



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 27-Apr-2023 | Report No: PIDC35661



**BASIC INFORMATION**

**A. Basic Project Data**

Country Brazil	Project ID P180497	Project Name BR State of Ceará Sustainable DPF (P180497)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Sep 14, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) State Government of Ceará	Implementing Agency State Secretary of Finance		

**Proposed Development Objective(s)**

The proposed standalone DPF supports reforms of the State of Ceará to: (i) improve efficiency in public resource management; and (ii) promote sustainable development through clean energy and skills development.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	563.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	563.00
World Bank Lending	563.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

State Context

**Ceará is seeking to enhance the efficiency of public resource management by strengthening public investment, public asset management and internal audits.** One of the main challenges in Ceará is to increase public investments in infrastructure. Despite the presence of large-scale projects such as the Green Hydrogen Hub, there is a significant need to improve access to basic services, such as healthcare, education, and transport, in rural arrears. The state must also address issues related to the proper monitoring and maintenance of public assets such as roads, bridges, and buildings,



strengthen procurement and contract management of public assets and adequately dispose of public assets when they become outdated or obsolete. Enhancing its internal control systems are critical as corruption and mismanagement remain wide-spread.

**Ceará is also committed in actively support the energy transition to become a leader in sustainable energy production in Brazil and beyond.** Although the state has made significant progress in renewable energy sources, with a high percentage of wind energy production, Ceará still depends on thermal energy generated by fossil fuels. Access to clean energy remains limited, particularly in more vulnerable areas of the state. The State possesses significant renewable generation expansion potential, particularly for solar and both onshore and offshore wind, and has taken the initial steps to implement the first green hydrogen hub in the country. Expanding the production of clean energy will not only help tackle energy poverty and curb GHG emissions, but also generate a number of development opportunities through increased private investment, employment and human capital formation. In this context, increased investment in education and training programs focused specifically on sustainable energy systems is critical to foster clean energy activities in the state.

#### Relationship to CPF

**The proposed DPF is fully aligned with the World Bank Group’s Country Partnership Framework (CPF) for the period FY2018–23.** The World Bank Group FY18-23 CPF for Brazil (Report no. 113259-BR, discussed by the Board of Executive Directors on July 13, 2017) was prepared against the backdrop of the deep 2014–16 economic recession that led to a fiscal crisis and increased unemployment and poverty levels. The main premise of the CPF was the need to revisit the country’s growth model to improve its sustainability and inclusiveness. The CPF is built on three pillars: (i) fiscal consolidation and government effectiveness; (ii) private sector investment and productivity; and (iii) equitable and sustainable development. The operation is fully aligned with CPF objectives 1.1 (Strengthen fiscal management at all levels of government) and 1.3 (Increase effectiveness of service delivery in education) under CPF Pillar 1, which supports fiscal consolidation and government effectiveness. The operation is also aligned to CPF objectives 3.1 (Support the achievement of Brazil’s NDC with a Particular Focus on Land Use) and 3.3 (Promote socioeconomic development of small rural producers and protecting vulnerable groups) under CPF Pillar 3, which supports inclusive and sustainable development. This pillar is also consistent with the WBG Climate Change Action Plan 2021-2025 and 2050 targets to step up climate action so as to support countries in delivering and exceeding their Paris commitments.

### C. Proposed Development Objective(s)

**The proposed standalone DPF supports reforms of the State of Ceará to: (i) improve efficiency in public resource management; and (ii) promote sustainable development through clean energy and skills development.** This proposed loan supports critical reforms in areas related to strengthen public resource management, including related to public investment management, public assets management and internal control systems under pillar 1 and sustainable development by promoting the state plan for fair energy transition, the use of solar energy in rural properties, environmental licensing for Green Hydrogen production projects, vocational education and trainings focused on clean energy and full-time education in states’ schools under pillar 2.

#### Key Results

**The reforms under this DPF are expected to contribute to a more efficient public administration and the sustainable development of Ceará.** The new public investment management system will improve the quality and efficiency of public



investment spending. The reform of the asset management system will promote a better business environment to execute deals with real estate assets, generating additional revenue, optimizing the return of the assets, and facilitating the use by the private sector of public assets that currently don't have a social function. The internal audit system of the executive branch will significantly contribute to strengthening the effectiveness of internal auditing in the Executive Branch, promoting accountability, better use of public resources and reducing fraud. The "Ceará Verde" plan will promote an energy transition in Ceará by lowering dependency on carbon intensive energy sources, such as fossil fuels, which will be replaced through an expansion in renewable energy capacity, fostering environmental, social and economic development opportunities. The "Renda do Sol" program will provide an additional income source of thousands of people living in the countryside of Ceará by the generation of residential solar energy. The definition of the environmental licensing process is a key steppingstone in the regulatory framework for green hydrogen production and, as such, is expected to enable the implementation of a transparent and effective regulation that ultimately leads to the accelerated construction and implementation of green hydrogen projects by providing stakeholders the clarity required for green hydrogen development. The reform to develop skills on green energy through Vocational Education and Training (TVET) will ensure the adequate professional skills for the clean energy production in Ceará. Finally, the implementation of the Universalization of full-time school Plan by the development of additional regulations is expected to promote a quality expansion of full-time school aligned with resilient, inclusive, and sustainable principles.

#### D. Concept Description

**This DPF supports Ceará to advance its public management reform agenda to improve efficiency in the management of public resources.** Implementing a comprehensive new Public Investment Management (PIM) framework is an effective way to improve governance of infrastructure projects at the state level. This framework should focus on ensuring that projects are well-planned, well-executed, and well-monitored. It should also integrate climate-smart considerations in the PIM project cycle to ensure that infrastructure projects are sustainable and resilient. The new legal framework to strengthen the management of the State's real estate assets is another important step, that provides clear guidelines on the acquisition, management, and disposal of real estate assets, as well as establish mechanisms for regular monitoring and evaluation of real estate portfolios. This will ensure that the state's real estate assets are managed efficiently and effectively. The implementation of an Internal Control System of the Executive Branch in accordance with the 3-lines model will strengthen the transparency and accountability of the Government. This system will allow for careful reviews of the state's financial management and ensure that adequate internal controls are in place to prevent fraud and corruption. It will also provide a framework for regular monitoring and evaluation of financial management practices, allowing the government to identify areas of improvement and take corrective actions.

**The state of Ceará has an opportunity to utilize its abundance of solar and wind resource potential to drive sustainable development through clean energy growth and the upskilling of labor.** Ceará is uniquely endowed with renewable energy, with an estimated 643 GW potential for solar, 94 GW for onshore wind, 117 GW for offshore wind and 137 GW for hybrid systems. Owing to the competitiveness of its renewable resource, the deep water port of Pecém, and strategic location with access to Europe, the government of Ceará has a vision for the state to become an international reference point for green-hydrogen production and export. Investing in human capital accumulation can also drive the transition to a sustainable energy future, promoting economic growth and development while protecting the environment. Hence, through the DPF, the government of Ceará is implementing additional legislations to signal investment readiness to the market by addressing concerns related to environmental licensing for green-hydrogen and showing a state plan (Ceará Verde) for a long-term energy transition that gives continuity. Furthermore, to maximize the benefits of foreign investment and provide more equitable distribution, the government is developing a program "Renda do Sol" which aims to utilize the financial resource gained through investment in individual solar energy production plants to support low-



income households, either financially or through energy cost savings, which will be delivered through investment in renewable energy assets. Clean energy production requires a skilled workforce with specialized knowledge and expertise, so Ceará has enacted a program to develop key skills in green energy and sustainable development through Technical and Vocational Education and Training (TVET). It has also implemented full-time schooling in State schools, which will strengthen the State's overall educational outcomes.

**The reforms are closely aligned with the guiding themes of the government's Ceará 2050 Plan and Multiannual Plan (Plano Plurianual – PPA).** Public management reforms are related to the “Inova Governo” (Innovate Government) Program of the Ceará 2050 Plan and to the PPA area of planning and management modernization, as it supports public management initiatives for greater efficiency on public resource management. The reforms on energy and education supports a number of strategic areas under Energy and Business, “Renda do Sol” (Sun Income) and Transforming Education Programs of the Ceará 2050 Plan. They also relate to the PPA areas, including: sustainable energy, environment, industry, knowledge, education and service delivery.

## E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**Overall most prior actions included in this operation have the potential of positive equity and social impacts.** Policy changes included in the first pillar are expected to allow the state to further attain greater efficiency in public resource management and better accountability while creating fiscal space to continuing financing investment projects that can have important positive impacts on the state's most vulnerable population. The state of Ceará recognizes health and education as priorities of their public spending (as evidenced by their role in the PPA and representing about a third of the states' expenditures ). Therefore, these policy changes may open space for broader and better provision of basic public services, benefiting social groups in the bottom of the socioeconomic scale. Meanwhile, policy changes included in the second pillar have potential impacts on poverty both directly and indirectly. The adoption of small solar generators is expected and investments that enhance human capital are expected to increase the income generating capacity of low-income farmers. Meanwhile, the support to a cleaner state energy matrix can have positive effects on poverty through different channels: job generation, reduction of energy bills, and mitigation of medium- and long-term effects on climate change due to reductions in GHG emissions.

### Environmental, Forests, and Other Natural Resource Aspects

**Actions focused on the public management systems are unlikely to have any negative impact on the environment, forests or other natural resources.** Resources will be used to support public policies establishment and legal frameworks implementation in the State. In this perspective, the new Public Investment Management (PIM) structure supported by the Program will provide guidelines to improve infrastructure projects' governance by integrating efficient considerations in terms of climate in the project cycle, so its efficacious implementation will bring positive environmental impacts as it will enable the adoption of effective climate adaptation and mitigation measures. It is expected that the new legal framework for improving the management of public assets will introduce a set of procedures for carrying out a more rigorous inventory of public assets, including georeferencing, assessment of degree of occupancy and assessment of environmental and climate risks. In this context, its implementation will result in obtaining essential information for a more effective and satisfactory environmental management in the State of Ceará. Finally, no environmental impacts are expected in execute the strengthening of the Internal Control System.



**The other actions were conceived to promote sustainable development through clean energy and human development, with the potential to generate great positive effects in advancing the sustainable development of the State.** It is expected that, with the implementation of the State Plan for Fair Energy Transition "Ceará Verde" procedures for authorization or licensing, including environmental licensing, of infrastructure projects will be improved, making the energy production chain Renewables, Biofuels, Hydrogen and its derivatives more effective and sustainable. With the implementation of the "Renda do Sol" Program, it is expected that solar energy microgeneration systems will be implemented for low-income families. Consequently, environmental impacts common to small works are expected and may be considered of low magnitude, punctual and temporary. On the other hand, the environmental impacts arising from the transition of the energy system are substantial and lasting impact, such as the reduction of greenhouse gas (GHG) emissions. Environmental impacts are not expected from the implementation of the environmental licensing process for Green Hydrogen production projects regulation, on the contrary, positive environmental impacts are expected, since projects only will be licensed and authorized in accordance with the legislation in force and the principles of sustainable development. Environmental impacts are not expected in the development of skills in green energy as they are training actions focused on Secondary Education and Vocational Training (TVET) students, in opposite way, it is clear that environmental values and principles formation is one of the pillars of awareness and changes in habits in the population. Finally, low-magnitude environmental impacts are expected, common to the construction, renovation and rehabilitation of school establishments.

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**APPROVAL**

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**Approved By**

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