendly practices.¹⁷ In addition, the program's second stage will initially focus on a smaller number of projects in six productive chains, including both agricultural and non-agricultural production. For the first time, the GoPi will use a computerized management system to receive applications, select and supervise implementation of rural development projects, in order ensure compliance with the program's prioritization criteria and other rules. Different from PROGERE's first phase and all other rural development programs in Piauí, the entire project cycle will be based on electronic forms. The system will, therefore, facilitate the results-based monitoring, supervision, and evaluation aimed at ensuring that the program is fulfilling its goals of reducing rural poverty. This system will also include Web-based sections available to the general public with key information about the program, such as the rules of procedure and the monitoring reports. 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.

Prior Action #5	Expected Outcome
The state has reformed the Rural Poverty Reduction Program (PROGERE) in order to prioritize women and extremely poor producers as beneficiaries and to improve transparency of the Program's processes.	The prior action is expected to result in a higher number of women and extremely poor producers that improve their welfare conditions as a result of having developed an economic activity supported by PROGERE. This outcome will be measured by the percentage of PROGERE-financed projects whose selection and implementation process is undertaken through a computerized management and publicly disclosed, thus opening the program's operations to public scrutiny.

Pillar 3: Strengthened systematic monitoring of priority investments

Sub-Pillar 3.1 – Improving results-based public investment management

65. **The GoPi's ability to target and deliver services to the most vulnerable is hampered by its weak institutional capacity to plan, monitor, and evaluate programs, and the limited information on performance and results evidence available to support decision making.** Addressing these gaps is crucial in a context of tight fiscal constraints and rising demand for public services and to ensure that the state's sizable investments translate into better services. In the past five years, Piauí adopted new mechanisms and models for improving public management, such as the Strategic Actions Monitoring System (SIMO) to track priority projects and programs. The system currently tracks 421 projects, valued at about R\$4 billion and equivalent to 60 percent of the PPA budget. The priority programs aim to address the state's significant gap in infrastructure and to support expanding service delivery such as health and education in underserved areas. SEPLAN coordinates the monitoring process through its SIMO working group, to ensure that sectoral agencies work towards common, well-defined goals and provide the information to feed the system. The methodology allows for (i) monitoring the performance of public works, programs, projects and services against implementation schedules, targets, and budgeted resources, and (ii) determining corrective measures that is subsequently tracked until completed. However, the results-based management and monitoring model is still to be institutionalized and its scope and coverage extended to all major programs. Line agencies do not have processes or tools in place to systematically monitor programs and projects not included in the Governor's list of priority programs. Significant problems remain and require the development of routines and methodologies to strengthen the upstream stages of the public investment process. The rapid and substantial increase in capital spending has not been matched by an equivalent improvement in practices used to allocate and manage such investments. Investment programs continue to be highly fragmented and not always aligned with strategic objectives of the PPA. Budgeting

decisions are made in an ad hoc manner, while little consideration is given to maintenance or operating costs generated by investments projects. The quality of project design remains low and the mechanisms for filtering selecting investment proposals are extremely weak, with few ex-ante evaluations and feasibility studies conducted.

66. **The proposed DPL will support the statewide adoption of standardized results-based planning, monitoring, and evaluation processes by providing the legal basis, detailed regulations, and accountability structures necessary for their implementation.** The proposed prior action integrates existing mechanisms under a single framework, and ensures that SIMO is operational, enforceable and gradually extended to all line agencies. This will contribute to address fragmentation of planning practices and to guarantee that relevant information is collected, shared, and used in a timely manner to improve planning and execution. In addition, as part of the goal of monitoring priority investment programs, the GoPi has created a process, within the SIMO, to track the implementation of agreements (or *convênios*) signed with the federal government to implement specific investment programs funded with federal grants. The state has 343 agreements with the federal government, which amount to BRL 7.4 billion, with different structures, conditions, timelines, and reporting requirements. If the state fails to meet them or exceeds the agreed implementation schedule, as it is frequently the case, it is required to return the unused funds paying interests. To avoid losing resources that are critical for the state, SIMO will track the implementation of the largest agreements and will progressively cover all.

Prior Actions #6.1 and 6.2	Expected Program Outcomes
<p>a) The state has established (i) the legal basis for the implementation of a results-based Integrated System of Planning, Monitoring, and Evaluation for investment programs; (ii) the rules and procedures for executing, monitoring and evaluating investment projects and programs; and (iii) the decentralization of monitoring responsibilities to line secretariats.</p> <p>b) The state has established the legal basis and procedures for the implementation of a systematic monitoring of agreements (<i>convênios</i>) for targeted activities financed through federal grants.</p>	<p>Prior Action # 6.1 will result in enhanced social and productive inclusion for Piauí's citizens, particularly the poor and other vulnerable groups, because of more effective and efficient public programs and projects. Prior Action # 6.2 will result in enhanced social and productive inclusion for Piauí's citizens, particularly the poor and other vulnerable groups, because of more effective and efficient use of budgetary resources transferred from the federal government. These outcomes will be measured by increase in the percentage of agreements with the federal government whose implementation and evaluation is systematically monitored through SIMO.</p>

Pillar 4: Strengthened institutions for gender mainstreaming and channeling citizens' voice into strategic programs

Sub-Pillar 4.1 – Mainstreaming gender-smart policies

67. **Gender gaps remain sizeable in Piauí, particularly in labor market opportunities, income levels, and productive inclusion.** Women are the majority among informally employed and lower paid workers. Among the occupied people, women's average wage is equivalent to 85.4 percent of the average wage earned by men in 2010. These gaps occur in spite of the human endowments of men and women. Women and girls continue to achieve better school achievements than men and boys: illiteracy rates are higher among men (24.7 percent) than among women (19.9 percent); girls and young women perform better than their male counterparts at all school grades, and early dropout rate from school reaches 46.1 percent among men and 33.9 percent among women. In parallel, gender-based violence is on the rise in Piauí: 32 percent increase in reported cases of sexual violence between 2010 and 2013, and 3 percent increase in reported cases of domestic violence between 2011 and 2012. Such violence remains largely underreported in the State of Piauí, which can be partially evidenced by the reduction in calls to the national Women's

Attendance Center from 31.1 per 50,000 in 2008, to 47.3 per 100,000 in 2014. Despite this context, up until recently, there were no systematic actions for gender mainstreaming gender in inclusive growth strategies in Piauí.

68. **As prior action of the proposed DPL, the GoPi adopted a decree to operationalize the State Coordination of Policies for Women (CEPM), in order to mainstream a gender perspective into the design, implementation and supervision of state public policies (State Decree 16,162/2015).** The CEPM was created in 2013 to plan, coordinate, execute, and articulate public policies for women across sectoral agencies (State Law 6,465/2013). With the support of the DPL, the GoPi adopted detailed regulations on the structure, institutional arrangements, and mandate of the CEPM, making the agency operational. In parallel, the GoPi has adopted additional reforms to (i) revitalize and operationalize the State Council for the Defense of Women Rights (CEDDM/PI), a permanent consultative body linked to the State Secretariat of Government, but also comprised by citizen society representatives; (ii) include gender-smart policies and programs in the PPA 2016–2019; (iii) expand and strengthen a network of municipal Organizations on Policies for Women (OPM)¹⁸; and (iv) prepare, issue, and implement the first State Plan for Women Policies (PEPM). These policies will enable the GoPi to draft, coordinate, and execute cross-cutting policies aimed to guarantee the rights of women, to promote women’s productive inclusion and to foster gender equity. In particular, the policies will contribute to (i) enhanced social inclusion by reducing gender gaps and economic and social vulnerabilities, as well as by improving service delivery; (ii) enhanced access to jobs and income-generation opportunities; (iii) strengthened dialogue between government and society, contributing to increase women’s participation and agency, to protect women’s rights and to promote gender equity; (iv) an increased number of gender-sensitive and gender-smart policies; and (v) increased alignment and coordination between the gender policies at state and national levels.

Prior Action #7	Expected Outcome
The state has adopted the legal basis to operationalize the State Coordination Agency for Policies on Women (CEPM), to mainstream a gender perspective into the design, implementation, and supervision of state public policies.	The prior action will result in greater equality for women, increasing their opportunities for social and productive inclusion. This outcome will be measured by the number of thematic programs reporting gender-based indicators in the PPA 2016–2019 compared to the PPA 2012–2015.

Sub-Pillar 4.2 – Enhancing citizen engagement and social accountability

69. **The State of Piauí General Ombudsperson Office (OGE) has remained largely unknown, understaffed, underfunded, and underused by the population since its creation in 2007.** The OGE’s main role is to serve as an institutionalized channel of dialogue between citizens and government, aiming to (i) improve the quality of communication and mediate the relationship between citizens and state agencies; (ii) assert the right of citizens to request information from public authorities, to make suggestions or complaints, and, particularly, to have their demands effectively considered and adequately addressed in the light of their rights; and (iii) empower the voice of society within public bureaucracy. However, the OGE has mostly lacked awareness, credibility, and trust from stakeholders, who do not acknowledge OGE’s willingness, independence, and impartiality to resolve complaints against the state administration. The available channels of access by the population (one 1-800 line, an office at the Capital city, and a link at the state’s Web portal) are considered fragile and not well known. Consequently, the average number of complaints and requests received remained low. Fears of retaliation also hampered OGE’s reputation and work. During the first half of 2015, it received only 88 complaints. The largest share of its users came from the capital city (45 percent), and the vast majority of them

used the free telephone line (72 percent). While 76 percent of the complaints have already been handled and transferred by the OGE to relevant government offices, just 25 percent have been resolved. The OGE has a performance standard equal to 20 days to handle each complaint.

70. **With the support of the proposed DPL, the GoPi regulated procedures for the OGE and a network of targeted sectoral agencies that have to provide technical support to expedite the response to complaints associated with social and productive inclusion services (State Decree No. 16,150/2015).** The OGE will keep its role of technical coordination and supervision, while the decentralized offices will be responsible for representing OGE at key sectoral agencies. This policy aims to (i) strengthen the operational capacity, policy, and institutional development of the OGE; (ii) foster the development of performance standards of excellence, the exchange and sharing of experiences and favoring knowledge production, dissemination, and consolidation; and (iii) promote cooperation between public agencies, increasing efficiency, and reducing administrative costs. This network of cooperating agencies will address the existing fragmentation of practices and procedures, guarantee standardization and sharing of relevant feedback provided by public-service users and citizens in general as well as its integration and use in a timely manner to improve public planning and execution. OGE's sectoral representatives will comply with guiding principles and rules of procedures for ensuring incentives to use its services, fair treatment of requesters, efficiency of response, and social accountability. Those representatives will be responsible for receiving, filing, and updating the electronic database of all information requests, complaints, suggestions, and compliments from citizens and other stakeholders, ensuring that these communications are properly responded to within a 20-day period. The representatives will also keep requesters informed of the progress and results of their demands. OGE's revamping is expected to enhance citizen engagement with public administration and to foster more-efficient use of citizen feedback in planning and implementing public policies, leading to better services to the population and improvements in social accountability.

Prior Action #8	Expected Outcome
The state has adopted the legal basis to facilitate the access of poor citizens to the Ombudsperson Office (OGE) services, and to expedite the response from targeted sectoral agencies to complaints associated with social and productive inclusion services.	This prior action will result in improved public services to enable social and productive inclusion by increasing the accountability and responsiveness of agencies providing such services. This outcome will be measured by the number of priority sectors having an institutional channel of dialogue with citizens, in the form of representatives of the OGE.

Analytical Underpinnings

71. **The proposed operation builds on rigorous, interdisciplinary analytical work.** In addition to specific studies in each sector (annex 4), the Bank (i) examined the distributional impacts of policy reforms supported by the DPL on the well-being and welfare of different social and livelihood groups, focusing on poor and vulnerable groups; and (ii) provided recommendations to incorporate social and distributional considerations in the proposed DPL-supported program. The Bank also developed a Social Accounting Matrix (SAM) for Piauí, which provided a broad evaluation of the direct and indirect effects of the policies supported by the DPL.

4.3 LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

72. **The policies supported by the proposed DPL are part of the State of Piauí's efforts to alleviate poverty and enhance shared prosperity.** The proposed operation is fully consistent with, and aims to contribute to, the four strategic objectives of the World Bank Country Partnership Strategy (CPS) 2012–2015: (i) increasing the efficiency of public and private investment, (ii)

improving the provision of public services for low-income households, (iii) promoting regional economic development, and (iv) improving sustainable natural resources management and climate resilience.¹⁹ The proposed program will contribute to several results areas of those four pillars, including (a) improved fiscal and public-sector management; (b) improved education for low-income groups; (c) improved access to health care for low-income households; (d) improved living conditions for low-income and vulnerable groups; (e) integrated water resources management; (f) expanded sustainable agriculture; and (g) improved environmental management, biodiversity conservation, and climate-change mitigation. In addition, the proposed DPL is consistent with the recommended approach of developing new partnerships at a subnational level. In this context, the CPS states that the Bank should emphasize Brazil's poorer regions, especially the northeast, where the State of Piauí is located.

73. **The proposed DPL is fully aligned with the independent, but complementary, proposed Investment Product Financing (IPF) "Piauí Service Delivery and Public Sector Management" Loan (P129342) for US\$120 million.** The proposed DPL will support the GoPi in adopting transformative policy reforms in the short term, while the investments and technical assistance associated with the IPF will focus on supporting the GoPi's program in the medium to long term. Annex 7 shows the relationship between these independent operations.

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

74. **The policies supported by the proposed DPL are anchored on the PPA 2011–2015 and the PPA 2016–2019, whose preparation followed the participatory development planning process envisaged in State Complementary Law No. 87/2007.** This process engages three levels of social and political participation: (i) municipal assemblies, which are open to direct participation by all citizens; (ii) Territory Councils of Sustainable Development; (iii) the State Council of Sustainable Development, which consists of the state governor, state secretaries, representatives of the judicial and legislative branches, civil society organizations (CSOs), and representatives of the development territories. For both PPAs, the GoPi conducted workshops in the eleven development territories and discussed the proposed plans with mayors; state and municipal legislators; municipal, state, and federal agencies; CSOs; and other key stakeholders in several meetings. For the PPA 2016–2019, the consultation process involved 1,751 participants (46% of women) in 39 workshops with state public servants, federal and municipal institutions (1,374 participants), and CSOs (377 participants).

75. **The GoPi also ensured that the DPL-supported program was based on a broad consultation process.** SEPLAN took advantage of the consultation process carried out by the Bank for the analysis of poverty, social and environmental aspects of the proposed DPL, and discussed the proposed policies with key stakeholders. In addition, the State House of Representatives—whose members are directly elected by the population—analyzed and discussed the draft laws proposed by the governor and enacted the legal instruments needed to adopt the prior actions supported by the proposed DPL. The State Environmental Council and the Health Management Commission comprised by state and municipal representatives (that is, *Comissão Intergestora Bipartite*) examined the proposed policies on natural resources management and control of neglected diseases.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

76. **All policy actions supported by this operation are expected to have a positive impact in reducing poverty and social inequalities.** In particular, the education, health, natural resources

management, PROGERE, CEPM, and OGE policy reforms will likely cause significant positive poverty and social effects. The potential pro-poor and distributive effects of these policies have been assessed through a Poverty and Social Impact Analysis (PSIA) (annex 5). As envisaged in OP 8.60, the Bank carried out a three-step set analysis of the operation's poverty and social aspects. First, it determined whether the DPL-supported policies were likely to cause significant poverty and social effects (positive and negative). Second, for policies with likely significant effects, the Bank assessed the state's systems for reducing such adverse effects and enhancing positive effects. With this purpose, the analysis assessed whether the state's capacity (for example, policies and institutional framework) was appropriate to identify and address the poverty and social consequences of the proposed reforms in an effective manner taking into account concerns of stakeholders (including the most vulnerable groups). Third, considering these system's shortcomings, the analysis recommended actions within the DPL with emphasis on building required institutional capacity to address such gaps or shortcomings, as appropriate. The PSIA included a Stakeholder Analysis to identify the key stakeholders that would be potentially benefitted or affected by the policy reforms, and obtain their inputs to the analysis of the potential poverty and social effects. Another key element for the preparation of the PSIA has been the development of a social accounting matrix (SAM) for Piauí, which enabled simulation of the impacts of alternative policy options on poverty reduction and income distribution. During the PSIA, the Bank carried out field visits, interviews, workshops with local academic centers, and a series of public meetings in several locations across Piauí, including municipalities in the rural areas where the proposed policies would have greater effects. Results of the PSIA allowed the GoPi to incorporate social and distributional considerations in the design of the DPL-supported program, particularly regarding gender issues, focusing on the poorest and most vulnerable groups, and to select the policy reforms that have the highest positive impact on social and productive inclusion.

5.2 ENVIRONMENTAL ASPECTS

77. The policies supported by the DPL are not likely to cause any negative effect on the environment, forests, or other natural resources. On the contrary, they are designed to improve environmental management and likely to have significant positive effects—especially the policy reforms associated with water and natural resources management. In parallel with the preparation of the DPL, the Bank conducted a three-step analysis with these objectives (annex 6): First, determine whether the DPL-supported policies were likely to cause significant effects (positive and negative) on the environment, forests, and other natural resources. Second, for policies with likely significant effects, assess the state's systems for enhancing positive significant effects. Third, assess whether the state's capacity (for example, policies and institutional framework) was appropriate to identify and address potential significant environmental effects in an effective manner, taking into account concerns of stakeholders (including the most vulnerable groups). Fourth, considering the shortcomings in the state systems, recommend actions within the DPL, with emphasis on building required institutional capacity to address such gaps or shortcomings, as appropriate. Based on an economic analysis of the cost of environmental degradation and consultations with key stakeholders, the environmental analysis identified the potential effects of each of the reforms included in the DPL's policy matrix. Since the policies supported by the DPL are not likely to cause any negative effect on the environment, the analysis focused on how to assist the GoPi in designing and implementing policies to enhance positive environmental effects and ensure the sustainability of the proposed policy reforms. As elaborated in annex 6, the analysis concluded that the policies supported by the DPL are not likely to cause negative effects on the environment, forests, or other natural resources.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

78. **A well-developed legal framework—including the Federal Constitution, the Fiscal Responsibility Law (FRL) and other laws and regulations—underpin Piauí’s public financial management (PFM).** In addition, institutional arrangements for PFM are clearly established between SEPLAN and the Secretariat of Finance (SEFAZ). The State Audit Court (TCE) is responsible for external scrutiny, and the legislature plays an external oversight role. The State General Auditing Agency (CGE) has sufficient independence to perform its role. Federal rules consistent with international standards govern the budget classification system. Budget preparation includes participation by key stakeholders and sector agencies. The state’s PFM environment features strong internal rules and commitments controls. The state’s information system, the Integrated Financial Administration System (SIAFEM), is also adequate for most purposes. The use of the single treasury account model of cash management and a clear allocation of responsibility for managing it facilitate the performance of bank reconciliations on a regular and timely basis. In addition, the budget is widely available for public access, primarily through the Internet. The state is also implementing international public sector accounting standards (IPSAS) to (i) improve the quality and relevance of financial information available for decision making, and (ii) enhance transparency, accountability and efficiency in PFM.

79. **The state has been able to prepare timely financial statements of reasonable quality.** The TCE report identifies some exceptions, but they do not compromise the overall consistency and usefulness of the financial statements. Although TCE has been able to carry out audits of a reasonable scope, its reports are issued with significant delays—the latest audit of state accounts is for 2010—partially because of its limited capacity and weak audit methodologies. To address these weaknesses, TCE currently undertaking reforms aimed at introducing modern audit practices and bringing its approach in line with international standards.

80. **The control environment governing the Central Bank’s operations within which the loan’s foreign exchange would flow is adequate.** The World Bank reviewed the Central Bank’s financial statements from 2006 to 2012 to assess the extent to which the foreign exchange control environment continued to be adequate, and provided an unqualified opinion on all financial statements examined. Similarly, a 2004 IMF Safeguards Assessment concluded that the foreign exchange control environment does not present any widespread vulnerability that could compromise the safeguarding of Fund resources.

81. **As for all Brazilian states and municipalities, the procurement system in Piauí is based on the constitutional principle of open competition in public procurement,** which is materialized in Federal Law 8,666/93. In addition, the GoPi has regulated specific issues related to local procurement aspects, including norms to increase transparency, contract management and procurement oversight. Notwithstanding, Piauí’s procurement system lacks suitable tools for planning and monitoring bidding processes, human resources, management systems, a Web-based price database, and capacity building programs. As a result, the GoPi has limited capacity to avoid delays in bidding time; to review internal procurement processing procedures across government agencies; and to retain existing qualified personnel. In addition, the use of e-procurement systems is still lagging in Piauí. The Reverse Auction method in face-to-face form (known as *Pregão Presencial*) is the main procurement method for the purchase of goods and common services, corresponding to 80 percent of all procurement processes in 2014. Although this type of Reverse Auction is an advance in comparison to other procurement methods, the state could significantly improve transparency and competitiveness by adopting the electronic form of Reverse Auction (known as *Pregão Eletrônico*) as the default procurement method.

82. **The procurement function is decentralized between State Secretariats and the Procurement Directory (*Diretoria de Licitações* – DL), and controlled by CGE and TCE.** The DL is mandated for procuring specific types of goods and services (i.e. medical equipment, telecommunication and internet, vehicles, pharmaceuticals, air tickets, and outsourcing). State Secretariats undertake their own procurement processes, except for goods and services under legal responsibility of the DL. CGE is responsible for internal control and audit, and for supervising and guiding the compliance with procurement regulation. In addition, TCE performs external audits of the procurement processes.

83. **The loan proceeds will be disbursed based on satisfactory implementation of the DPL-supported program and will not be tied to any specific purchases.** Once the loan is effective, the World Bank will disburse the loan proceeds into an account maintained by the state in a commercial bank deemed acceptable to the World Bank. Among other requirements, an acceptable commercial bank must (i) be financially sound; audited regularly, receiving satisfactory audit reports; and able to execute a large number of transactions promptly; (ii) perform a wide range of banking services satisfactorily; and (iii) provide detailed bank statements. The account will be denominated in foreign currency and will not form part of the foreign exchange reserves. However, the Central Bank will be informed of the deposit. Once the funds are in the account, the commercial bank will credit an equivalent amount of money into a state account in the same commercial bank that finances budget expenditures. Within 30 days after payment, the state will confirm to the World Bank that (i) the loan proceeds were received into the foreign currency denominated account, and (ii) an equivalent amount was credited to the account that finances budgeted expenditures. If loan proceeds are used to finance excluded expenditures as defined in the Loan Agreement, the World Bank will require the state to refund the amount. As a result of the conclusions about the adequacy of the state's public financial management environment, no additional fiduciary arrangements will be put in place for the operation.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

84. **SEPLAN will be responsible for the proposed operation's overall implementation and monitoring.** SEPLAN will oversee efforts of the participating agencies, which will provide information on the results indicator via SIMO. After gathering these data, SEPLAN will report results and liaise with the Bank. SEPLAN will assume responsibility for meeting the Results Indicators and coordinate sector efforts to this end. A Project Implementation Committee of officials from the participating agencies will monitor progress towards those results indicators a timely manner. Annex 1 presents the DPL Policy Matrix and Results Framework.

85. **Communities and individuals who believe they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a Bank supported DPL may submit complaints** to the responsible country authorities, appropriate local/national grievance redress mechanisms, or to the Bank's Grievance Redress Service (GRS). Complaints to GRS are promptly reviewed. In addition, affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel, which determines whether harm occurred or could occur because of Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. Information on how to submit complaints to the Bank's corporate GRS is available at <http://www.worldbank.org/GRS>. Information on how to submit complaints to the Bank's Inspection Panel is available at www.inspectionpanel.org.

6. SUMMARY OF RISKS

86. **The overall risk for the proposed operation is assessed as moderate.** The following paragraphs summarize the main risks to the achievement of the policy objectives and results of the supported by the DPL and proposed mitigation measures.

87. **Political and governance risks.** The overall political and governance risk is considered moderate. State government elections took place in late 2014, during the DPL preparation, and a new administration took office in January 2015. Regardless of this transition, the reform program enjoys broad support from all stakeholders across the political parties. In particular, the State Legislative Assembly unanimously approved the laws on the State Water Resources Users Cadastre (Law 6,474/2013); and the “*Poupança Jovem*” Program (Law 6,706/2015). Political risks at the federal level are considerable and could affect the achievement of the objectives of the operation primarily through their impact on the fiscal and macroeconomic outlook.

88. **Macroeconomic risks.** In 2015, Brazil’s macroeconomic environment deteriorated due to weaker than expected growth, inflationary pressures, and the weakening of the Real. Nonetheless, levels of public debt remain sustainable. Heavy dependence on transfers from the federal government by Piauí poses a substantial risk to the achievement of the objectives since declining federal transfer, as well as the state’s own revenues, may hamper the implementation of the GoPi’s reform program supported by the DPL. In addition, the finances of Piauí are also vulnerable to ongoing price adjustments at the national level, specifically exchange rate and interest rate adjustments. However, the effects of such vulnerability are limited by the level and composition of the GoPi’s debt, which remains low and with a small share of foreign currency denominated debt (23 percent of the total or 16 percent of Net Current Revenue, as of end 2014). In addition, State’s fiscal consolidation measures to enhance own-revenue collection and improve expenditure efficiency should help strengthen Piauí’s fiscal position and ensure sustainability of results.

89. **Institutional capacity for implementation and sustainability risks.** Institutional capacity for implementation and sustainability risks. GoPi’s institutional capacity is relatively weak. Some line agencies do not have fully organizational structure and technical capacity needed to carry out their functions. A number of measures have been taken by the Government to mitigate the potential impact of capacity constraints. The policy reforms supported by the DPL are designed to take into account the capacity constraints of the participating agencies. Some of the DPL-supported policies will directly contribute to strengthening institutional capacity in Piauí. For instance, considering human resources constraints in SDR, INTERPI and SEMAR, the proposed DPL supports policies to improve the efficiency of service delivery in those agencies. Further, the analytical work carried out for the operation recommended a series of investments (e.g. equipment and information technology systems) and technical assistance activities (e.g. analytical work and training) that will help build institutional capacity of agencies in charge of implementing the policy reform program. Most of these activities will be financed by the upcoming IPF operation, which will help to also ensure sustainability of capacity improvements.

Risk Categories	Rating (H, S, M, or L)
1. Political and governance	M
2. Macroeconomics	S
3. Sector strategies and policies	L
4. Technical design of program	L
5. Institutional capacity for implementation and Sustainability	M
6. Fiduciary	M
7. Environment and social	L
8. Stakeholders	L

9. Other	N/A
Overall	M

ANNEX 1. POLICY AND RESULTS MATRIX

Prior Actions	Expected Results	Implementing Agency
Pillar 1: Improved performance of secondary education students in state public schools and expanded coverage of public health services		
<p>Prior Action #1: The State has created a financial incentive program for students enrolled in state public schools in the poorest municipalities to complete secondary education (SE) and participate in extracurricular activities</p> <p>Evidence: State Law 6,706 of September 14, 2015, creating the Educational Incentive Program “<i>Poupança Jovem</i>” (YSP); and, State Decree 16,213 of October 5, 2015, regulating the YSP.</p>	<p>Result Indicator 1: Increase the positive difference – measured by percentage points – between pass rate in the municipalities targeted by the “<i>Poupança Jovem</i>” Program and the average pass rate of state public SE schools (excluding Teresina).</p> <p>Baseline: 0.4 percentage points (2014) Target: 3 percentage points (2016)</p>	SEDUC
<p>Prior Action #2: The State has established a Program to implement strategic actions to prevent, control and respond to neglected diseases—particularly Chagas disease, hanseniasis, tuberculosis, leishmaniasis and geohelminthiasis—that mostly affect the poorest groups.</p> <p>Evidence: SESAPI Ordinance No. 1,870 of September 21, 2015, creating and regulating the State Unit to Control and Respond to Neglected Diseases (NECEDN); the State Plan to Prevent, Control and Respond to Neglected Diseases (PECEDN) and the NECEDN Rules of Procedures, published in the State Official Gazette (DOE) on October 5, 2015.</p>	<p>Result Indicator 2.1: Increase the proportion of cured patients against tuberculosis and hanseniasis in priority targeted municipalities.</p> <p>Baseline: 68 percent for tuberculosis (2013) and 77 percent for hanseniasis (2014) Target: 73 percent for tuberculosis and 83 percent hanseniasis (2016)</p> <p>Result Indicator 2.2: Increase proportion of captured vectors examined to detect parasite of Chagas diseases.</p> <p>Baseline: 70 percent of captured vectors tested for parasite (2014) Target: 83 percent of captured vectors tested for parasite (2016)</p>	SESAPI
Pillar 2: Expanded access of targeted vulnerable groups to productive chains and natural resources management services		
<p>Prior Action #3: The state has established the legal basis to implement a water users registry in order to improve water resources management by gathering information on water resources use in the state.</p> <p>Evidence: Law 6,474 of December 23, 2013, creating the CERH; State Decree 16,142 of August 16, 2015, and SEMAR Ordinance 81 of August 26, 2015, regulating the CERH and establishing a 5-year action plan for registering state water users in that database.</p>	<p>Result Indicator 3.1: Increase the number of groundwater users whose information is registered in the State Water Users Registry.</p> <p>Baseline: 194 registered users (August 2015). Target: 1,800 registered users (December 2016).</p> <p>Result Indicator 3.2: Quarterly update and public disclosure of a list of the state groundwater users not complying with the</p>	SEMAR

Prior Actions	Expected Results	Implementing Agency
	<p>legislation related to the state water users registry and the grant of water use rights.</p> <p>Baseline: Zero (August 2015).</p> <p>Target: list quarterly updated and publicly disclosed at least twice (December 2016).</p>	
<p>Prior Action #4: The State has adopted the legal basis to facilitate access of small-scale and subsistence farmers to public services associated with natural resources management.</p> <p>Evidence: State Decree 15,512 of January 27, 2014, integrating the processes of INTERPI and SEMAR; Joint Ordinance SEMAR/INTERPI No. 3 of August 30, 2015, regulating the integrated processes established in State Decree 15,512/2014; and, State Decree 16,192 of September 21, 2015, creating the State Geo-processing Laboratory (CGEO).</p>	<p>Result Indicator 4: Percentage of new applications submitted by small-scale and subsistence farmers that are jointly processed by INTERPI and SEMAR.</p> <p>Baseline: Zero (August 2015).</p> <p>Target: 100% of new application jointly processed by INTERPI and SEMAR (December 2016).</p>	SEMAR / INTERPI
<p>Prior Action #5: The State has reformed the Rural Poverty Reduction Program (PROGERE) in order to prioritize women and extremely poor producers as beneficiaries and to improve transparency of the Program's processes.</p> <p>Evidence: State Decree 15,664 of June 13, 2014; SDR Ordinance No. 60 of July 7, 2015, establishing PROGERE's second phase.</p>	<p>Result Indicator 5: Increase percentage of selection and implementation process of PROGERE-financed projects through a computerized management system and public disclosure of relevant information.</p> <p>Baseline: None (August 2015).</p> <p>Target: 100 percent of PROGERE-financed projects (December 2016).</p>	SDR
Pillar 3: Strengthened systematic monitoring of priority investments		
<p>Prior Action #6.1: The State has established (i) the legal basis for implementing a results-based Integrated System of Planning, Monitoring, and Evaluation for investment programs; (ii) the rules and procedures for executing, monitoring, and evaluating investment projects and programs; and (iii) the decentralization of monitoring responsibilities to line secretariats.</p> <p>Evidence: State Decree No. 15.665 of June 13, 2014; SEPLAN Ordinance 001/2014; CGE Normative Instruction No. 01/2013.</p>	<p>Result Indicator 6: Increase the percentage of agreements (<i>convenios</i>) for targeted activities financed through federal grants monitored through SIMO.</p> <p>Baseline: 21 percent (71 out of 343, equivalent to BRL 2.2 billion or 67.5 percent of the resources committed) of agreements monitored through SIMO (June 2015).</p> <p>Target: 40% of agreements monitored through SIMO (December 2016).</p>	SEPLAN

Prior Actions	Expected Results	Implementing Agency
<p><u>Prior Action #6.2:</u> The State has established the legal basis and procedures for implementing systematic monitoring of agreements (<i>convenios</i>) for targeted activities financed through federal grants.</p> <p>Evidence: State Decree No. 16,199 of September 28, 2015.</p>		
Pillar 4: Strengthened institutions for gender mainstreaming and channeling citizens' voice into strategic programs.		
<p><u>Prior Action #7:</u> The State has adopted the legal basis to operationalize the State Coordination Agency for Policies on women (CEPM), in order to mainstream a gender perspective into the design, implementation and supervision of State public policies.</p> <p>Evidence: State Decree No. 16,162, of August 31, 2015, regulating the CEPM.</p>	<p><u>Result Indicator 7:</u> Increase in the number of strategic thematic programs included in the State Multiyear Plan (PPA) with gender-based indicators.</p> <p>Baseline: 3 out of 26 thematic programs (11.5%) with gender-based indicators in PPA 2012-2015 (January 2015).</p> <p>Target: 9 out 30 thematic programs (30%) with gender-based indicators in PPA 2016-2019 (December 2016).</p>	CEPM / SEPLAN
<p><u>Prior Action #8:</u> The State has adopted the legal basis to facilitate the access of poor citizens to the Ombudsperson Office (OGE) services, and to expedite the response from targeted sectoral agencies to complaints associated with social and productive inclusion services.</p> <p>Evidence: State Decree 16,150 of August 24, 2015, modified by State Decree 16,200 of September 28, 2015, establishing representatives of the OGE in key sectoral agencies.</p>	<p><u>Result Indicator 8:</u> Increase in the number of priority sectors of the State government with OGE representatives.</p> <p>Baseline: 1 out of 6 targeted agencies have an OGE representative (July 2015).</p> <p>Target: All targeted agencies have an OGE representative (December 2016).</p>	OGE

ANNEX 2 LETTER OF DEVELOPMENT POLICY



Estado do Piauí
Palácio de Karnak
Gabinete do Governador

Teresina (PI), 26 de outubro de 2015.

Mr. JIM YONG KIM
President
The World Bank
Washington, DC

Ref.: LETTER OF DEVELOPMENT POLICY

Prezado Sr. Kim,

Esta carta apresenta o Programa *Piauí: Inclusão Social e Produtiva*, implementado pelo Governo do Estado do Piauí, que está estruturado em torno de três grandes componentes: 1. Expansão da cobertura dos serviços públicos associados à inclusão social, 2. Expansão da cobertura dos serviços públicos associados à inclusão produtiva e 3. Fortalecimento e modernização da gestão pública estadual com foco no monitoramento, igualdade de gêneros e controle social. Para tanto, pretendemos contar com o apoio do Banco Mundial através de operação de crédito que apoiará políticas públicas nas áreas acima referidas.

Acreditamos que as políticas definidas neste Programa, para as quais solicitamos o decisivo apoio do Banco Mundial, são fundamentais para o avanço e a consolidação do desenvolvimento do Piauí, articulando o crescimento da produção e da produtividade com a inclusão social, participação e controle social.

Estratégia de Desenvolvimento Sustentável de Médio Prazo

Nos últimos anos, vem crescendo entre os mais diversos setores da sociedade e no âmbito governamental, a consciência de que é preciso construir e consolidar um programa de mudança estrutural do Piauí que mobilize o maior número possível de cidadãos para a discussão, a pactuação e o comprometimento com ações que se articulem para a melhoria continuada e sustentável das condições de vida dos piauienses, em especial os mais pobres. Nesse sentido, as diversas iniciativas de políticas públicas tem sido pensadas como parte deste grande esforço de desenvolvimento.

O indicador atual de referência no quesito desenvolvimento, e que expressa uma concepção mais ampla deste processo, é o IDH (Índice de Desenvolvimento Humano). As perspectivas são promissoras, embora os desafios sejam imensos. No período entre 1991 e 2010, o IDHM do Piauí saiu de 0,362 (muito baixo) para 0,646 (médio). Se nessa década for mantido o mesmo ritmo de crescimento, o Piauí chegará a 2020 com um IDHM de 0,850, atingindo o nível considerado muito alto. Essa é a meta-síntese que o governo estadual está estabelecendo e para a qual está convocando toda a sociedade.

Nesse sentido, o Plano Plurianual (PPA) 2016-2019, em fase final de elaboração,¹ se situa na estratégia Piauí-2022 (ano do bicentenário da Independência do Brasil). Os quase

¹ O processo participativo de elaboração do PPA no estado do Piauí envolveu 1.751 participantes diretos, num total de 39 oficinas, envolvendo técnicos do estado e de instituições federais e municipais e representantes da sociedade civil organizada de todos os segmentos. Dos 224 municípios do estado, 173 enviaram representações para as plenárias, sendo 87 vereadores, 72 prefeitos, 120 vice prefeitos e 868 representantes da sociedade civil. Nas oficinas setoriais, realizadas em Teresina, participaram: 73 órgãos do governo estadual, 23 do governo federal e 14 instituições da sociedade civil. Além disso, a população contará com blog para suas observações, contribuições e críticas.



100 programas, nas diferentes áreas de atuação do Estado, se organizam em torno de quatro diretrizes: 1) Promover o desenvolvimento humano com ênfase na educação, saúde e segurança, 2) Diversificar o desenvolvimento econômico com inclusão social e sustentabilidade, 3) Priorizar investimentos na infraestrutura necessária ao desenvolvimento territorial sustentável, 4) Adotar uma gestão eficiente com transparência e controle social para melhoria da qualidade de vida dos cidadãos.

Por fim, cabe ressaltar que todas as ações que integram o Programa Piauí: Inclusão Social e Produtiva, ora apresentado ao Banco Mundial, integram o PPA 2016-2019, que em sua elaboração obedeceu a uma estratégia que contempla a participação da sociedade civil e dos órgãos governamentais. Para cumprir este formato a sua elaboração foi efetivada em três etapas: a primeira com os órgãos públicos, através da realização das oficinas setoriais; a segunda etapa contou com as oficinas territoriais nos 11 territórios de desenvolvimento do Estado cuja finalidade foi validar as deliberações dos órgãos setoriais e incorporar o leque de ações entendidas como prioritárias nos territórios; a terceira etapa consistiu na consolidação das contribuições dos territórios e dos órgãos públicos para a elaboração final do documento que será encaminhado para a Assembleia Legislativa do Estado para análise e posterior aprovação.

Avanços na Inclusão Social e Desafios na Integração Econômica

Nos últimos doze anos, o Piauí tem mantido um crescimento do PIB acima da taxa de crescimento nacional. Entre os anos de 2002 e 2012, segundo o IBGE, o PIB do Estado teve um crescimento de aproximadamente 350%, quando saiu de R\$ 7,4 bilhões em 2002 para R\$ 25,7 bilhões em 2012. As projeções para o ano de 2015, segundo a LDO 2015 nº 6576, colocam o PIB piauiense na casa dos R\$ 33 bilhões. Em termos de comparação, o PIB nacional teve crescimento no mesmo período em torno de 297%.

Outra medida relevante para avaliar o processo de desenvolvimento e inclusão social levado a efeito no Estado é o PIB per capita. Entre 2002 e 2012, houve uma mudança deste quesito. Se em 2002 o PIB per capita do Piauí representava 30,4% do PIB per capita nacional, em 2012 passou a significar 35,9%, sendo a 5ª maior variação positiva entre as unidades da Federação. Em termos absolutos, o valor da renda per capita do Estado variou 3,2 vezes, acima da variação nacional, que foi de 2,7 vezes, segundo dados do IBGE/Contas Regionais - 2012. Mesmo com os avanços conquistados, em 2012 o PIB per capita piauiense era de R\$ 8.138,00, valor que o colocava como o menor entre todos os Estados. Esta tendência manteve-se nos anos subsequentes, embora em ritmo tendencialmente menor, considerando as dificuldades econômicas que o país enfrenta.

Um ambiente econômico externo favorável contribuiu para que a opção por uma política pública de redução das desigualdades e combate à pobreza se tornasse viável, com repercussões favoráveis para o Piauí. O aumento da renda, reforçado pelo acesso ao crédito, estimulou o consumo e dinamizou o comércio e, em parte, a própria produção. Por outro lado, a descentralização e interiorização de serviços e de investimentos públicos – com destaque para as políticas educacional, agrícola e habitacional – deu impulso e maior consistência ao novo modelo de crescimento. Cabe assinalar que a sintonia dos governos estaduais com as políticas federais garantiu maior eficácia ao processo.

No entanto, o crescimento se baseou sobretudo nas políticas de transferência de renda, com ênfase nas ações do Programa Bolsa Família - PBF. O PBF, segundo dados de 2015 da Matriz de Informação Social do MDS beneficia atualmente 448.217 famílias e seus benefícios somaram, até o momento, R\$ 429.488.714,00, o que corresponde a aproximadamente 2,0% do PIB estadual. A previdência social é um dos principais



**Estado do Piauí
Palácio de Karnak
Gabinete do Governador**

mecanismos de transferência de renda: as pensões e aposentadorias pelo INSS somavam R\$ 3,3 bilhões em 2010 e a arrecadação previdenciária no Piauí era de R\$ 892 milhões. A transferência superavitária totalizava R\$ 2,7 bilhões, ou seja, 9% do PIB estadual.

Os resultados na inclusão social são inquestionáveis. O número de pessoas vivendo em situação de pobreza caiu de 51,1% em 2001 para 24,3% em 2010 e os que viviam em extrema pobreza passaram de 26,0% para 8,6% no mesmo período, segundo dados do IBGE. Foi a mudança mais significativa entre os estados brasileiros.

A melhoria na distribuição de renda como resultado de todas essas políticas pode ser medida pelo índice de Gini: em 2002, o índice no Piauí era 0,621 e em 2012, 0,544 segundo dados do DATASUS. Um avanço rumo a mais igualdade, embora ainda igualdade na pobreza.

O modelo de crescimento com base na transferência de renda e no crédito está chegando a seus limites. Daí a importância de voltar os esforços para o crescimento econômico baseado no investimento e no aumento da produção e produtividade, sem perder de vista, contudo, o compromisso com a distribuição de renda e a participação democrática.

Nesse sentido, os investimentos na área do agronegócio nos cerrados e na área da mineração e da energia eólica têm demonstrado impacto econômico positivo, embora com menor impacto na distribuição da renda. Também os investimentos federais e estaduais na área de infraestrutura tem papel importante no enfrentamento dos desafios da integração econômica. Mas, o compromisso com a articulação entre desenvolvimento e inclusão social não pode ser deixada de lado. Daí, a opção para priorizar nessa proposta ao Banco Mundial o apoio à agricultura familiar, à educação e o atendimento às doenças crônicas como instrumentos fundamentais de promoção da inclusão social. Não menos importante se mostra a necessidade de desenvolver uma gestão de recursos hídricos mais racional rumo a um desenvolvimento mais sustentável. O mesmo significado tem a preocupação com a eficiência na gestão pública e com a transparência e participação, bem como com a igualdade de gêneros.

Agricultura Familiar e a Questão Fundiária

No Piauí, como no Brasil, a urbanização avança, embora no caso do estado não esteja conduzindo a processos de metropolização. Segundo os dados do Censo 2010, 34,2% da população total do Estado vive na zona rural. Comparando com a média nacional de 15,6%, e mesmo com a média nordestina de 26,9% de população rural, percebemos o quão importante é a questão rural no Piauí.

Desde 2008, o setor agropecuário vem perdendo em participação no PIB de acordo com a Fundação CEPRO (2012). Neste período, a participação do setor na composição do PIB caiu de 10,9% para 4,2% em 2012. No entanto, há que se ressaltar que essa redução é uma tendência registrada em todas as unidades da federação em proporções diferentes para cada caso. Tal redução está relacionada com o agravamento da questão climática e a redução dos preços das commodities pagos no mercado externo. Apesar desta redução, a participação ainda relevante do setor deve-se ao crescimento exponencial da produção de soja e outros grãos na região dos cerrados. A agricultura familiar, entretanto, apesar das desapropriações e distribuição de lotes em assentamentos, continua enfrentando sérios impasses.

Das áreas prioritárias para o Programa Piauí: Inclusão Social e Produtiva

Com base nos dados supramencionados, foram definidas as áreas prioritárias abaixo:



1. Aumento da permanência de estudantes de baixa renda no ensino médio

As iniciativas do Governo Federal, através da criação do FUNDEF em 1997 e do FUNDEB em 2007, significaram um esforço continuado para a universalização do acesso à educação. Esse processo de universalização está praticamente completado e o Piauí tem se integrado nele de forma significativa a ponto de ter alcançado os seguintes números: 87% das crianças de 4 e 5 anos matriculados no ensino regular; 98% das crianças de 6 a 14 anos e 87% dos jovens de 15 a 17 anos. É necessário, entretanto, combater a evasão escolar e estimular a permanência na escola. Daí a proposta do Programa Poupança Jovem incluída neste Projeto.

O grande desafio é a melhoria da qualidade ofertada nas escolas públicas. A adoção da prática da avaliação externa através do IDEB (Índice de Desenvolvimento da Educação Básica) tem estimulado o debate da questão e a adoção de iniciativas que promovam a qualidade.

O IDEB das escolas públicas do Piauí tem melhorado a cada edição bial da prova desde 2005: nos anos iniciais do ensino fundamental o IDEB das escolas públicas do Piauí era 2,6 (do Brasil, 3,6) em 2005 e chegou em 2011 a 4,4 (no Brasil, 4,7); nos anos finais do ensino fundamental era 2,8 (Brasil, 3,2) em 2005 e atingiu em 2013 a média de 4,0 (Brasil, 4,4). O Piauí ocupa a 11ª posição em 15 níveis de nota dos 27 estados nos anos iniciais e a 9ª posição para 18 níveis de nota dos 27 estados. Mesmo no ensino médio, onde o IDEB das escolas públicas do Estado é muito baixo, a evolução foi de 2,3 para 3,0. O IDEB do Piauí era o mais baixo em 2005 e em 2013 passou a ocupar a 12ª posição em 15 níveis de nota dos 27 estados.

O Piauí foi pioneiro na implantação de escolas em tempo integral, embora em 2015 apenas 42 (6,4%) das 655 escolas funcionem oferecendo ensino nesta modalidade.

Apesar dos esforços feitos pelo governo do Piauí, a evasão escolar ainda é alta no estado, sendo que grande parte das pessoas tem menos de 6 anos de escolaridade. Outro problema é que 35,2% dos estudantes entre 15 e 17 anos conciliam trabalho com estudos, nas áreas rurais 21,9% das pessoas entre 14 e 15 anos e 29,7% das pessoas entre 16 e 17 anos estavam empregadas em 2010. Tal cenário dificulta o aprendizado dos estudantes.

Outra questão é o número de estudantes de ensino médio, sendo que entre 2008 e 2012 esse número caiu 14% e o número de estudantes que saíram do ensino médio em 2012 era de 24%, um dos maiores do Brasil. Além disso, a porcentagem de alunos acima da média de idade é 18% acima da média nacional.

Diante de tal realidade, o Governo do Estado, através do PPA 2016-2019, elaborou um conjunto de ações voltadas para reverter tal cenário. As ações estão contidas nos Programas Educação e Desenvolvimento Social Inclusivo e Sustentável e Fortalecimento e Expansão da Educação Profissional. Busca-se com esses Programas ampliar a oferta de vagas em todos os níveis de ensino, bem como melhorar a qualidade do processo de ensino-aprendizagem no Estado. O mesmo se aplica a área do ensino profissionalizante.

Assim, com o intuito de reduzir a evasão escolar no ensino médio nas áreas mais vulneráveis, o Piauí criou um programa de incentivo para que estudantes de municipalidades carentes completem o ensino médio. O Programa Poupança Jovem, que será desenvolvido no âmbito deste projeto, tem como objetivo reduzir a evasão escolar e a reprovação no ensino médio, incentivar melhores práticas de ensino e estimular a participação de aluno no Exame Nacional do Ensino Médio (ENEM). A Lei Nº 6.706, de 14 de setembro de 2015, que institui o Programa Poupança Jovem, em seu Art. 4º, estabelece que o Programa será "implementado em caráter piloto nos 04 (quatro) municípios com maiores taxas de extrema pobreza em cada um dos 11 (onze) territórios de desenvolvimento do Estado do Piauí, totalizando, assim, 44

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(quarenta e quatro) municípios". Posteriormente será expandido, até o ano de 2019, obedecendo o mesmo critério que atenta para a realidade da extrema pobreza nos municípios.

2. Saúde: prevenção, debilidade de serviços e uma opção de focalização:

Os indicadores de saúde no Piauí tem melhorado: a esperança de vida ao nascer, segundo o PNUD/IDH, passou de 60,9 anos em 1991 para 65,5 anos em 2000 e 71,6 anos em 2010. A mortalidade infantil, por sua vez, caiu de 24,9 por mil nascidos vivos em 2000 para 16,0 por mil nascidos em 2010.

No entanto, as doenças negligenciadas ou doenças da pobreza, caracterizadas por um conjunto de doenças infecciosas e parasitárias consideradas endêmicas e de prevalência em população de baixa renda exigem um enfrentamento mais direcionado, tornando-se assim um desafio importante a ser encarado pelo poder público na área da saúde.

O Estado do Piauí por ser um dos estados mais pobres da federação, concentra importante parcela da população na faixa econômica considerada de maior vulnerabilidade. Em termos de saúde, as doenças infecciosas e parasitárias juntamente com as doenças do aparelho respiratório têm-se alternado nos últimos anos na liderança em maior carga de doença entre os 21 grupos de causas definidos pela classificação internacional de doenças (OMS, 2003).

Entre as doenças negligenciadas presentes na população piauiense, consideram-se como as de maior magnitude: tuberculose, hanseníase, doença de chagas, leishmaniose e diarreia e outras geohelmintíase.

No âmbito do PPA 2016-2019, está previsto a realização do Programa Saúde Pública com Acesso e Qualidade para Todos que tem como objetivos: 1. Garantir acesso da população a serviços de qualidade, com equidade e em tempo adequado ao atendimento das necessidades de saúde, mediante aprimoramento dos diferentes níveis de atenção e de cuidado (Primária, Secundária e Terciária); 2. Reduzir riscos de agravos à saúde da população, por meio das ações de Prevenção, Promoção e Vigilância em Saúde no âmbito Epidemiológico, Ambiental e Sanitário; 3. Fortalecer o processo de implementação das políticas de assistência farmacêutica, laboratorial, assistência hematológica e hemoterápica no âmbito do SUS/PI; 4. Reestruturar a rede hospitalar estadual por meio da qualificação, humanização e ampliação do acesso à prestação de serviços assistenciais de saúde e do processo de gestão, na perspectiva de implementação da Atenção em Rede (RAS); 5. Fortalecer a intersetorialidade de ações sustentáveis, na interface com outras políticas sociais no âmbito da Educação, Assistência Social, Segurança, Transporte, Meio Ambiente e Saneamento Básico, promovendo e fortalecendo a inclusão de segmentos e grupos prioritários e a promoção da saúde e redução das desigualdades; 6. Modernizar e qualificar o processo de Gestão no âmbito do SUS/PI.

O Plano Estadual de Enfrentamento das Doenças Negligenciadas no Estado do Piauí, que será desenvolvido no âmbito deste Projeto, busca melhorar a eficiência e eficácia no manejo das doenças negligenciadas presentes na população piauiense, potencializando ações efetivas no que concerne ao criterioso enfrentamento de fatores de risco de adoecimento da população, à detecção oportuna e as intervenções pertinentes aos casos humanos. O programa facilitará a distribuição de remédios, bem como promoverá o mapeamento, a vigilância, o monitoramento e a avaliação das doenças. A redução da ocorrência de doenças negligenciadas no Piauí melhorará as condições de vida da população mais carente.

3. Melhoria da gestão de recursos hídricos

Com uma configuração ambiental que o diferencia dos demais estados da região, o Piauí se localiza numa área de transição entre a floresta amazônica e a caatinga, marcando o



território piauiense pela convivência entre diferentes biomas, com a predominância do cerrado e da caatinga.

Com o objetivo de garantir a preservação e o uso sustentável dos nossos recursos naturais, o Governo do Piauí adota as seguintes medidas: a) Regularização de passivos ambientais existentes ao tempo em que contribui para evitar a formação de problemas ambientais futuros através do Cadastro Ambiental Rural (CAR); b) Ocupação ordenada do espaço rural através do Zoneamento Econômico-Ecológico do Piauí-ZEE/PI com apoio do Ministério do Meio Ambiente – MMA; c) Programa de incentivo à gestão ambiental sustentável nos municípios, através da adoção do ICMS Ecológico (Lei Estadual nº 5.813, de 03/12/2008), da capacitação de gestores e da educação ambiental; d) Monitoramento da qualidade das águas. Neste quesito, o Estado firmou Acordo de Cooperação Técnica com a Agência Nacional de Águas, o ACT nº 001/2011 / SEMAR/ANA, para implantação no Piauí do Programa Nacional de Avaliação da Qualidade das Águas - PNQA.

O uso inadequado e ineficiente dos recursos hídricos tem um impacto negativo significativo na população do Piauí, especialmente das pessoas mais carentes que vivem na região semi-árida e que dependem da agricultura. A SEMAR mantém o registro do número de outorgas para uso da água no estado, tendo já emitido cerca de menos de 1% de outorgas dos 28.391 poços de captação de água existentes no Piauí. Tal cenário leva ao mal uso da água e a uma diminuição da capacidade dos aquíferos da região.

Visando solucionar a questão, o estado do Piauí instituiu Cadastro Estadual de Fontes e Usuários de Recursos Hídricos (CERH) através da Lei 6.474/2013, a qual determina que todos os usuários de recursos hídricos devem ser registrados perante a SEMAR. O CERH possibilitará ao governo do estado uma melhor alocação dos seus recursos hídricos, bem como evitar eventuais conflitos entre os usuários. Assim, o programa ora em questão vai possibilitar ao estado do Piauí melhorar o gerenciamento dos seus recursos hídricos, bem como a sua conservação.

4. Melhoria do acesso da família e pequenos produtores rurais a serviços públicos associados ao gerenciamento de recursos naturais

Um dos desafios do estado do Piauí é gerenciar os esforços da SEMAR com os do Instituto de Terras do Piauí (INTERPI) afim de facilitar o acesso de pequenos produtores rurais e produtores de subsistência aos serviços de gerenciamento de recursos naturais, com o intuito de promover a segurança jurídica para o uso da terra e o uso sustentável dos recursos hídricos. Além disso, as instituições financeiras requerem que os pequenos agricultores apresentem certificados do INTERPI e SEMAR previamente a um financiamento.

O Piauí enfrenta uma grande restrição à ocupação ordenada do seu território, devido à falta de regularização fundiária das terras pertencentes ao Estado. Tanto os grandes produtores de grãos dos cerrados quanto os agricultores familiares sofrem esse problema causado pela insegurança jurídica gerada pela ausência de documentação regular das terras, o que dificulta, ou mesmo impede, a expansão da produção, principalmente pela restrição ao crédito, mas também pelos diversos constrangimentos legais sofridos por um produtor que não tem a documentação de sua terra.

Por isso, está sendo proposta como uma das iniciativas desse Projeto a continuidade do Programa de Regularização Fundiária (Lei Estadual nº 6.127, de 21 de novembro de 2011), a qual requer cooperação entre INTERPI e SEMAR. O Decreto 15.502/2014 estabeleceu o processo integrado para requerimentos de regularização fundiária recebidos pelo INTERPI e pela SEMAR.



Somado a estes desafios, encontram-se as dificuldades institucionais da SEMAR e do INTERPI, que contam atualmente com reduzido quadro de funcionários habilitados para as atividades que proporcionarão o alcance dos objetivos.

5. Melhoria da produtividade e da sustentabilidade econômica, social e ambiental da agricultura de pequena escala e de subsistência:

Para enfrentar o problema da baixa renda dos agricultores familiares, o Estado conta com o Programa Estadual de Geração de Emprego e Renda no Meio Rural (PROGERE), criado pelo Decreto Governamental nº 14.626, de 31 de outubro de 2011, de caráter permanente e que na sua nova versão será financiado com recursos orçamentários do Tesouro estadual e outras fontes complementares. Seu foco é a inclusão sócio-produtiva do trabalhador rural, enquanto assegura a sustentabilidade econômica, social e ambiental da agricultura de pequena escala e de subsistência.

O Estado conta atualmente com 2.500 associações comunitárias organizadas, devidamente cadastradas e articuladas com 223 Conselhos Municipais de Desenvolvimento Sustentável, o que demonstra uma considerável estrutura de capital social rural com amplas possibilidades de exploração para um desenvolvimento mais inclusivo para esta parcela da população.

Visando a exploração das potencialidades oriundas da realidade local, inclusive com desenvolvimento do capital social existente, o PPA 2016-2019 traz no seu bojo o Programa Piauí Produtivo e Sustentável – Agricultura Familiar, que tem como objetivos Promover o Desenvolvimento Rural Sustentável e Solidário, por meio do fortalecimento da Agricultura Familiar visando a melhoria da qualidade de vida no campo e a segurança e soberania alimentar e Melhorar a capacidade gerencial e institucional do Sistema de Desenvolvimento Rural Sustentável e Solidário do Estado. Além deste Programa ligado diretamente à melhoria da produtividade e sustentabilidade econômica, social e ambiental, outros programas abarcam o esta perspectiva.

6. Melhoria do gerenciamento de investimentos públicos

Tendo em vista a necessidade de melhorar a capacidade estatal de planejar, monitorar e avaliar os programas que estabelece, e a existência de informação limitada a respeito da performance e dos resultados disponíveis para embasar decisões, o governo do Piauí estabeleceu a modernização do gerenciamento e monitoramento de seus recursos financeiros. Tal iniciativa contribuiu para a melhoria da performance de projetos, a qual é monitorada pela Secretaria Estadual de Planejamento (SEPLAN).

O programa ora proposto providenciará meios para que o estado adote um processo padronizado baseado nos resultados de planejamento, monitoramento e avaliação, por meio de uma base legal e uma estrutura de fiscalização necessária à sua implementação. O programa ainda estenderá a cobertura do sistema de planejamento, monitoramento e avaliação para incluir os convênios assinados com o governo federal para implementar programas de investimento e operações com agentes financeiros externos.

7. Incentivo às políticas que garantam igualdade de gêneros

A desigualdade de gêneros no Piauí é marcante especialmente no mercado de trabalho, cuja a média salarial da mulher equivalia a 85,4% da média masculina em 2010. A violência contra a mulher também é uma preocupação, sendo que muitos casos não são denunciados (entre 2010 e 2013 verificou-se um aumento dos casos de violência sexual em 32%).



**Estado do Piauí
Palácio de Karnak
Gabinete do Governador**

Visando diminuir essa questão, o governo do Piauí estabeleceu o Conselho Estadual de Defesa dos Direitos Femininos (CEDDM/PI), através da Lei Estadual 5.131/2000, e a Coordenação Estadual de Políticas para as Mulheres (CEPM – Lei Estadual 6.465/2013). De todo modo, ainda se faz necessário aumentar o número de programas estratégicos com base em indicadores de gêneros, o que se fará através do programa ora em questão.

8. Aumento da participação da população e do controle social

Muitas têm sido as iniciativas de modernização administrativa da gestão pública estadual. O processo, porém, tem encontrado obstáculos, diante da rotatividade, sobretudo de quadros gestores de nível intermediário e do enfrentamento de antigas questões salariais. Mas, a informatização tem ajudado na maior eficiência da gestão.

O maior avanço nos anos recentes foi a adoção de um Sistema de Monitoramento (SIMO) que tem contribuído para acompanhamento do andamento de obras e ações e para o cumprimento de cronogramas estabelecidos. O fortalecimento desse sistema é fundamental, por isso sua inclusão neste Programa.

Em paralelo, é necessário aumentar a capacidade institucional da Ouvidoria do Estado. Com o apoio do presente programa o governo do Piauí regularizou os procedimentos a serem seguidos pela Ouvidoria, bem como instituiu uma rede de agências setoriais que devem prestar suporte para acelerar o procedimento de resposta a reclamações associadas aos serviços de inclusão social e produtiva.

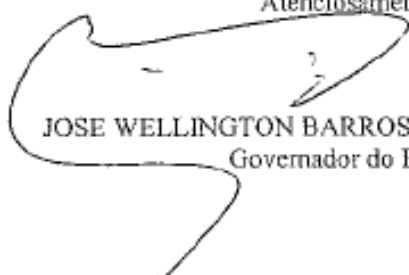
O atual governo retomou, no âmbito do PPA 2016-2019, o sistema de planejamento participativo através dos Territórios de Desenvolvimento (TDs). Para tanto, foram realizadas oficinas para a elaboração do PPA 2016-2019 em todos os 11 TDs. A participação da sociedade nos Conselhos Territoriais tem avançado. Essa é uma área que precisa ser valorizada através da divulgação de informações e do atendimento das demandas dos cidadãos.

Pedido de apoio financeiro

Acreditamos que as políticas públicas descritas nesta carta contribuem de forma articulada e sustentável para promover o desenvolvimento econômico com inclusão social no Estado. Dessa forma o Governo do Piauí manifesta firme disposição de consolidar a parceria com o Banco Mundial por meio do apoio financeiro a ser efetivado através do Programa *Piauí: Inclusão Social e Produtiva*.

Destacamos ainda que a parceria com o Banco vai além do aspecto estritamente financeiro, uma vez que o processo de negociação e execução da operação representa uma verdadeira consultoria sobre os temas tratados.

Atenciosamente,



JOSE WELLINGTON BARROSO DE ARAÚJO DIAS
Governador do Estado

Teresina (PI), October 26, 2015.

Mr. JIM YONG KIM

President

The World Bank

Washington, DC

Ref.: LETTER OF DEVELOPMENT POLICY

Dear Mr Kim,

This letter addresses the *Piauí Social and Productive Inclusion Program*, implemented by the State Government of Piauí. The Program is structured around three key components: 1. Expansion of the coverage of public services linked to social inclusion; 2. Expansion of the coverage of public services linked to productive inclusion; and 3. Strengthening and modernization of the state's public management focused on monitoring, gender equality and social accountability. In the light of the above, we hope that we can count on World Bank support through a loan operation to support public policies in the above-mentioned areas.

We believe that the policies set forth in this Program, and for which we request the crucial support of the World Bank, are essential for taking forward and consolidating the development of Piauí by linking production and productivity growth to social inclusion, participation and social accountability.

Medium Term Sustainable Development Strategy

In recent years there has been a growing awareness among different sectors of society and within government itself that there is a need to construct and consolidate a program of structural change for Piauí that can mobilize the greatest possible number of citizens to participate in discussion, to agree on and commit themselves to joint actions aimed at the continuous and sustainable improvement of living conditions for the population of Piauí, especially its poorest members. For this reason the various public policy initiatives are envisaged as part of this major development effort.

The HDI (Human Development Index) is the current reference indicator in the development area which provides a broader idea of this process. Although the challenges are immense the prospects are promising. Between 1991 and 2010, Piauí's IDHM increased from 0.362 (very low) to 0.646 (average). If the same pace is maintained in the current decade, by 2020 Piauí will have an IDHM

of 0.850 (considered to be very high). The State Government is establishing this meta-synthesis and calling upon all society to participate in the effort.

Accordingly, the State's Multiyear Plan (PPA) 2016-2019, in the final stages of preparation, forms part of Piauí's strategy for 2022 (the 200th year of Brazil's independence). The Plan contains approximately 100 programs in the state's different action areas, organized around four key guidelines, to: 1) promote human development focused on education, health and security; 2) diversify economic development with social inclusion and sustainability, 3) prioritize investments in infrastructure needed for sustainable territorial development; and 4) adopt efficient management, with transparency and social accountability, with the aim of improving citizens' quality of life.

Finally, I must emphasize that all the actions under the *Piauí Social and Productive Inclusion Program*, described here for the World Bank, form part of the PPA 2016-2019. The preparation of the PPA was based on an approach that took into account the joint participation of civil society and government entities, and was carried out in three stages: the first stage consisted of conducting sectoral workshops with government agencies; the second consisted of organizing territorial workshops in the state's 11 development territories, the aim of which was to validate the contributions of the sectoral bodies and to incorporate a wide range of actions regarded as priorities in the territories; finally, the third step involved consolidating the contributions of the territories and public entities in order to produce a final document for submission to the State Legislative Assembly for scrutiny and approval.

Progress in Social Inclusion and Challenges to Economic Integration

Over the last twelve years, Piauí has experienced faster GDP growth than Brazil as a whole. According to IBGE, the state's GDP grew by approximately 350% between 2002 and 2012 (from R\$ 7.4 billion in 2002 to R\$ 25.7 billion in 2012). According to LDO No. 6576, 2015, Piauí's estimated GDP for year 2015 will be around R\$33 billion. By comparison, Brazil's national GDP increased by approximately 297% during the same period.

A further important measure for assessing the development and social inclusion process in Piauí is GDP per capita. Between 2002 and 2012 progress was made in this respect. In 2002, for example the state's per capita GDP stood at 30.4% of national GDP per capita, while by 2012 this had increased to 35.9%, representing the fifth largest increase of all the Federative Units. In absolute terms, according to the 2012 IBGE/Regional Accounts, the state's per capita income increased by 3.2 times compared with that recorded nationally (2.7 times). However, despite the progress made in recent years, Piauí's GDP per capita amounted to only R\$ 8.138,00, meaning that the state had the lowest GDP per capita of all the Brazilian states. This trend continued in subsequent years, although at a progressively lower rate in view of the country's economic difficulties.

A favorable external economic environment contributed to making public policies targeted at reducing inequalities and combating poverty viable, and this had favorable repercussions in Piauí. Rising incomes, bolstered by easier access to credit, encouraged consumption and boosted commercial activities and to some extent state production. On the other hand, the decentralization and internalization of services and public investments, especially regarding educational,

agricultural and housing policies, gave impetus and greater consistency to the new growth model. It is worth noting that attuning state governments to federal policies ensured a greater level of efficiency for the process.

However, growth was mainly based on income transfer policies, particularly the *Bolsa Familia* Program (PBF). The PBF, according to data for 2015 produced by the MDS Social Information Matrix, currently benefits 448,217 families, and the total cash benefits to date amount to R\$ 429.488.714,00, representing around 2.0% of the state's GDP. Social security is one of the main income transfer mechanisms: INSS pensions and retirement benefits totaled R\$3.3 billion in 2010, while the state itself collected pension contributions of R\$ 892 million. The total shortfall amount transferred to the state amounted to R\$2.7 billion, representing 9% of state GDP.

The repercussions of the above benefits on social inclusion are unquestionable. According to IBGE, the number of people living in poverty fell from 51.1% in 2001 to 24.3% in 2010, and the percentage of those who lived in extreme poverty declined from 26.0% to 8.6% over the same period. This was the most significant change among all the Brazilian states.

The improvement in income distribution as a result of all of these policies can be measured by the Gini coefficient: in 2002, the index was 0.621 in Piauí, and in 2012, 0.544, according to DATASUS. This represented clear progress towards more equality, although still 'equality in poverty'.

The growth model based on the cash transfers and credit is now reaching its limits. Hence, the importance of efforts to return to economic growth based on investment and increased production and productivity, but without losing sight of the commitment to income distribution and democratic participation.

In this respect, investments in agribusiness in the savannas and in mining and wind energy have had a positive economic impact, although they have notably had less impact on income distribution. Moreover, Federal and State investments in infrastructure play an important role in facing the challenges of economic integration. However, determined efforts to forge links between development and social inclusion cannot be dispensed with. For this reason, our proposal places high priority on support for family farming, education and care for people with chronic diseases as basic tools for promoting social inclusion. No less important is the need to develop more rational water resources management aimed at more sustainable development. It is also important to note that efficient public management, with transparency and participation, as well as gender inequality, are of equal concern.

Family Farming and Land Tenure Issues

In Piauí, as in the rest of Brazil, urbanization continues apace, although it has not led in to the emergence of large metropolitan areas. According the 2010 Census, 34.2% of the total population of the state still lives in rural areas. Compared to the national average of 15.6% of people living in rural areas (and with a rural population of 26.9% in the Northeast) we are very much aware of the importance of the rural question in Piauí.

According to the CEPRO Foundation (2012) the farming sector has since 2008 been losing its share of national GDP, falling from 10.9% in 2008 to 4.2% in 2012. However, it is worth noting that this is a trend throughout Brazil, varying from state to state. The decline in agriculture's GDP share is related to deteriorating climatic conditions and to the fall in export commodity prices. Nevertheless, the share of the farming sector is still significant due to the exponential growth of the production of soybean and other grains in the savanna region. Family farming however, despite expropriations and plots of land being distributed in settlements, continues to face serious impasses.

Priority areas for the *Piauí Social and Productive Inclusion Program*

Based on the above data, the priority areas have been defined as follows:

1. Increased high school attendance by low-income students

Federal Government initiatives, with the creation of FUNDEF in 1997 and FUNDEB in 2007, represented a continuing effort to universalize access to education. The State of Piauí has made significant progress in this respect, and the process of universalization of education is now virtually complete. The following figures show the current situation: 87% of children aged 4 and 5 years, 98% of all children aged between 6-14 years and 87% of young people 15-17 years are enrolled in regular education. A need remains however to combat truancy and encourage students to remain in school. Hence the proposal of the Youth Savings Program that is included in this Program.

The major challenge is to improve the quality of education in the public schools. The adoption of external evaluation through the IDEB (Basic Education Development Index) has stimulated debate on this issue and a series of initiatives has been adopted to improve educational quality.

The IDEB of Piauí's public schools has improved in each biennial edition of the test since 2005: in the early years of primary school, the IDEB of the public schools of Piauí was 2.6 (Brazil, 3.6) in 2005, but by 2011 it had reached an average of 4.4 (Brazil, 4.7); in the final years of primary school the rating was 2.8 (Brazil, 3.2) in 2005, and by 2013 it had reached an average of 4.0 (Brazil, 4.4). Piauí ranks 11th in 15 score levels out of the 27 states in the early years of primary education, and holds 9th place in 18 score levels among the 27 states. Even in secondary school, where the IDEB of the state's public schools is very low, there was an increase from 2.3 to 3.0. The IDEB of Piauí was the lowest in 2005, and in 2013 ranked 12th in 15 score levels of the 27 states.

Piauí has pioneered the deployment of full-time schools, although in 2015 only 42 (6.4%) out of the state's 655 schools were following this practice.

Despite efforts by the Piauí government, truancy is still high. The majority of the population have less than six years of formal schooling. A further problem is that 35.2% of students aged between 15 and 17 years combined work with school: in the rural areas in 2010, 21.9% of youths aged 14-15 and 29.7% of those between 16 and 17 years old were working. This kind of scenario makes it difficult for students to learn.

Another problem is the actual number of secondary school students. Between 2008 and 2012 their numbers fell by 14%, and the number of students dropping out of high school in 2012 was 24% (one of the highest percentages of all Brazil). Furthermore, the percentage of above-average-age students is 18% higher than the national average.

Faced with this situation, the State Government, through its PPA 2016-2019, developed a set of actions intended to reverse this scenario. These actions are contained in the Education and Inclusive and Sustainable Social Development Program and the Program to Strengthen and Expand Professional Education. The aim of these two programs is to increase the supply of places at all educational levels as well as to improve the quality of the teaching-learning process throughout the state. The same applies to the area of vocational education.

In order to reduce truancy at the secondary school level in the most vulnerable areas Piauí has established a program to provide incentives for students from poor municipalities to complete secondary school education. The Youth Savings Program, which will be developed under this Program, aims to reduce high school truancy and failures, encourage better teaching practices and boost the participation of students in the National Secondary Education Examination (ESMS). Law No. 6706 of September 14, 2015, establishing the Youth Savings Program in its Art. 4, provides that this Program will be "implemented as a pilot Program in the four (04) municipalities with the highest rates of extreme poverty in each of the eleven development territories of the State of Piauí, thus making a total of 44 (forty-four) municipalities." Subsequently, the program will be expanded up to year 2019 using the same criteria targeted at dealing with extreme poverty in the municipalities.

2. Health: prevention, weakness of services and a targeting option

Health indicators in Piauí have improved: life expectancy at birth, according to the UNDP / HDI, increased from 60.9 years in 1991 to 65.5 years in 2000, and to 71.6 years in 2010. Meanwhile, infant mortality decreased from 24.9 per thousand live births in 2000 to 16.0 per thousand live births in 2010.

However, neglected diseases or diseases engendered by poverty, characterized by a set of endemic infectious and parasitic diseases prevalent in the low-income population, require a more focused approach and are a key challenge to be faced by the public authorities in the health area.

Given that the State of Piauí is one of the country's poorest states, it contains a large segment of the population belonging to what is considered to be the most vulnerable economic stratum. In health terms, infectious and parasitic diseases, together with respiratory diseases, have over recent years become the most significant causes of disease burden among the 21 groups of causes according to the WHO (2003) international disease classification.

Among the neglected diseases present in the Piauí population, the following are regarded as the most significant: tuberculosis, leprosy, Chagas disease, leishmaniasis, diarrhea and other geohelminthiasis.

Under the PPA 2016-2019, we plan to undertake the Public Health Program with Access and Quality for All. This aims to: 1. Ensure equitable and timely access to quality health services in order to meet health needs through the improvement of the different care levels (primary, secondary and tertiary); 2. Reduce the risks of health hazards to the population by undertaking health prevention, promotion and surveillance actions in the epidemiological, environmental and health areas; 3. Strengthen the implementation of pharmaceutical, laboratory, hematological/hemotherapy care in the SUS/IP; 4. Restructure the State hospital network through the improvement, humanization and increased access to health care services, and through better management processes, by implementing the Care Network (RAS); 5. Strengthen the intersectoral approach to sustainable actions by coordinating with other social policies in the areas of education, social assistance, security, transportation, environment and sanitation, promoting and boosting the inclusion of priority sectors and groups, promoting health and; 6. Modernize and enhance management of the SUS/IP.

The State Plan for Coping with Neglected Diseases in the State of Piauí, to be developed as part of this Program, seeks to improve the efficiency and effectiveness of the management of neglected diseases affecting the Piauí population, to increase effective actions by careful attention to disease risk factors that affect the population, and by timely detection and appropriate interventions. The Program will facilitate the distribution of medical drugs as well as promote the mapping, surveillance, monitoring and evaluation of diseases. Reducing the occurrence of neglected diseases in Piauí will improve the living conditions of the poorest people in the population.

3. Improved management of water resources

With an environmental scenario that distinguishes it from other states in the region, Piauí is located in a transition area between the Amazon forest and the *caatinga*. The territory straddles different biomes predominated by savanna and *caatinga*.

In order to ensure the preservation and sustainable use of our natural resources, the Government of Piauí has adopted the following measures: a) regularizing, through the Rural Environmental Registry (CAR), existing environmental liabilities as a contribution to avoiding the emergence of future environmental problems; b) orderly occupation of rural spaces through the Economic-Ecological Zoning of Piauí-ZEE / PI, with support from the Ministry of the Environment - MMA; c) a program to promote sustainable environmental management in the municipalities through the adoption of the Ecological ICMS (State Law No. 5,813 of 03/12/2008), by training managers and providing environmental education; d) water quality monitoring. The State has already signed a Technical Cooperation Agreement with the National Water Agency, Ordinance nº 001/2011 / SEMAR / ANA, aimed at the deployment in Piauí of the National Program for Water Quality Evaluation - PNQA.

The inadequate and inefficient use of water resources has a significant negative impact on the population of Piauí, especially the poorest people living in the semi-arid region who depend on farming for their livelihoods. The SEMAR keeps track of the number of water usage permits (*outorgas*) in the state, and has issued fewer than around 1% of the permits for the 28,391 existing wells in Piauí. This situation leads to wastage and undermines aquifer capacity in the region.

Seeking to resolve the issue, the State of Piauí introduced the State Water Resources Users Registry (CERH) under Law 6.474 / 2013, which rules that all water users must be registered with SEMAR. The CERH will enable the State Government to improve the allocation of water resources and to prevent possible conflicts between users. The Program in question will enable the State of Piauí to improve the management and conservation of its water resources.

4. Improved access to families and small farmers to public services associated with natural resources management

One of Piauí's main challenges is to integrate the management efforts of SEMAR and the Piauí Land Institute (INTERPI) to facilitate access by small-scale and subsistence farmers to natural resources management services, in order to promote land security and the sustainable use of natural resources. Furthermore, financial institutions require rural producers to present certificates issued by INTERPI and SEMAR before approving credit applications.

Given the absence of titling regularization of state-owned land, Piauí faces a major constraint to the orderly settlement of its territory. Major grain producers in the savannas, as well as small family farmers, are affected by problems caused by the legal uncertainties arising from the absence of regularized land title documentation. While credit restrictions are the main reason for holding back (or actually preventing) the expansion of agricultural production, the various legal constraints suffered by producers without the necessary documentary proof of land ownership also constitute a major burden.

Given the above, we propose that one of the initiatives of this Program should be to continue with the State Land Regularization Program (State Law No. 6,127 of November 21, 2011), which requires cooperation between INTERPI and SEMAR. Decree 15,502 / 2014 established the integrated process for land regularization applications submitted to INTERPI and the SEMAR.

Added to these challenges are the institutional difficulties of SEMAR and INTERPI, which currently have a limited number of qualified staff able to ensure that the various goals are achieved.

5. Improved productivity and the economic, social and environmental sustainability of small-scale and subsistence farming

To address the problem of family farmers low incomes, the state runs the State Program for Employment and Income Generation in Rural Areas (PROGERE), which was created under Government Decree No. 14626 of 31 October, 2011 as a permanent program. The new version of the program will be funded with State Treasury budgetary resources and from other complementary sources. The program is targeted at the socio-productive inclusion of rural workers, while ensuring the economic, social and environmental sustainability of small-scale and subsistence agriculture.

The state currently has 2,500 community associations organized, duly registered and linked to 223 Municipal Sustainable Development Councils. This demonstrates that a substantial amount of rural

social capital already exists, which presents ample opportunities for framing more inclusive development for this sector of the population.

Aimed at exploiting the potential of the local situation, including the development of existing social capital, the PPA 2016-2019 also covers the Productive and Sustainable Piauí – Family Agriculture Program (*Piauí Produtivo e Sustentável – Agricultura Familiar*). This program seeks to promote sustainable and solidary rural development by strengthening family farming in order to improve the quality of life in rural areas, as well as food security and sovereignty, together with upgrading the managerial and institutional capacity of the State System for Sustainable and Solidary Rural Development. Other programs are also directly linked to improving productivity and economic, social and environmental sustainability.

6. Improved public investment management

Given the need to improve the State's capacities for planning, monitoring and evaluating its programs, and in view of the lack of data regarding program performance and results on which to base decisions, the Piauí Government has made efforts to modernize the management and monitoring of its financial resources. This initiative, supervised by the State Planning Secretariat (SEPLAN) has led to better Program performance.

The proposed program will provide the means for the state to adopt a standardized procedure based on the results of planning, monitoring and evaluation, with a legal basis and a fiscal supervisory structure needed for its implementation. The program will also enable the planning, monitoring and evaluation system to be extended to include the agreements (*convênios*) signed with the Federal Government for implementing investment programs and undertaking financial operations with external financing agents.

7. Incentives for policies to ensure gender equality

Gender inequality in Piauí is rife, especially in the labor market where women earned an average of 85.4% of the average male wage in 2010. While violence against women is also a concern, many cases go unreported (between 2010 and 2013 cases of sexual violence increased by 32%).

To address this issue the government of Piauí launched the State Council for the Defense of Women's Rights (CEDDM / IP), by State Law 5131/2000, and the State Coordination of Policies for Women (CEPM - State Law 6,465 / 2013). It is nevertheless still necessary to increase the number of strategic programs based on gender indicators. This will be undertaken in the proposed program.

8. Increasing citizen engagement and social accountability

There have been several initiatives to modernize the state's public management. This process has however encountered obstacles, mainly as a result of staff turnover, especially that of intermediate level managerial staff, and coping with salary issues. The use of information technology has helped to improve management efficiency.

The biggest advance in recent years has been the adoption of a Strategic Actions Monitoring System (SIMO). This has contributed to monitoring the progress of works and actions and compliance with established schedules. The strengthening of this system is fundamental, and justifies its inclusion in the Program.

At the same time, we need to increase the institutional capacity of the State General Ombudsperson Office. With the support of this Program the Government of Piauí has regularized the procedures to be followed by the Ombudsperson, and has developed a network of sector agencies to provide support expedite response procedures to complaints related to social and productive inclusion services.

The current government has restarted, under the aegis of PPA 2016-2019, the participatory planning system through the Development Territories (TDs). This has involved organizing workshops in the 11 TDs to prepare the PPA 2016-2019. While participation by society in the Territorial Councils has increased, this is an area that requires further improvement through better dissemination of information and efforts to improve social accountability.

Request for financial support

We believe that the public policies described in this letter contribute in a coordinated and sustainable way to promoting economic development with social inclusion in our State. Thus the Government of Piauí hereby expresses its firm determination to consolidate its partnership with the World Bank on the basis of the financial support forthcoming through the *Piauí Social and Productive Inclusion Program*.

We also wish to emphasize that our partnership with the World Bank goes beyond the strictly financial aspect, since the negotiation and execution process involved in the operation amounts to a valuable source of advice on the topics under discussion.

Regards,

JOSE WELLINGTON BARROSO DE ARAÚJO DIAS

State Governor

ANNEX 3 FUND RELATIONS NOTE



INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Facsimile Number
1-202-623-4661

November 2, 2015

Mr. Martin Raiser
Country Director, Brazil
The World Bank
Washington, D.C.

Dear Mr. Raiser:

Attached is the assessment letter requested by the World Bank in connection with two Development Policy Loan operations (Manaus Municipality: Service Delivery and Fiscal Management; and Piaui State: Productivity and Social Inclusion).

The attached letter should not be included in any documents intended for publication, unless the Brazilian authorities consent to its publication.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "A. Werner", is written over a horizontal line.

Alejandro Werner
Director
Western Hemisphere Department

Attachment

BRAZIL—ASSESSMENT LETTER FOR THE WORLD BANK
OCTOBER 30, 2015

1. *Context.* Brazil's growth has decelerated since mid-2013, stalled in 2014, and contracted in the first half of 2015. Weakening export prices, tightening financial conditions, declining business and consumer confidence reflecting domestic policy and political uncertainty, job losses, and low competitiveness, have resulted in weak investment and consumption. The context is further affected by the implications of the ongoing Petrobras corruption investigation, and frictions in the relationship between Congress and the Executive. The 12-month inflation has remained above the 4½ percent central target for about three years, and is surging to near 10 percent in 2015 in part as a result of a necessary adjustment of administered prices. The current account deficit is projected to shrink by some US\$30 billion in 2015, to just under 4 percent of GDP, mostly as a result of import contraction. The BCB intervened in the foreign exchange market in late September to alleviate disorderly market conditions using both Brazilian FX swaps (non-deliverable forward contracts settled in local currency) and U.S. dollars sold under repurchase agreements. Brazil remains well placed to manage adverse external shocks on account of its large foreign reserve buffers (US\$364 billion); the stock of FX swaps stands at about US\$110 billion of notional principal. The government has repeatedly revised down its fiscal surplus targets for 2015 and the following years in view of weak revenue performance and continuing difficulties obtaining congressional approval of adjustment measures, and is currently projected by staff to post primary fiscal deficits three years running (2014–16). The IMF's Executive Board concluded the 2014 Article IV with Brazil on March 16, 2015 and the staff report was published on May 12, 2015. The 2015 Article IV consultation is tentatively scheduled for February 2016.

2. *Financial developments.* Financial markets have been highly volatile. The exchange rate against the dollar is fluctuating around multi-year lows (some R\$3.9 in October), after briefly touching R\$4.25 in mid-September. Stock prices have exhibited similar gyrations, while government bond spreads and bond yields have deteriorated markedly since mid-July and are now similar to those of countries in the high-yield class. Citing concerns over the fiscal situation and growth prospects, Standard & Poor's cut Brazil's credit rating to below investment grade on September 9; Moody's and Fitch have also downgraded the sovereign rating this year (the latter most recently on October 15, with a negative outlook), while maintaining it just inside the investment grade range. Banking system real credit growth is stalling, with the slowdown of public banks' activity largely welcome. Some households and corporates are experiencing financial difficulties, with applications for bankruptcy protection rising in recent months. Banking system NPLs have been edging up slowly in the last year, and although they remain low (about 3 percent on average system-wide), they are likely to increase further in coming quarters. Nevertheless, the banking system appears liquid and well capitalized, and provisions exceed NPLs.

3. *Outlook and risks.* The economy is projected to contract by 3 percent in 2015 and 1 percent in 2016, led by falling investment and consumption, with clear downside risks. The 12-month inflation is projected to reach 9.3 percent in 2015 and to fall back inside the target band in 2016, albeit remaining one percentage point above the central target. The main risk to the outlook is a prolongation of the recession through 2016 and beyond, as a result of continuing uncertainties, which would further delay the recovery in investment, and the postponement of necessary fiscal adjustment, which could continue to weigh on the already low confidence and business attractiveness. External risks include a further deterioration in the prices of Brazilian exports, possibly as a result of weaker growth in emerging market countries, including China, and an abrupt tightening of external financing conditions.

4. *Policies.* In view of the negative market reactions to its 2016 budget bill (which contemplated a deficit in the government's primary balance), the government is proposing additional revenue and expenditure measures to bring about a primary surplus in 2016. However, most of the measures require difficult negotiations with Congress. Discretionary spending cuts are reaching their limits in terms of their contribution to fiscal consolidation, underscoring the need to consider revenue measures and address chronic spending pressure from the rigid budgetary framework. Following a pause in its tightening cycle in mid 2014, between October 2014 and July 2015 the central bank raised the policy rate by 325 basis points to 14.25 percent, where it stays. Monetary policy should remain tight in view of inflation pressures, including from the depreciation of the currency, and above-target inflation expectations for 2016. The flexible exchange rate should remain the main external shock absorber, with intervention limited to addressing bouts of excessive volatility. The government has launched a second phase of its infrastructure concessions program, with design features aimed at increasing its attractiveness to investors and reducing its dependence on the largest construction companies, some of which are facing difficulties as a result of their involvement in the corruption investigations. Improving medium-term growth prospects requires decisive and comprehensive efforts to strengthen macroeconomic policy frameworks, open the economy, improve the business environment, and mobilize domestic saving.

ANNEX 4. ANALYTICAL UNDERPINNINGS

Pillar 1: Improved performance of secondary education students in state public schools and expanded coverage of public health services
Prior Action #1: Education incentive program “<i>Poupança Jovem</i>”
The Bank has done a number of relevant studies, including analysis of programs developed in other Brazilian States, such as “Achieving World-Class Education in Brazil: The Next Agenda” (2010), and “Knowledge, Innovation for Competitiveness in Brazil” (2008). Youth-development support for the “ <i>Live Better Education Incentive Program</i> ”, which provides financial incentives to poor youth in secondary schools of poor communities, derived from the Bank’s desire to support experiments involving incentive bonuses in the education sector (for example, the Minas Gerais “ <i>Choque de Gestao</i> ” results-based management program).
Prior Action #2: State Program to Respond to Neglected Diseases (NEEDN)
The Bank has assessed the Brazilian health system through relevant studies such as “Twenty Years of Health System Reform in Brazil: An Assessment of the Sistema Único de Saúde” (Gragnolati et al. 2013), and “Brazil’s Primary Care Strategy” (Couttolenc and Dmytraczenko 2013). Additional data were provided by the Information System for Case Reporting (SINAN) of SESAPI, the National Registry of Prevalence of Schistosomiasis Mansoni and Geohelminthiasis (INPEG). Comprehensive International Literature, such as “Control of neglected tropical diseases” (Hotez et al. 2007), emphasizes the importance of an integrated approach for the control and elimination of neglected infectious diseases. This integrated approach has been adopted by other countries (e.g. India, China and South Africa) and consists of both supporting actions within the health sector, as well as from those of interested parties and stakeholders that are typically outside the health sector (e.g. education, water and sanitation, among other). The team consulted reports from the World Health Organization on Neglected Tropical Diseases, such as: Stevens, P., 2004. <i>Diseases of Poverty and the 10/90 Gap</i> . International Policy Network; and WHO, <i>Weekly epidemiological Record</i> . 4 September 2015, No. 36, vol. 90, 36 (pp. 461-476).
Pillar 2: Expanded access of targeted vulnerable groups to productive chains and natural resources management services
Prior Action #3: State Water Resources Users Registry (CERH)
The Bank has supported several National and State Water Authorities to prepare the cadastre such as in Espírito Santo, Pernambuco, and Sergipe States. In these projects, the priority for the entity in charge of Water Resources Administration and Management was to strengthen its knowledge function about the current Water Resources balance. To do so, the sequence of action encompassed the assessment and the regulation of current water uses, both surface and subterranean water resources. To inventory current water uses, the first step consisted in elaborating of a well-informed and GIS-based cadastre of water uses and users (knowledge of water abstraction in quantity), the quality of water bodies and the characteristics of discharge into water bodies (types of users and quality of discharge).
Prior Action #4: Access of small-scale and subsistence farmers to natural resources management services
The environmental analysis undertaken for the proposed DPL indicated that the economic cost attributable to environmental health effects in Piauí and to impacts on natural resources in Cerrado and Caatinga biomes added up to an equivalent of 5.9 percent of the State GDP. Environmental health problems mainly arise from household air pollution from use of solid fuels for cooking and other purposes, and inadequate water supply, sanitation and hygiene, which are closely linked to poverty. The environmental degradation impacts on natural resources in Cerrado is associated with expansion of soybean production and linked to the large-scale Cerrado biome distraction, loss of biodiversity, risk to water resources, soil erosion, and human health/ecological risk from pesticides. In the Caatinga, the environmental degradation is mostly associated to deforestation and desertification.

Prior Action #5: Criteria for selecting the beneficiaries of the Rural Poverty Reduction Program (PROGERE)

The Implementation Completion Report (ICR) for the Piauí Rural Poverty Reduction Project (PCPR) and Independent Evaluation Group's review included lessons learned that contributed to the DPL design, such as the need for benefit targeting, investment in continuous training and participatory institutions (municipal councils and associations), and a regular transparent budgeting process in municipal councils. Other Bank operations in the States of Bahia, Pernambuco, and Ceará also provided analytical underpinnings for PROGERE's new design.

The World Bank Report "*Rural Poverty Alleviation in Brazil: Toward an Integrated Strategy*" provided a detailed profile of the rural poor in the Northeast of Brazil; identified key determinants for rural poverty in this region; and proposed a strategic framework and set of policy options, such as agricultural intensification of the small-farm sector, stimulation of rural nonfarm-sector growth, and incentives for the youth.

The Task Team has also incorporated the findings of the World Bank publication "Brazil Low Carbon – Country Case Study" (2010), the reports produced by the Ministry of Science, Technology and Innovation on the annual estimates of GHG emissions in Brazil, and other key publications on impact of climate change in agriculture in Piauí, as well as best practices on climate-smart agriculture (e.g. World Bank and Embrapa (2013). *Impacts of Climate Change on Brazilian Agriculture*). PROGERE's Environmental Management Plan also lists environment-friendly best practices for each productive chain supported by the program, based on recommendations from EMBRAPA.

Pillar 3: Strengthened systematic monitoring of priority investments**Prior Action #6: Results-based management and monitoring**

The Bank has published several studies on public management in Brazil, such as "*The Public Investment Management System of Brazil*" (Brumby, Melo, and Velloso 2011); "*Achieving World-Class Education in Brazil*" (Bruns, Evans, and Luque 2011); and "*Performance Gains in Results-Based Management in Brazil*" (Viñuela and Zoratto 2013). These studies describe the experiences of other Brazilian states that have adopted results-based management and monitoring systems to improve outcomes in service delivery areas such as education, health, and security. The reports identify the design features and conditions under which these tools are most effective in affecting and outcomes, by drawing on recent impact evaluations carried out in the country. Other Bank-financed operations provided information to support to Piauí's results-based management/SIMO program, such as the IPF/SWAp loans for Ceará and Minas Gerais States, and other investment operations.

Pillar 4: Strengthened institutions for gender mainstreaming and channeling citizens' voice into strategic programs.**Prior Action #7: Operationalization of the State Coordination Agency for Policies on Women (CEPM)**

The design of these policy reforms is aligned with findings from the World Development Report (WDR) on Gender Equality and Development, the Gender in Agriculture Sourcebook, and research studies carried out by the Brazilian Institute of Applied Economics.¹ The WDR establishes that gender equity is a core development objective in its own right, but it is also central to enhancing productivity and economic efficiency as well as to achieving other development outcomes. It emphasizes the needs associated with (i) closing gender gaps in human capital, voice, and agency within society, contributing to men and women having equal chances to become socially and politically active; (ii) removing barriers that prevent women from having the same access as men to economic opportunities (earnings and productivity) and to make the best use of their skills and talents; and (iii) limiting the reproduction of gender inequality across generations. The assessment also stresses that gender inequalities persist the most in areas related with occupational segregation, earnings, male-female differences in responsibility for house and care work, asset ownership and women's agency in the private and public spheres. The assessment concludes that—looking forward for policy changes that may

¹ IPEA. 2011. *Retrato das desigualdades de gênero e raça*. Brasília: IPEA; World Bank. 2009. *Gender and Agriculture Sourcebook*. Washington, DC: World Bank, Food and Agriculture Organization of the United Nations, and International Fund for Agricultural Development; and World Bank. 2011. *World Development Report 2012: Gender Equality and Development*. Washington, DC: World Bank.

contribute to gender equity—it is necessary both to take affirmative action and gender-focused policies as well as to make other policies gender-smart.

The *Gender and Agriculture Sourcebook* resonates these lessons and argues that gender equality is crucial for agricultural development, because gender inequalities and the failure to recognize the different roles of men and women contribute to misallocation of labor, limit agricultural productivity and efficiency, result in forgone agricultural output and incomes, and hamper food and nutrition security. The *Sourcebook* stresses that women are more likely than men to operate smaller plots of land and farm less remunerative crops, as well as to engage in low-productivity activities, and to be in unpaid family employment, as well as to work in the informal-wage sector. Women face lower mobility and less access to training, market information and intelligence, technologies, and productive resources than men do. They are constrained by an array of culturally specific rights and responsibilities that hamper their freedom to act and attribute to them the bulk of the “reproductive economy”, leading to unbalanced levels of male-female time poverty. Occupational segregation by gender already imposes significant costs for women because they often work in “feminized” activities whose markets are often saturated and offer lower rewards and career opportunities than men. Furthermore, women also find it hard to maintain a profitable market niche, because men often may take over production and marketing—even of traditional “women’s crops”—when it becomes financially lucrative. Thus, the assessment of gender in agriculture leads to four conclusions: (i) A gender-sensitive analysis is critical to uncover economic, organizational, and cultural constraints that lead to asymmetric relationships among actors in a value chain. (ii) Bringing women into markets requires targeted analysis and program interventions that ensure that women retain control over their production, processing, and marketing. (iii) Capacity-building programs need to be regionally and locally appropriate and tailor-made, while contributing to increase market intelligence. (iv) Projects and programs that aim to increase women’s economic empowerment should encourage women to organize a business association, but involve both women and men as partners.

The research by IPEA details gender gaps and their effects in the country. The study shows that the proportion of women heading households has increased in the country, but mostly among the families with lower monthly *per capita* incomes. It also shows that women’s participation in the labor market and family income have increased, but points out the pervasiveness of a gender-based occupational segregation, the disproportionate domestic workload of women, and the persistency of income gaps by gender. It concludes that gender and race play a critical role as determinants of poverty in the country.

Prior Action #8: Facilitated access of poor citizens to the Ombudsperson Office (OGE) services

Since the 2004 *World Development Report* for the first time emphasized the importance of empowering people to engage in policymaking and monitor service providers (World Bank 2004), a sizeable literature has given momentum to citizen engagement and social accountability among development practitioners.² Recent economic literature confirms that economic growth alone does not lead to a reduction of poverty and inequality, leading to a renewed focus on inclusion and shared prosperity. Emerging evidence shows that citizen engagement—including beneficiary feedback and grievance redress mechanisms—can lead to improved development results under the right conditions. This can be accomplished through better targeting of development interventions and improved monitoring of the performance of governments and service providers from both the public-sector perspective and the private-sector perspective. Existing impact analyses and case studies have also found that citizen engagement and social accountability can lead to better policy decisions and less costly and more sustainable policy implementation. Such engagement and accountability result in positive impacts on development outcomes in service delivery, social inclusion, reduction of extreme poverty—and improved public financial management, such as greater fiscal transparency, improved tax collection, and inclusion of citizen preferences in municipal, sectoral, and national budgets. However, in most

² Gaventa, John, and Gregory Barrett. 2010. “So What Difference Does it Make? Mapping the Outcomes of Citizen Engagement.” IDS Working Papers 2010 (347); Grandvoinnet, Helene, Ghazia Aslam, and Shomikho. Raha. 2015. *Opening the Black Box: The Contextual Drivers of Social Accountability*. Washington, DC: World Bank; Irvin, Renée A., and John Stansbury. 2004. “Citizen Participation in Decision Making: Is it Worth the Effort?” *Public Administration Review* 64 (1): 55–65; Joshi, Anuradha. 2013. “Do They Work? Assessing the Impact of Transparency and Accountability Initiatives in Service Delivery.” *Development Policy Review* 31 (s1): s29–s48; O’Meally, Simon C. 2013. “Mapping Context for Social Accountability: A Resource Paper.” Washington, DC: World Bank; and World Bank. 2003. *World Development Report 2004: Making Services Work for Poor People*. Washington, DC: World Bank.

of this literature some common biases are observed, among which “a focus on citizen action without giving commensurate attention to state action” needs to be stressed, because the “supply-demand” dichotomy is not helpful and the most effective outcomes of citizen engagement and social accountability interventions will “only achieve their aims if equal attention is paid to improving the state’s capacity and willingness to respond as is paid to enhancing the role of citizens.” The most recent evidence shows that outcomes of citizen engagement and social accountability have the following characteristics. They (i) are context-specific and (ii) depend on several factors (such as a country’s political economy and governance environment; government, private-sector, and citizen capacity to engage and respond to feedback; cultural factors; and citizens’ trust in their governments). (iii) In addition, citizen engagement and social accountability tend to be more effective when (a) the lead implementing actors are seen as locally authoritative, legitimate, and credible by the various groups of actors involved; and when such accountability and engagement (b) build on locally legitimate formal and/or informal accountability mechanisms; (c) take a multipronged approach, working on answerability and enforcement aspects; and when (d) elected politicians and state bureaucrats are as willing and capable to respond as citizens are willing to make them accountable.

ANNEX 5. POVERTY AND SOCIAL ASPECTS

1. As required in OP 8.60, the Bank carried out the three-step set of analytical work on the operation's poverty and social aspects. First, the analytical work determined whether the DPL-supported policies were likely to cause significant poverty and social effects (positive and negative). Second, for policies with likely significant effects, the Bank assessed the State's systems for enhancing positive effects. With this purpose, the analytical work assessed whether the State's capacity (e.g. policies and institutional framework) was appropriate to identify and address the poverty and social consequences of the proposed reforms in an effective manner taking into account concerns of stakeholders (including the most vulnerable groups). Third, considering the shortcomings in these systems, the analytical work recommended actions within the DPL with emphasis on building required institutional capacity to address such gaps or shortcomings, as appropriate.

2. The Bank consolidated such analytical work in the Poverty and Social Impact Analysis (PSIA). Based on OP 8.60, the PSIA's overarching objective was to assist policymakers in Piauí to enhance the positive impacts of DPL-supported policy reforms while keeping adverse impacts to a minimum.

A. Context: the need for policy reforms in Piauí³

3. Piauí faces high levels of inequality and poverty. The monthly per capita income of the 20 percent richest (R\$1,349) represents more than 15 times the monthly income of the 20 percent poorest (R\$85.70) in the State. Piauí's Gini coefficient was 0.566 in 2013—above the national coefficient (0.52 in 2013) and the highest among Brazilian States. In rural areas, almost 40 percent of households have a monthly income below the minimum wage. In 2013, 27.4 percent and 9.12 percent of the State population lived in poverty and extreme poverty, respectively. These numbers would be worse without the support given by the conditional-cash transfer program *Bolsa Família*, which benefited 449,313 families in Piauí (equivalent to 49 percent of the state's population) that same year.

4. Access to public services, such as education is also a crucial issue to Piauí's low-income population. There is a large discrepancy between the net enrollment rates in fundamental education (grades 1–9) and SE (grades 10–12) in Piauí: 93.1 percent and 37.9 percent, respectively. Moreover, the dropout rate in SE is 16 percent, the second highest in Brazil. Age-grade distortion throughout the public education system is also common in Piauí: 30 percent of fundamental school students and 44.2 percent of secondary school students were two or more years behind the normal age-grade level in 2014. The same happens with health services, as the number of facilities and staffing is not sufficient, especially in rural areas. A significant number of patients have to be transferred to the capital, Teresina, increasing the demand in the area. In parallel, many of Piauí's municipalities are considered priority areas for neglected diseases⁴, which are invariably linked to poverty.

³ Lima, A. L.; Sanchez-Triana, E.; Montaña, M., and Enriquez, S. “*Strategic Environmental Assessment to Enhance Sustainability in Piauí, Brazil*”. Proceedings of International Association of Impact Assessment (IAIA) Conference, Florence, 2015. < http://conferences.iaia.org/2015/iaia15_proceedings.php >

⁴ Neglected diseases are conceived of as drivers for the promotion and perpetuation of poverty, such as Hansen's, Leishmaniasis, Trachoma, Tuberculosis (TB), and Geo-helminthiasis. They tend to be endemic among low income population and are called neglected diseases because they do not attract the attention of the pharmaceutical industry for the research and production of medicines and often are not prioritized by public policies, lack public funding, have high prevalence rates and low control mechanisms. Out of the total new cases of Hansen's disease detected in Brazil,

5. Rural poverty is directly related to the State's land ownership inequality – where the Gini index for land distribution is 0.89 – to the inadequate management of water resources and to the insufficient access to credit, technical assistance, farm capital and key agricultural inputs for family farmers. Poor farmers derive their income from subsistence and small-scale agriculture, which is normally practiced in non-titled land areas using outdated techniques, which hamper production and generation of income, as well as damage the environment. A part of poor farmers depend on large farmers to have effective access to land and to survive during periodical droughts.

6. Small farmers' production is vulnerable to climate hardships, especially drought in the Semi-arid region of Piauí. Despite their scarcity, water resources have been managed inefficiently, inadequately and with limited control, especially in large portions of agribusiness irrigated crops, whereas the rural poor do not have sufficient access to water resources.

7. In order to address those challenges, the GoPi developed a set of policy reforms aiming to reduce poverty and inequality. The reform program originally comprised the following sectors: (i) education, (ii) health, (iii) water resources, (iv) land and natural resources management; (v) rural development, and, (vi) public management. With those policies, the GoPi aimed to benefit poor rural families with: (i) conditional cash transfers to encourage poor students in state schools to complete secondary education; (ii) enhanced health treatment to respond to neglected diseases, which impair labor productivity; (iii) better planning and management of water resources, the scarcity and inefficient use of which have hampered production among subsistence and small farmers; and (iv) financial and technical support to improve productivity through a more adequate and efficient use of natural resources.

B. Identifying the potential poverty and social effects of the DPL-supported policies

8. The PSIA assessed whether the original set of six DPL-supported policies were likely to cause significant poverty and social effects (positive and negative), with regards to poverty reduction and social inequity. The PSIA analyzed the intended and unintended consequences of policy interventions on the State's main economic sectors and on income distribution across different social and livelihood groups, both in rural and urban settings. The analysis placed particular emphasis on rural areas due to the high concentration of poverty and extreme poverty among rural households.

9. In order to determine whether the DPL-supported policies were likely to cause significant poverty and social effects, the Bank carried out a Stakeholder Analysis (SA) to (i) identify key social groups and institutions – especially the poorest and most vulnerable groups of Piauí's rural areas – that would be likely benefited or affected by the policy reforms;⁵ (ii) obtain inputs from key stakeholders on the potential poverty and social effects of the reform program;⁶ and, (iii) determine the winners and losers of each policy proposed DPL.

4.2 percent were found in Piauí. In 2011, there were 848 new cases of TB reported in Piauí, for an incidence of 27/100,000.

⁵ Stakeholders included governmental institutions from the federal, state and municipal levels; rural farmers; quilombola and women associations; teachers and students from State public schools; academic institutions, among others.

⁶ To obtain these inputs, the SA included interviews, workshops, public meetings and events with key stakeholders in the capital Teresina and rural areas of Piauí. The SA consisted in the following stages: (i) analysis of regulation and documents produced by institutions regarding the DPL-supported policies; (ii) analysis of documents, articles and thesis, drafted by professors or institutions; (iii) participation in meetings at Piauí Bank with representants from key governmental agencies (March 17 until 20 and from April 21 until 24, 2015); (iv) interview with stakeholders; (v) participation in workshops and meetings at the Piauí's Agriculture Forum, which took place in Teresina on March 19

10. In parallel, the Bank developed a Social Accounting Matrix (SAM) to represent and quantify the interdependences of the State economy and the most important policy trade-offs in production, income distribution, investments and trade policies. The SAM, which was discussed with and refined with inputs received from the GoPi, local academic centers and other relevant stakeholders, provided a broad evaluation of the direct and indirect effects of the policies supported by the DPL and helped policymakers understand the tradeoffs between various policy options, as well as to identify the stakeholder groups that could be affected.

11. The SAM enabled simulation of alternative policies and their effects on poverty reduction and income distribution. Simulations undertaken under the PSIA included: (i) different allocations of direct income transfers to the urban and rural poor; (ii) the effects of investments in public services such as education and health or the provision of private services financed by a reallocation of public spending; and (iii) the effects of direct increases in income for the poor compared with increases in public services. The simulations helped policymakers understand the tradeoffs between different policies, as well as to identify the stakeholder groups that could be affected (Tables A5.1 and A5.2).

Tables A5.1 and A5.2. Simulation of direct income transfers vs. public services (US\$ million dollars)

	Direct income transfer Urban Poor	Direct income transfer Rural Poor	Public services
Scenario 1	100	100	0
Scenario 2	0	0	200
Scenario 3	66	66	66

	Scenario 1	Scenario 2	Scenario 3
Agriculture / Livestock	49,76	15,94	38,48
Industry	122,46	69,61	104,84
Construction	6,88	20,67	11,48
Services	208,14	384,47	266,92
VALUE ADDED	207,08	303,38	239,18
Urban families - high income	157,03	207,02	173,69
Urban families - low income	120,54	38,30	93,13
Rural families - high income	26,75	44,13	32,54
Rural families - low income	110,22	19,58	80,01
Taxes and subsidies	42,66	32,32	39,21

12. The SAM confirmed that poor families – who depend on public services – would benefit from the education and health policies (Table 3). By creating a financial incentive program for poor students to complete secondary education and implementing a State Program to Address and Control Tropical Neglected Diseases, the GoPi will improve the quality of life of the beneficiaries, foster human capital and, therefore, create opportunities for social and productive inclusion. The

and 20, 2015; and (vi) participation in a meeting at the Water Council of the Piauí State, which took place on April 23, 2015. (Costa, Rosana G. Sales, “Stakeholder Analysis”, May, 2015).

health policy is particularly relevant to address poverty-related diseases that impair productivity and contribute to stigmatization of patients. The PSIA results also showed that policies of income redistribution in favor of the rural poor (e.g. YSP, PROGERE and land titling) would have important payoffs in increasing aggregate social welfare.

13. The first stage of the PSIA concluded that four out of six original DPL-supported policies would likely cause significant positive poverty and social impacts, particularly to rural poor and low-income students (table A5.3). None of the policies would cause negative poverty and social effects.

Table A5. 3. Poverty and social effects of original set of DPL-supported policies

Prior Actions	P&S Effects		
	Positive	Negative	Significant
Educational Incentive Youth Savings Program (YSP)	X		X
State Program to control and respond to neglected diseases	X		X
State Water Resources Users Registry (CERH)	X		
Access of small-scale and subsistence farmers to public services associated with natural resources management.	X		X
Rural Poverty Reduction Program (PROGERE)	X		X
Integrated results-based system for planning, executing, and evaluating priority investment projects and programs	X		

14. Along with PROGERE, the policy aimed at facilitating public services associated with natural resources management would benefit the rural poor through interventions in a broad cross-section of activities, such as: (i) funding business initiatives and strengthening family farming and production chains; (ii) supporting program beneficiaries through technical assistance, business mentoring and educational campaigns to ensure the sustainability of their undertakings and to facilitate their access to federal financial and social programs (e.g. PRONAF and PNHR).

C. Assessing the State's systems for enhancing significant positive effects of the DPL supported policies

15. The second stage of the analytical work assessed the GoPi's systems to maximize the significant positive effects of those five policies on poverty reduction and social inclusion.

16. The analysis looked at the legal framework and technical capabilities of governmental agencies responsible for implementing those five policies (i.e. SEDUC, SESAPI, INTERPI, SEMAR and SDR). The PSIA found that all agencies would face challenges to implement the proposed policies due to poor institutional capacity, especially in terms of financial, human and technical resources. It also identified two main dimensions along which government agencies would require targeted technical assistance: (i) the multi-sectoral scope of several reforms would call for strengthened coordination and improved communications among different organizations; and (ii) institutional strengthening will be crucial to ensure the capacity of State organizations to implement the supported reforms. The PSIA concluded that without adequate training and restructuring, these institutions may prove unable to meet their new responsibilities, with the risk that the State's inclusive and green growth goals might not be met. In general, those governmental

agencies lack the physical and human infrastructure, capacity and financial resources to meet current population demands, which are expected to augment as a result of the proposed reforms.

17. The PSIA also identified the lack of systematic actions for mainstreaming gender dimensions in inclusive growth strategies and for channeling and responding to citizens' concerns related to those key sectors. Gender gaps remain sizeable in Piauí, particularly with regards to labor market opportunities, income levels and productive inclusion. In 2010, women counted for 41.7 percent of the economically active population. However, they are the majority the informally employed and lower paid workers. Consequently, among the occupied people, the average wage earned by women reached 85.4 percent of the average wage earned by men in 2010. Gender-based violence is on the rise and remains largely under-reported in Piauí. In 2013, the GoPi created the State Coordination of Policies for Women (CEPM) to plan, coordinate, execute and articulate public policies for women across sectoral agencies in Piauí. The CEPM, however, does not have the structure, institutional arrangements and competencies to carry out its mandate.

18. On the positive side, Piauí has a recent history of consolidation of participatory planning processes, characterized by intense participation of diverse stakeholders, which could be strengthened and consolidated in order to ensure high level of transparency and accountability in the management of environmental resources and the delivery of social services. The PSIA identified, however, that there was room for improving the State's grievance redress mechanism. The General Ombudsman Office (OGE-PI) has remained largely unknown, under-staffed, under-funded, and under-used by the population since its creation in 2007.

D. Enhancing the positive poverty and social effects of the DPL-supported policies

19. The PSIA provided insights into how the design of such policies could be improved to enhance synergies between the objectives of each policy and, as a consequence, maximize their positive environmental, poverty and social effects. The PSIA found that the policies could be refined and additional actions could be adopted to enhance their positive effects on women and *quilombolas* communities.

20. The analysis recommended two new policies to GoPi, which were eventually included in the DPL-supported reform program: (i) adopting the legal basis to operationalize the State Coordination Agency for Policies on women (CEPM), in order to mainstream a gender perspective into the design, implementation and supervision of State public policies, and (ii) adopting the legal basis to facilitate the access of poor citizens to the Ombudsperson Office (OGE) services, and to expedite the response from targeted sectoral agencies to complaints associated with social and productive inclusion services. The PSIA also recommend that technical assistance activities to be included in the IPF in order to support the GoPi implementing those policies. When the GoPi decided to include those two policies in the reforms program supported by the DPL, the Bank complemented the analytical work required by OP 8.60 and determined that both policies would have positive poverty and social effects (table A5.4).

Table A5. 4. Poverty and social effects of additional DPL-supported policies

Prior Actions	P&S Effects		
	Positive	Negative	Significant
Operationalization of the State Coordination Agency for Policies on women (CEPM)	X		X

Prior Actions	P&S Effects		
	Positive	Negative	Significant
Access of poor citizens to the Ombudsperson Office (OGE) services	X		X

21. The PSIA also informed the design of other policy reforms adopted by GoPi to maximize the positive effects on women and other vulnerable groups. As a consequence, the GoPi decided to (i) include, among the conditions for receiving the financial benefit envisaged in the education policy, the students' attendance to extracurricular activities that aim to promote gender equality; and, (ii) prioritize women, among other vulnerable groups, while selecting PROGERE's beneficiaries.

22. The PSIA also recommended investments and technical assistance activities for the IPF, particularly for the sectors in charge of implementing policies with significant poverty and social effects. For instance, through its technical assistance component, the proposed IPF will support the Borrower (i) to establish the State Geo-processing Laboratory (CGEO) for land and environmental cartographic services, by financing staff training activities, purchasing equipment, software and satellite images; (ii) ensure adequate personnel and equipment for land regularization; and, (iii) pilot an integrated computerized land information system. The CGEO will offer the state agencies the high quality cartographic information they need to design and implement their projects. Additional technical assistance will be provided to INTERPI and SEMAR to enforce the environmental and land regulations ongoing activities.

23. The PSIA was key to inform the design of PROGERE II. The Program's legal basis was refined to prioritize women, extreme poor producers, *quilombolas* and students from technical agricultural schools. The proposed IPF will support the GoPi's by: (i) assisting small rural producers to engage more effectively in profitable businesses through PROGERE's second phase; (ii) supporting capacity development for rural producers and local development agents; (iii) providing incentives for a transition towards more environmentally sustainable agricultural practices; and (iv) strengthening PROGERE's Project Management Unit. In addition, the Technical Assistance of the IPF would support: (i) the implementation of monitoring and management systems, including the development of software to manage real-time data on the performance and administration of PROGERE's second phase, and (ii) the training of technicians and administrators and the hiring of specialized consultants in areas related to productive chains, to assist the beneficiaries with all aspects related to the establishment and management of production chains.

24. In conclusion, the specific policy reforms supported by this DPL are expected to have significant positive impacts on poverty alleviation and improve income distribution, particularly in the rural area of Piauí. The IPF will support the implementation of these policies and ensure that they remain targeted on the intended beneficiaries.

ANNEX 6. ENVIRONMENTAL ASPECTS

1. The Bank's OP 8.60 calls for the preparation of a three-step set of analytical work on the operation's environmental aspects. First, the Bank determines whether the DPL-supported policies are likely to cause significant positive or negative effects on the environment, forests, and other natural resources. Second, for policies with likely significant effects, the Bank assesses the borrower's systems for reducing the adverse effects and enhancing positive effects. Third, if there are shortcomings in the borrower's systems, the Bank describes how they would be addressed before or during program implementation.

2. As envisaged in OP 8.60, the Bank supported the preparation of an environmental analysis (hereafter "the analysis") to inform the development of this operation. This rigorous analytical work, based on participatory mechanisms, identified environmental priorities, assessed the institutional and governance context underlying decision-making processes, and identified opportunities to mainstream environmental considerations in the design and implementation of the policies supported by this DPL¹. The analysis informed GoPi's decision making to ensure that potential negative environmental effects are avoided. Furthermore, the analysis has focused on how to assist the GoPi to design and implement policies that enhance positive environmental effects and ensure the sustainability of the proposed policy reforms, while also identifying institutional capacity needs that will be addressed through investments and technical assistance.

3. The participatory mechanisms integrated into the analysis included consultations with key stakeholders over a five-month period. The GoPi, with Bank support, held a series of meetings to obtain stakeholder input into the analysis of the potential effects of policies to improve productive and social inclusion. These included several meetings with local academic centers and workshops with different stakeholders, including governmental agencies and civil society organizations, in several locations across Piauí. Specific meetings were held with representative from municipalities in the regions where the proposed policies would have greater effects.

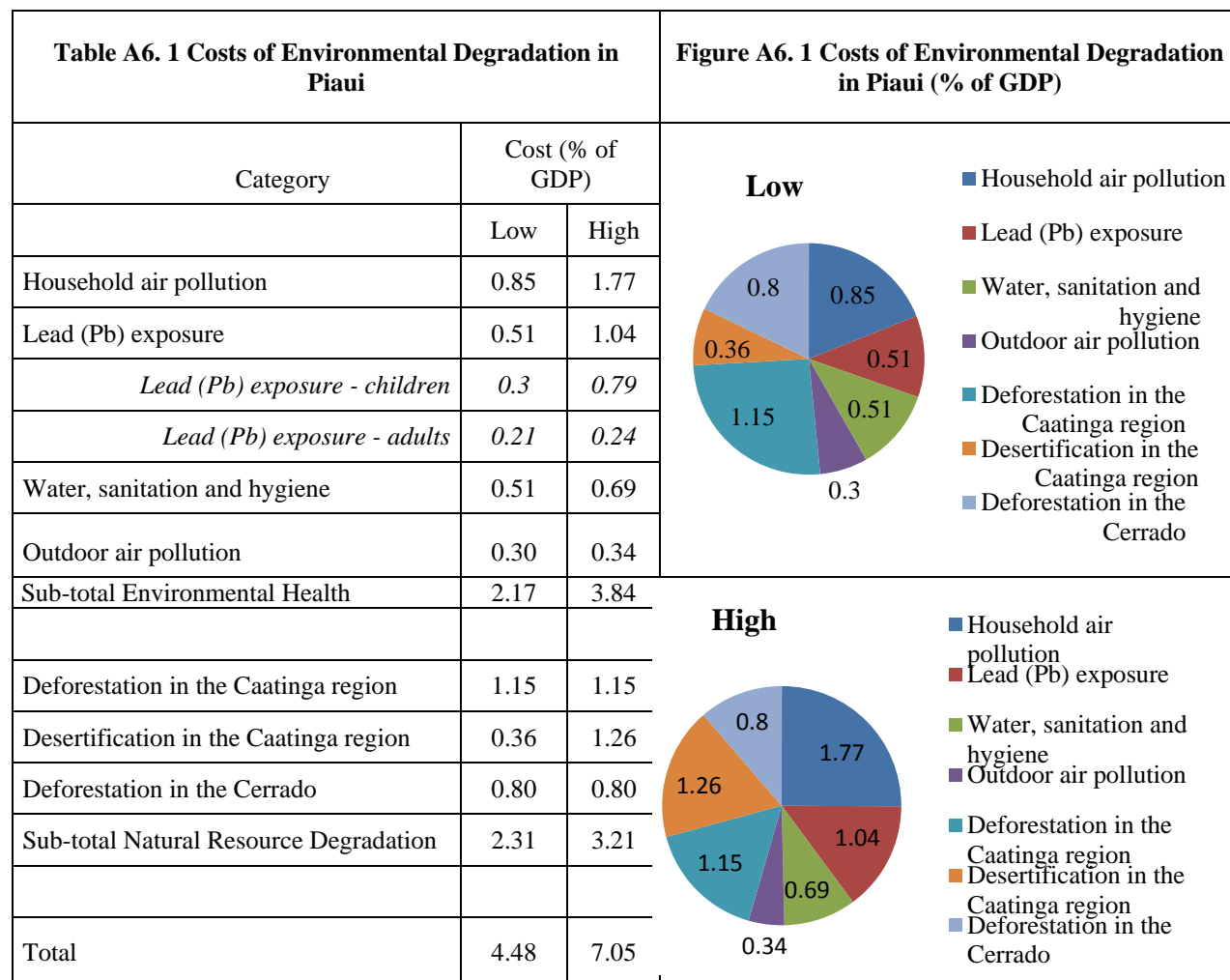
4. Environmental degradation and depletion of natural resource are significant obstacles to Piauí's green and inclusive growth. The analysis estimated that economic costs associated with the key categories of environmental degradation in the state are equivalent to between 4.5 and 7.1 percent of the state's GDP² (table A6.1 and figure A6.1.) Environmental health risks, which result in premature death and increased illnesses, result in annual costs in the range of R\$ 558-988 million, equivalent to 2.2 – 3.8 percent of Piauí's estimated GDP in 2012. The economic costs of deforestation and desertification in the Cerrado and Caatinga regions are equivalent to 2.31-3.21 percent of the state's GDP. The costs of natural resource degradation are already significant, but could grow fivefold by 2040 in the absence of decided actions to address them.

¹ The analysis was based on state-of-the-art methodologies developed by the Bank, including The World Bank (2005) Integrating Environmental Considerations in Policy Formulation: Lessons from Policy-Based SEA Experience. Report No. 32738. Washington, DC: World Bank; Ahmed, and Sanchez-Triana (2008) Strategic Environmental Assessment for Policies: An Instrument for Good Governance. Washington, DC: World Bank; and The World Bank (2011) Strategic Environmental Assessment in Policy and Sector Reform: Conceptual Model and Operational Guidance. Environment and Development. Washington, DC: World Bank.

² The cost of premature mortality is estimated by using a value of statistical life (VSL), which is based on individuals' willingness-to-pay (WTP) for a reduction in the risk of death. The VSL applied to Piauí is R\$ 405 thousand or US\$ 208 thousand. The cost of IQ losses from lead exposure is estimated based on the present value of reduction in lifetime income. Two valuation techniques are used in this report to estimate the cost of illness. A low value is estimated using the cost-of-illness (COI) approach, which includes the cost of medical treatment and value of income and time lost to illness. A high value is estimated by equating the cost of illness to individuals' WTP for avoiding an episode of illness.

Environmental Health: Risks and Costs

5. Household air pollution from use of solid fuels for cooking and other purposes is associated with the most significant health effects in Piauí. Households using such fuels are often exposed to PM_{2.5} levels that are 10-50 times higher than the World Health Organization's guideline, resulting in increased risks of acute lower respiratory infections (ALRI) in children and chronic obstructive pulmonary disease (COPD), chronic bronchitis (CB), and lung cancer in adults. As a result of these conditions, it is estimated that 484-885 individuals died prematurely and 2 - 7.1 million days of illness occurred in Piauí in 2012. The annual cost of these health effects is estimated at R\$ 218-456 million in 2012, with a mid-point estimate of R\$ 301 million (table A6.1 and figure A6.1). Mortality accounts for 79-90% and morbidity for 10-21% of the estimated cost. Adult women and young children are mainly affected, as they spend more time in household environments.



6. Lead (Pb) exposure is the second highest environmental health risk in Piauí. To assess the economic costs of lead exposure in Piauí, the analysis considered the neuropsychological impairment caused by Pb exposure in children, measured as IQ losses, as well as the increased blood pressure and cardiovascular diseases caused in adults. Although exposure to lead has globally declined substantially with the phase out of leaded gasoline, multiple other sources remain, including industrial air pollution, occupational exposure, contaminated drinking water, food, dust, soil, paint, cosmetics, utensils, several herbal medicines, children's toys, ornaments and jewelry, and other materials and articles containing lead. It is roughly estimated that around

half of children under five years of age in Piauí State (and Brazil at large), half of adult females, and over 80% of adult males have blood lead levels that are detrimental to neuropsychological development and health according to recent research evidence. As a result of lead exposure, children and adults in Piauí experience 21,600-48,600 and 332,000-663,000 days of illness annually, respectively, in 2012. The economic costs of lead exposure are estimated at R\$132-267 million per year, with a mid-point estimate of R\$194 million. The negative consequences of lead exposure in children are irreversible, thus reducing the lifetime income and affecting their possibilities for economic advancement.

7. Inadequate water supply, sanitation and hygiene (WSH) constitute another pressing environmental challenge in Piauí. Recent household surveys indicate that 78 percent of the population of Piauí had piped water to dwellings in 2012, around 95 percent had an improved water supply, and nearly two-thirds of households had a water filter. The same surveys also indicate that about 20 percent of the population in the state and over 50 percent of the rural population had no access to a sanitation facility, in contrast to 3-5 percent in all of Brazil. WSH causes diarrhea and other infectious diseases, poor sanitation and hygiene increases the risk of parasite infestation, and inadequate hand washing practices are a major contributor to diarrhea and respiratory infections in children. Moreover, repeated diarrheal infections in early childhood contribute to poor nutritional status (e.g., underweight). Estimated deaths from inadequate WSH were 123 in 2012. About 36% of these deaths were among children under five years of age, and 36% were among the population older than 70 years. In addition, inadequate WSH caused an estimated 5.1 – 6.7 million days of illness. The economic costs of inadequate WSH are estimated at R\$131-177 million, with a mid-point estimate of R\$152.

8. Outdoor air pollution also results in significant health effects in Piauí. Particulate matter (PM), especially fine particulates (PM_{2.5}), is the outdoor air pollutant that is globally associated with the largest health effects. According to the analysis, it is estimated that 35 percent of the population of Piauí is exposed to PM_{2.5} concentration levels considered adverse to health. The most substantial health effects of PM_{2.5} are cardiovascular disease, chronic obstructive pulmonary disease (COPD), and lung cancer among adults, and acute lower respiratory infections (ALRI) among young children. Outdoor air pollution resulted in an estimated 169 premature deaths in 2012 and 433,000-867,000 days of illness in 2012 in Piauí. The health effects of outdoor air pollution have an estimated cost of R\$78-88 million, with a mid-point value of R\$81 million.

Natural Resource Degradation

9. Piauí's dynamic agricultural development has been based on the expansion of soybean production, which is a major deforestation driver (figure A6.1). This expansion is concentrated in the Cerrado region, an ecologically unique and sparsely populated area, which occupies a total area of 93,424 km². Six out of 52 municipalities in the Cerrado are located in the state of Piauí. The total area of these six municipalities is about 30,500 km², of which 9,876 km were classified in 2013 as vulnerable with regard to their soil loss tolerance, according to SEMAR and should not be made available for agriculture. Nevertheless, these municipalities have emerged as a major agricultural frontier in Brazil. The area of soybean production in these six municipalities grew from 1,134 km² in 2004 to 3,178 km² 2012.

10. The occupation of the Cerrado by large mechanized and partly irrigated soybean cultivation over the last two decades has been associated with a number of environmental problems. These include deforestation and conversion of natural habitat into monocultures, soil erosion by increasing use of heavy machinery, risk to water resources due to disruption of water recharge and tempering of small natural streams of water, soil contamination by pesticides,

11. In 2009-2010, the percentage of deforested area in the Cerrado was estimated at 15.9 of its total area. The annual cost of deforestation in the Cerrado region was estimated at about 0.8 percent of Piauí's GDP (2012)³. If the rate of deforestation and soybean expansion remains at the same level, the cost associated with this process may soon exceed the economic benefits generated by agriculture. The analysis estimated the economic costs of three policy scenarios, each associated with a different conservation target. The local and regional costs of deforestation would be in the range of 2.2-10.2 percent of Piauí's GDP by 2040 (table A6.2).

Table A5. 2. Economic costs of alternative deforestation scenarios in the Cerrado region in Piauí

Scenarios	Accumulated deforestation in the Cerrado, Piauí, km ²	% GDP (local and regional cost)	% GDP (global cost)
20% available land conserved	28.4	10.2	1.1
35% available land conserved	23.6	6.6	0.9
60% available land conserved	14.9	2.2	0.5

Source: Strukova Golub, 2014.

12. The semi-arid biome of the Caatinga region also faces severe natural resource degradation. The Caatinga is a semi-arid steppe area comprising thorn scrub and dry deciduous forest, and occupying about 40 percent of the Piauí area. Natural resource degradation, mainly caused by high grazing intensity and periodic droughts, result in increased deforestation and desertification in Caatinga. The analysis estimates that the annual cost of deforestation in the Caatinga region is R\$ 230 million or about 1.15% of Piauí's GDP and that the annual cost of desertification is about R\$ 72-254 million, or 0.36-1.26% of Piauí's GDP.

The DPL's policy matrix and Piauí's environmental priorities

13. The analysis evaluated the consequences of alternative policies on productive and social inclusion on Piauí's environment, forests, and other natural resources. As part of this effort, the team assessed the potential effects of each of the reforms included in the DPL's policy matrix on the State's environmental priorities (table A6.3). The analysis found that the DPL-supported productive and social inclusion policies would not have a negative effect on any of the state's most pressing environmental challenges. However, the analysis did find opportunities to include considerations in the DPL policy matrix to enhance positive environmental effects and contribute to tackle Piauí's priority environmental problems.

14. The team examined the State's capacity underlying the policy and institutional framework to identify and address environmental actions associated with the reforms supported by this operation. The actions to strengthen SEMAR's institutional capacity to manage water resources and other natural resources—some of which are covered by the upcoming Piauí Service Delivery and Public Sector Management Project (IPF)—are based on the recommendations emerging from the environmental analysis conducted for DPL. Piauí's legal framework creates the conditions to ensure that activities such as increasing access of small-scale and subsistence farmers to public services associated with natural resources management do not result in negative environmental effects. In addition, the upcoming IPF will provide support for the adequate implementation of these activities and the enforcement of applicable legal and regulatory requirements.

³ This includes the cost of carbon emission from deforestation.

Table A5. 3 DPL policy matrix and environmental priorities

Prior Actions	Environmental Priorities								
	Household air quality	Lead exposure	Water supply, sanitation and hygiene	Outdoor air quality	Deforestation	Water Quality and Quantity	Biodiversity	Soils	Climate Change
Educational Incentive Youth Savings Program (YSP)	+/I	0	+/I	0	+/I	+/I	+/I	+/I	+/I
State Program to control and respond to neglected diseases	+/I	+/I	+/I	0	0	0	0	0	0
State Water Resources Users Registry (CERH)	0	+/I	0	0	0	++/D	+/I	++/D	++/D
Access of small-scale and subsistence farmers to public services associated with natural resources management.	+/I	0	0	0	+/I	+/I&D	+/I	+/I	+/I
Rural Poverty Reduction Program (PROGERE)	+/I	0	0	0	+/I	+/I&D	+/I	+/I	+/I
Integrated results-based system for planning, executing, and evaluating priority investment projects and programs	+/I	+/I	+/I	+/I	+/I	+/I	+/I	+/I	+/I
Operationalization of the State Coordination Agency for Policies on women (CEPM)	+/I	0	+/I	0	0	0	0	0	+/I
Access of poor citizens to the Ombudsperson Office (OGE) services	+/I	+/I	+/I	+/I	+/I	+/I	+/I	+/I	+/I
Prior action competes against responses to the environmental priority	Prior action is a condition to respond to the environmental priority			Prior action is a strong condition to respond to the environmental priority					

15. The policy reforms supported by the DPL are expected to result in positive effects to Piauí's environment and other natural resources. The DPL will support policies aimed at expanding public services associated with: (i) land tenure regularization and promotion of sustainable agriculture practices for subsistence and small-scale farmer to ensure that they adopt more sustainable practices, and are supported by PROGERE. (ii) improving allocation of land and water rights and strengthening deforestation control actions, which will contribute to monitor and control deforestation in private landholdings; and (iii) manage concessions of water rights. In addition, the policies aimed at expanding coverage of public services associated with social inclusion, such as the "*Poupança Jovem*" Program and the program for health care interventions for neglected diseases, will contribute to improve living conditions of the poorest, so they can participate in the productive market and overcome the poverty condition that makes them more vulnerable to environmental health risks.

16. Reforms supported by the DPL to regularize land titles include mechanisms to protect environmentally sensitive areas. As part of the land regularization process, INTERPI and SEMAR are required to ensure that the land in question is not protected by law or of ecological interest. In addition, enforcement of the laws associated with protected areas is the responsibility of the Federal Government, which has fulfilled it very effectively, as evidenced by the drastic reduction of the country's deforestation rate over the last decade.

17. The DPL will also contribute to increase the efficiency and effectiveness of Piauí's public administration, by strengthening monitoring and evaluation, mainstreaming gender in key policies, and facilitating citizen oversight of strategic programs. Strengthening the institutional capacity of the health sector will contribute to tackle environmental health risks, bolstering the capacity of the rural development sector will foster improved natural resource management, and improvements in the education sector can indirectly help address Piauí's environmental priorities. Gender mainstreaming will enable more efficient responses to environmental problems that affect primarily women and young children, including household air pollution, WSH, and climate change adaptation.

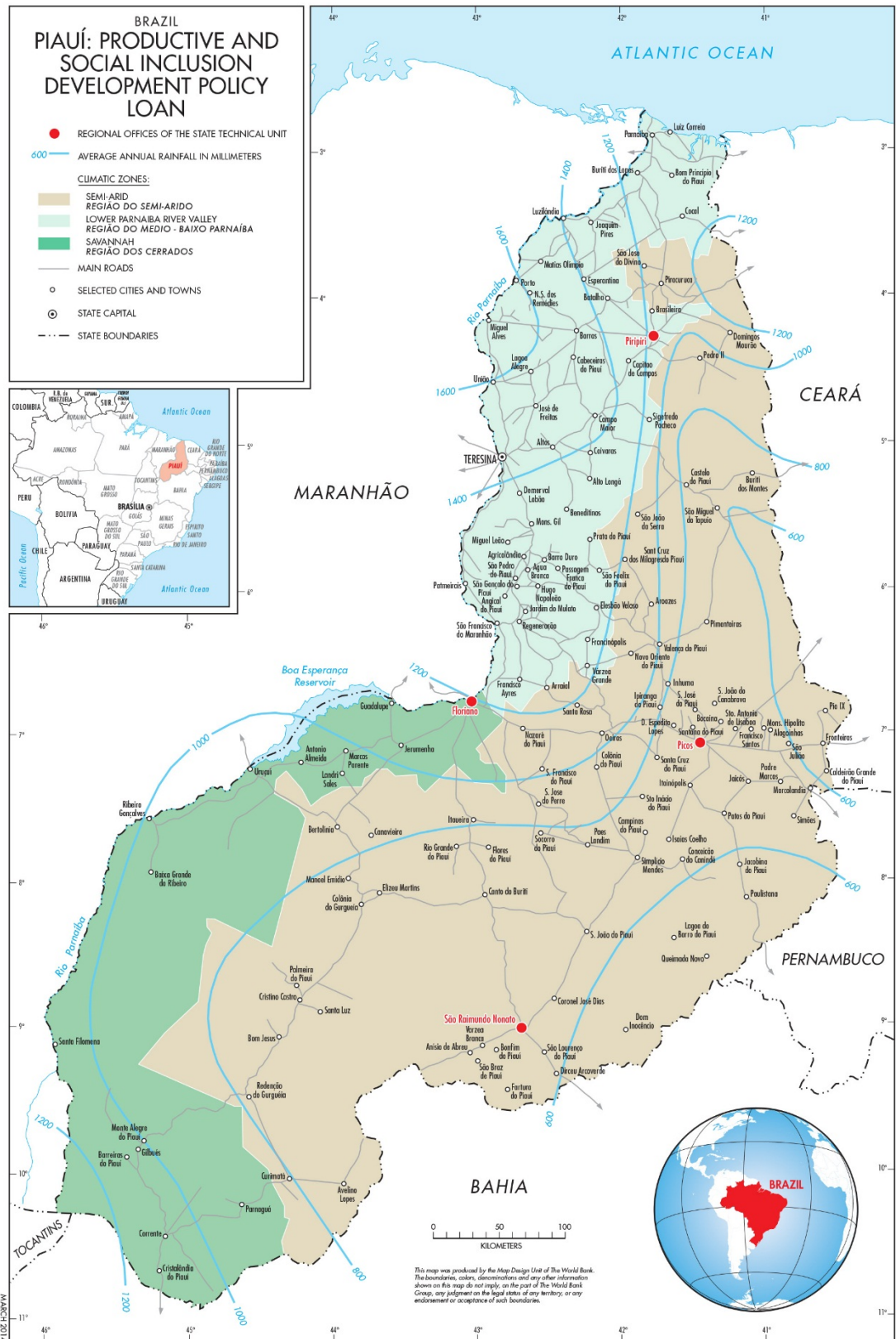
18. This analytical work concluded that the policies supported by the DPL are not likely to cause negative effects to the environment, forests, and other natural resources. Since the policy reforms supported by this operation do not consist of interventions specifically aiming to address Piauí's environmental problems, stakeholders consulted during the preparation of the analysis requested the GoPi to consider targeted policy and investment programs to address the State's environmental priority problems, including: (i) household air pollution from use of solid fuels for cooking and other purposes; (ii) inadequate water supply, sanitation and hygiene, and (iii) natural resource degradation in the Cerrado region associated with the expansion of capital intensive agriculture.

ANNEX 7. SINERGIES BETWEEN BANK OPERATIONS IN PIAUI

GoPi / PPA 2016-19 Pillars	Proposed DPL (P146981)	Proposed IPF (P)	Results Indicators
Human Development with emphasis in education, health and security	Create a financial incentive program for students enrolled in state public schools in the poorest municipalities to complete secondary education (SE) and participate in extracurricular.	Reduce the dropout rate in public SE by: (a) expanding a financial incentive program for secondary school students in targeted municipalities; (b) expanding the full-time school model; (c) expanding the three existing modalities of STE; (d) increasing and improving distance learning for SE; and (e) reestablishing a state student assessment.	<u>DPL</u> : Positive difference – measured by percentage points – between pass rate in the municipalities targeted by the “Poupança Jovem” Program and the average pass rate of state public SE schools (excluding Teresina). <u>IPF</u> : Dropout rate in public SE.
	Establish a program to implement strategic actions to prevent, control and respond to neglected diseases, particularly Chagas disease, hanseniasis, tuberculosis, leishmaniasis and geohelminthiasis among the rural poor.	Increase access to diagnosis and treatment for patients with chronic diseases: (a) implementing and making operational five SCCDs and (b) developing and implementing state protocols and medical regulation.	<u>DPL</u> : Patients with treatment concluded and succeeded for tuberculosis and hanseniasis in targeted municipalities; and increase the proportion of captured vectors examined to detect parasite of Chagas disease. <u>IPF</u> : Patients under diagnosis or treatment for chronic diseases in the 5 new SCCDs.
Diversified economic development with social inclusion and sustainability / Infrastructure investments for sustainable territorial development	The state has established the legal basis to implement a water users registry in order to improve water resources management by gathering information on water resources use in the state.	Expand the registration of water users in rural areas through: (a) the design and implementation of water users registration campaigns, including outreach, dissemination, support to small-farmers to access the registry web-based platform and verification of uploaded information in CERH by desk review and field visits; and (b) strengthening SEMAR’s capacity to analyze and oversee water use right applications in Piauí.	<u>DPL</u> : quarterly update and public disclosure of a list of the state groundwater users not complying with the legislation related to the state water users registry and the grant of water use rights; and groundwater users registered in the CERH <u>IPF</u> : Groundwater users registered in the CERH and verified by SEMAR.
	Adopt the legal basis to facilitate the access of small-scale and subsistence farmers to public services associated with natural resources management.	Expand land tenure regularization through the: (a) strengthening and modernization of INTERPI; (b) identification, demarcation and registration of state land; (c) land tenure regularization of INTERPI’s land reform settlements; (d) land tenure regularization of <i>Quilombola</i> territories; and (e) operationalization of the Land Tenure Regularization Center of the Office of the Inspector General of the State Secretariat of Justice.	<u>DPL</u> : New applications submitted by small scale and subsistence farmers that are jointly processed by INTERPI and SEMAR. <u>IPF</u> : Beneficiaries who receive registered land titles through the state land tenure regularization program.

	Reform the Rural Poverty Reduction Program (PROGERE) in order to prioritize women and extremely poor producers as beneficiaries and to improve transparency of the Program's processes.	Increase the participation of poor rural women and <i>Quilombola</i> communities in productive value chains by: (a) creating market-driven diversification via agricultural and non-agricultural productive chains, promoting environmentally sustainable practices and targeting poor farmers, especially women and <i>Quilombola</i> communities; and (b) capacity building on technical and managerial assistance and logistics.	<u>DPL</u> : Selection and implementation process of PROGERE-financed projects through a computerized management system that ensures compliance with the program's prioritization criteria and public disclosure of relevant information. <u>IPF</u> : Poor rural women and <i>Quilombola</i> communities participating in PIPs.
Efficient Public Management	Establish (i) the legal basis for the implementation of a results-based Integrated System of Planning, Monitoring, and Evaluation for investment programs; (ii) the rules and procedures for executing, monitoring and evaluating investment projects and programs; and (iii) a decentralization of monitoring responsibilities to line secretariats. Establish the legal basis and procedures for the implementation of a systematic monitoring of contracts (<i>convenios</i>) for targeted activities financed through federal resources and external credit operations.	Provide TA for public sector management to modernize expenditure and investment management by: (a) integrating planning, monitoring and evaluation in a single results-based system; (b) expansion of the scope and coverage of the monitoring of investment programs; (c) implementation of streamlined FM and auditing practices in line with federal and international standards; and (d) standardization of costing and procurement processes.	<u>DPL</u> : Percentage of agreements (<i>convenios</i>) for targeted activities financed through federal grants monitored through SIMO. <u>IPF</u> : (intermediate indicators): - State secretariats and agencies using SIMO. - State secretariats with decentralized monitoring and evaluation teams in operation.
	Adopt the legal basis to operationalize the State Coordination Agency for Policies on women (CEPM), in order to mainstream a gender perspective into the design, implementation and supervision of State public policies.	Provide TA to generate evidence to support gender-smart policymaking through: (a) a socioeconomic diagnostic of key challenges faced by women and men to reach gender equality in the state of Piauí; (b) regional and state level workshops with key stakeholders; (c) support for Governmental Organizations of Policies for Women (OPMs); and (d) an in-depth and gender-sensitive assessment of the productive chains prioritized by PROGERE II.	<u>DPL</u> : Strategic thematic programs included in the state PPA with gender-based indicators. <u>IPF</u> (intermediate indicators): First state plan of policies for women
	Adopt the legal basis to operationalize the State Coordination Agency for Policies on women (CEPM), in order to mainstream a gender perspective into the design, implementation and supervision of State public policies.	Provide TA to enhance citizen engagement and social accountability to: (a) enhance the OGE's channels and procedures for filing and handling complaints (b) improve the institutional capacity of sectoral secretariats to handle complaints and integrate the Ombudsman's network, and (c) launch an awareness-raising and communication campaign about the Ombudsman's network, its role and goals.	<u>DPL</u> : Priority sectors of the state government with OGE representatives. <u>IPF</u> (intermediate indicator): Complaints registered and processed timely by the OGE

ANNEX 8. MAP OF PIAUÍ



ENDNOTES

¹ These include infrastructure bottlenecks, high labor costs and low skill levels, a high tax burden and onerous tax system, excessive administrative burdens, shallow credit markets, and barriers to competition and international trade.

² Despite the slowdown in economic activity and jobs creation since 2012, the reduction in unemployment continued, reaching an historical low of 4.8 percent in 2014, and average wages also continued to rise. This was largely the result of a drop in labor force participation, which masked the impact of reduced job creation in recent years.

³ This is using the *PME* survey of main metropolitan areas. The unemployment rate according to the *PNAD Contínua* is slightly higher than the *PME* result and reached 8.1 percent in May 2015.

⁴ The cumulative losses over the 12 months through August from the dollar-swap program reached R\$112bn (2.0 percent of GDP).

⁵ The new fiscal plan announced in September 2015 includes a number of revenue raising and expenditure cutting measures. Among them, the recreation of the CPMF, tax changes for the “Sistema-S” (worker training programs), reallocation of income source for the “Sistema-S”, tax rebate in exports etc. On the expenditure side, measures include postponement of civil servants wage rises, changes to the “Minha Casa Minha Vida” (MCMV; low income housing program) funding and “Programa de Aceleração do Crescimento” (PAC; public investment program) funding.

⁶ This is in accordance with Brazilian methodology. According to IMF methodology, debt has been higher, though the two figures have converged more recently. As of end 2014, general government gross debt according to the IMF methodology stood at 65.2 percent, compared with 63 percent at end 2010.

⁷ Intercompany loans accounted for 60 percent of total FDI in 2014. However, about 60 percent of intercompany loans reflect proceeds from overseas borrowing by foreign subsidiaries of Brazilian parent companies, which, arguably, carry a risk profile more similar to portfolio debt flows.

⁸ World Bank staff are working on an updated Debt Sustainability Analysis, expected to be available by end 2015.

⁹ S&P was the first to downgrade Brazil’s sovereign debt to non-investment grade status; other rating agencies may likely follow suit, triggering “forced selling” of Brazilian assets.

¹⁰ Official State GDP figures for 2013–14 are not yet available.

¹¹ The BFP is a federal program that offers direct cash transfers to families that live in poverty (per capita monthly income between R\$77.01 and R\$140.00) and extreme poverty (per capita monthly income up to R\$77.00) as long as they fulfill specific requirements in the fields of health, education, and social assistance. The Program distributes three kinds of benefits, based on the following factors: (i) the family’s per capita monthly income; (ii) the number of children aged 15 years old or less; and (iii) the number of adolescents aged 16 or 17 attending school. The basic amount of R\$77.00 is paid to families that live in extreme poverty. The variable benefit of R\$35.00 is given to families who live in poverty for each child and adolescent from 0 to 15 years old (monthly), families with pregnant women in their composition (for nine consecutive months during pregnancy), and families with babies from 0 to 6 months (for 6 consecutive months until the child is 6 months old). However, aiming to not foster increases in the birthrate, the Program limits the number of these variable benefits conceded to the families, who may receive the maximum of three variable benefits, even if they have more than three children. The third kind of benefit corresponds to a variable amount of R\$42.00 that is paid to the families for each adolescent member (16 or 17 years old) who is still attending school. The families cannot receive more than two variable benefits linked to the adolescent. The fourth type of benefit is calculated case by case for those families that continue in extreme poverty (per capita monthly income up to R\$77) even after receiving basic and/or variable benefits. The fourth benefit is calculated to ensure that families will overcome the income threshold of extreme poverty.

¹² For instance, Piauí Rural Poverty Reduction Project (P050881), Piauí Green Growth and Inclusion DPL (P126449), Bahia Sustainable Rural Development Project (P147157), Rural Poverty Reduction Project – Bahia (P057649), Ceara Rural Sustainable Development and Competitiveness (P121167), and Pernambuco Rural Economic Inclusion (P120139).

¹³ The YSP differs from the *Bolsa Família* Program (BFP) in at least three ways. First, the YSP focuses not only on school attendance (which is a focus of the BFP), but also student performance. Through the BFP, participating families receive the monthly benefit when their children attend school, regardless of whether their children progress to the next grade, while the YSP benefit is paid only to those students who passed to the next grade. Second, the BFP targets children aged 17 and under who not necessarily attend SE because of age-grade distortion. The YSP covers all students registered in SE, regardless of their age, because age-grade distortion in public SE in Piauí is the second highest in Brazil. Thus, the majority of SE students in public schools would not be directly covered by BFP. Another difference between the two programs refers to payment recipients: The GoPi pays the YSP award directly to the student at the

end of each academic year of SE, provided that he/she passes the respective grade, while the federal government pays the BFP benefits monthly to the head of the family.

¹⁴ State Law 6,127/11 requires that any public land to be sold to private actors must first undergo a screening process to ensure that the area is not of high conservation value (for example, fully protected conservation areas, as defined by Federal Law 9,985/2000 on the National Protected Areas System – SNUC) and is not being claimed by indigenous people or *quilombolas*. State Laws 6,464/2013 and 6,687/2015 extended the application period for land regularization of subsistence and small-scale farmers under the same conditions of State Law 6,127/2011.

¹⁵ CAR has been introduced as an additional tool to monitor and control compliance with Federal Law 12,651/2012, which requires landholders to retain natural vegetation on steep slopes, along watercourses (up to a given distance from the margin), or in the vicinity of springs. These areas are to be of permanent preservation. In addition, the holdings must set aside an area called Legal Reserve.

¹⁶ Without adequate interventions, this vulnerability could be exacerbated as result of climate change. As estimated by the Intergovernmental Panel on Climate Change (IPCC), especially through A2 and B2 global climate models of temperature increases, Piauí is expected to lose approximately 70.1% (A2 scenario) and 58.1% (B2 scenario) of its arable land between 2010 and 2050. The same estimates indicate an overall contraction of the economic activity in the state for the same period resulting in a 17.5% negative impact on the state's GDP. CEDEPLAR/UFGM and FIOCRUZ (2008). *Mudanças Climáticas, Migrações e Saúde: Cenários para o Nordeste Brasileiro, 2000–2050*; INPE/CCST (2009). *Impactos de extremos relacionados com o tempo e o clima – Impactos sociais e econômicos, Boletim do Grupo de Pesquisa em Mudanças Climáticas – GPMC Número 8*; and World Bank and Embrapa (2013). *Impacts of Climate Change on Brazilian Agriculture*.

¹⁷ The new Policy also determines that PROGERE's beneficiaries shall comply with environmental regulations in order to have access to the program's funds. To facilitate compliance, SDR signed a technical cooperation agreement with SEMAR to ensure that (i) PROGERE does not finance activities that will cause significant environmental impacts, and (ii) PROGERE-financed activities comply with all environmental and water-resources regulations. The Program Management Unit (PMU) will provide direct support for those small farmers who need to apply for environmental authorizations and water rights and, more importantly, will provide technical assistance to farmers on environmentally sustainable techniques with a positive impact on productivity.

¹⁸ The Federal Government has also promoted the creation of Governmental Organizations on Policies for Women (OPM) at the federal, state, and municipal levels, for coordinating, monitoring, and evaluating the management by local level agencies of public policies aimed at reducing gender gaps and promoting women's agency.

¹⁹ Report No. 63731 BR, discussed by the Executive Directors on November 1, 2011.