

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

Report No.: AB3871

Project Name	Ceara Regional Economic Development: Cidades do Ceara
Region	LATIN AMERICA AND CARIBBEAN
Sector	Sub-national government administration (60%); Other industry (40%)
Project ID	P099369
Borrower(s)	STATE OF CEARA
Implementing Agency	
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

Ceará's Urbanization Challenge and Regional Development Strategy. The State of Ceará, with a population of 8.2 million, experienced rapid urbanization in the last three decades. Urban growth in the state is among the fastest in the Northeast region, and currently 71.5% of the population is residing in urban areas. However, urbanization took place unevenly in the state, with Fortaleza, the state capital, and its surrounding areas receiving the majority of growth. The phenomenon has put severe pressure on the Fortaleza Metropolitan Area (FMA), and has provoked increased regional disparities. FMA currently concentrates 41% of the state population and 64% of its GDP. Although poverty pockets surround FMA, many other urban areas, especially in the interior, lack basic urban infrastructure services and job opportunities to retain population, foster regional competitiveness and economic growth.

The state government has recognized this unbalanced spatial pattern of growth and urbanization, as well as the need for the state to play a more proactive role in promoting development outside FMA in partnership with the municipal governments. In particular, the competitiveness and growth potential of the main secondary metropolitan regions in the state have yet to be fully tapped and realized. Therefore, through the Secretariat for Cities (formerly the Secretariat for Regional and Local Development), the government devoted considerable efforts towards analyzing regional development options for the state. After careful studies through cluster analysis and identification of economic potentials of different regions, the government developed a regional integration strategy aiming at promoting the growth of secondary and tertiary urban centers outside Fortaleza. The purpose is to exploit the untapped development potentials in the state and achieve a more equitable spatial development pattern that can spread the benefits of growth to the rest of the state, especially the poor residing in the interior.

The **state regional integration strategy** entails a three pronged approach: (a) decentralization and greater coordination across state entities to maximize impact of synergetic state interventions in a given region, (b) stimulating employment by building on regional economic potential through promoting clusters, innovation, training, public-private partnerships and linkages to research institutions, and (c) building capacity of municipal governments to prioritize investment needs, deliver services and improve their business environment. Also, due to the absence of metropolitan-wide institutions, the state feels that it can play an important role in assisting municipalities, encouraging inter-municipal collaboration, and providing regional infrastructure. The strategy highlights six regions as priorities (Cariri, Baixo Jaguaribe, Vale do Acaraú, and Centro-Sul / Value do Salgado, Maciço de Baturité and Ibiapaba/Vale do Coreau).

These priority regions currently account for 26% of the state’s population, and 18% of the GDP. The summary statistics of these regions are summarized below.

Table 1: Ceará and Regions

State / Region / Municipalities	Population	Area	Demographic Density	Poverty Rate	Human Development Index	GDP (US\$ 1.000)
		(km ²)	(hab/km ²)	(%)		
Ceará	8,217,085	148,826	56.60	58.07	0.6989	12,534,169.32
Metropolitan Region of Fortaleza	3,415,455	4,873	927.69	56.61	0.6897	8,066,306.94
Cariri ¹	582,395	5,417	140.43	68.44	0.6346	597,369.23
Baixo Jaguaribe	348,720	12,588	29.84	63.74	0.6662	414,055.76
Ibiapaba	302,135	5,287	63.18	72.02	0.6216	236,317.07
Vale do Acaraú	308,587	5,377	56.30	67.67	0.6351	565,625.58
Maçico do Baturité	200,376	3,051	82.69	70.61	0.6373	148,794.49
Centro Sul	418,451	12,878	34.92	71.26	0.6160	308,251.23
Sertão Central	223,707	10,797	22.19	68.84	0.6201	185,791.02
Other Regions	2,426,737	89,226	41.59	72.04	0.6219	2,030,132.80

Sources: Censo Demográfico - IBGE - 2000 and IPECE - 2000

The proposed project, Cidades do Ceará (CdoCE), was conceived as a means to advance this strategy and use the project as a “testing ground” to innovate and try out new approaches that could later be replicated throughout the state. For this reason, the state would use resources from the CdoCE project to initially fully support one region – Central Cariri – comprising 9 municipalities and located in the South of the State.

The Cariri Region

The Central Cariri region is a poor region in a poor state, facing a number of management and infrastructure-related challenges. The Region encompasses 9 municipalities (approximately 554,000 inhabitants) which concentrate 7% of state population. Nearly 67% of the population is considered poor since they earn less than 50% of the minimum monthly wage of about \$180. Informal businesses prevail in the region, most of them connected to commerce, tourism and shoe-making (the latter accounting for 39% of State production). The Human Development Index (2000) was 0.622 for the region, which is less than the state average (0.699) and much lower than of the capital city of Fortaleza (0.786).

The **CRAJUBAR** region of Cariri, comprising three urban municipalities (Crato, Juazeiro and Barbalha) and over 400,000 inhabitants, is the nexus of the project area in economic and population terms. In addition to having the highest HDI and lowest poverty levels of the Central Cariri region, CRAJUBAR also faces great metropolitan management, transport and environmental management challenges. Traffic congestion in central areas is a major problem owing to a lack of transport planning and mixture of internal and through traffic. Environmental challenges such as deforestation and improper solid waste disposal also abound. Many of these issues, however, are inter-municipal and extend beyond the CRAJUBAR borders, highlighting the need for representatives of the entire Central Cariri region to work together to address them.

¹ Represents entire Cariri region (12 municipalities), not the project area of Central Cariri (9 municipalities)

This region also has significant economic development potential. In the Cariri region, tourism and manufacturing industries, such as footwear, have been major drivers of private investment. Tourism in the region encompasses a variety of activities ranging from religious to scientific, cultural, ecological and commercial. Most tourists come for religious reasons, to celebrate the legacy of Father Cicero, an influential Catholic priest who resided in Juazeiro do Norte during the late 19th century and early 20th century. Major events in honor of Father Cicero take place throughout the year in Juazeiro and the city hosts nearly 1,800,000 pilgrims each year, mainly from the Northeastern region. Most of the jobs in Juazeiro are tourism-related (restaurants, commerce, handcrafts, lodging) and a large portion of them informal. Other municipalities in the Cariri region also have significant potential for tourism, as the region holds an extensive fossil basin which, under UNESCO's auspices, is lending to the creation of the first *geopark* in the Americas. Given its peculiar nature, rich culture, emerging commerce and geographic location, Cariri region has become one of the preferred sites for tourism business events. Finally, the shoe industry in Cariri ranks as third largest in Brazil, is responsible for nearly 8,000 jobs and approximately 40% of shoe firms located in Ceará. Small and medium firms prevail, however, with a corresponding lack of skilled labor, innovation capacity, technical knowledge and market information. With heightened global competitive pressure in this sector, it is critical that the sector be upgraded in terms of design, technology, skills, marketing and other innovations.

2. Objectives

The objective of the project is to promote economic development, improve urban infrastructure, and enhance regional management capacity in the Central Cariri Region of Ceará, which includes the nine municipalities of Barbalha, Cariri, Crato, Farias Brito, Jardim, Juazeiro do Norte, Missão Velha, Nova Olinda, and Santana do Cariri.

3. Rationale for Bank Involvement

Ceará as a Reforming State. Ceará was the first of the nine Northeastern states to implement an encompassing fiscal reform program with the purpose of improving government efficiency and fiscal sustainability. Since the late 1980s, the state government, throughout successive governors, formulated and implemented the strategy of reforming government, and the 20 years of experience in continuous improvement in public sector management has had a noticeable impact in the state. As one of the poorest states in the country, Ceará's poverty rate has decreased from 68%, in 1991, to 58%, in 2000. In 2003, an innovative results-based management program for key sectoral programs was put in place, which is serving as a model for other states in Brazil. The recently elected Governor, Cid Gomes, has confirmed commitment to the deepening of the reform program through sound fiscal management and support to selected high impact investment programs. He has also confirmed interest in urban development by creating a Secretariat of Cities.

World Bank Engagement. The state of Ceará also has an extended history of involvement with the World Bank and has proven its capacity to innovate in development programs. The State is currently implementing a first-of-its-kind WB-funded results-based Sector Wide Approach (SWAP) to support nine strategic government programs. The SWAP's objective is to mobilize further reform and institutional strengthening efforts while guiding and supporting the State's development agenda. This SWAP complements a long-standing program of Bank support, provided primarily through specific sector investment loans in areas such as education, health, rural poverty, water resources management and urban development. Of particular relevance is the PROURB project, which improved municipal management and provided infrastructure in over 44 municipalities, and the Rural Poverty Reduction Project which is working to improve well-being and incomes of rural poor in 176 municipalities. In addition, the IFC TA Facility and FIAS are supporting a TA program of administrative simplification for improving business processes in several municipalities and the State. The Bank has started to discuss with the new authorities

ways to streamline and consolidate its program in order to reduce the overall number of projects and build on the multi-sectoral SWAP approach. To this extent, a new SWAP which expands beyond the social sectors to address issues of growth and competitiveness is in the advanced stages of preparation. At the same time, the state feels that the proposed CdoCE project would be a precursor to the SWAP and help to test a cluster-based approach to local economic development, regional integration, and the enhancement of the main secondary and tertiary metropolitan regions in the state.

Relationship with CAS. The proposed project is included in the 2004-2007 CAS as it would address the following themes: i) investing in growth, notably through the private sector, including enhanced emphasis on improving competitiveness and investing in infrastructure; ii) improving environmental sustainability in the “green” and “brown” environmental arenas; iii) making fiscal adjustment sustainable, enhancing the quality of public spending to deliver services more efficiently, thus also freeing up resources for investment, as well as improving public sector management; and iv) building human capital for improved equity and growth. The project also supports the vision for a more equitable, sustainable and competitive Brazil outlined in Government’s Multi-year Plan (PPA). The Project provides a classic example of challenges facing urban municipalities in Brazil as it grapples with constraints to growth, social challenges, environmental vulnerabilities and identifying appropriate financing mechanisms for sub-national entities. Finally, the project is in line with the draft 2008 CPS, of which the final version is to be launched in mid-2008. The CPS includes such priorities as strengthening community-level productive activities and their integration into the economy; city management and city competitiveness; and public management and effectiveness.

Municipal and Regional Strategy. The project also fits within the four pillars set forth by the Bank for support to municipal development in Brazil: (a) improving municipal fiscal and administrative management; (b) increasing the competitiveness of the municipality through local economic development; (c) supporting partnerships across municipalities and with others; and (d) strengthening municipal capacity to deliver key services. However, the project would address an additional challenge to the municipal development agenda, as it would be working through a state government to reach the municipalities, under a regional management “umbrella.” As such, the project would be one of the first to develop a strategic shift towards bridging the gap between municipal development and economic development of a specific region within a coherent state framework. A state-based approach to support municipal and regional development would complement the other ongoing Bank municipal operations in Brazil, and has the potential to demonstrate an effective and efficient alternative for the Bank to support local governments in partnerships with the state governments.

Complementarity with other institutions working in the region. In addition to SWAP-financed works mentioned above, the BNDES and PAC are also financing related works in the region. These include: the Transnordestina Railroad (passes through Missão Velha of Central Cariri), Transposição do Rio São Francisco (a project to provide areas currently affected by water shortages with access to water), enlargement of the Federal University of Ceara (UFC) campus in Cariri, creation of the Federal Center for Education in Technology of Ceará (CEFET) in Cariri, and construction of Geopark headquarters in Cariri.

4. Description

The project will have three components:

Component 1: Infrastructure Improvements comprises investments in infrastructure at the regional and municipal levels of Central Cariri to address critical infrastructure deficits, protect and restore the environment, and improve public services for local residents and tourists. Regional infrastructure includes transportation infrastructure to reduce congestion, increase mobility and access to the main tourism sites, and a regional sanitary landfill to provide an environmentally sound disposal site for solid wastes

generated in the region. Municipal infrastructure includes drainage improvements in environmentally degraded areas, urban center upgrading, upgrading of public spaces used by “romeiros” (religious pilgrims), environmental sanitation, and improvements to urban parks. These investments will complement the planned regional road rehabilitation and maintenance (Padre Cicero Highway) and other transportation investments to be financed by the State Government separate from the project. Annex 4 presents the proposed set of investments as well as a description of the criteria used for investment selection. While some of the investments are at an advanced stage of preparation, others are still to be refined and will be selected using the same set of criteria.

Component 2: Cluster-based Local Economic Development. This component will initially facilitate the growth of the tourism and footwear clusters in the Central Cariri Region to enhance their competitiveness through business environment improvement, technology upgrading, training and market outreach, and provision of infrastructure for cluster development. Other clusters (such as the plated jewelry cluster) may be added later as they become more organized. For the footwear cluster, the key activities will include the establishment of a public-private Technology and Design Innovation Center, based on the successful Technology Center model developed in Spain (CITEs); provision of incentives for private sector collaboration and social capital enhancement in areas such as joint marketing, participating in trade fairs, study tours, and introducing technical innovation to the region; and professional facilitation of the cluster process. For the tourism cluster, the key activities will include the setting up of the Araripe Geopark² with investments such as visiting and learning facilities, observatory sites, reception facilities, information kiosks, and resting areas; the construction of a regional convention center; support to tourism planning, promotion and marketing, events organization and improvements, and capacity building; and professional facilitation of the tourism cluster process. A transportation and logistics plan will be developed to improve heavy freight traffic patterns and facilitate regional mobility. Municipal business regulation simplification will be supported by IFC to reduce bureaucracy for economic development for the main cities of Juazeiro do Norte and Crato.

Component 3: Regional Management and Institutional Strengthening will support promoting effective governance at the municipal, regional and state levels through activities in i) Regional Management; ii) Municipal Institutional Strengthening; and iii) Implementation Support. (i) Regional management will be supported through technical assistance provided to the Consultative Committee (*Comitê Consultivo*), which will serve as the main channel for improving regional coordination and collaborations in Central Cariri, in the following areas: preparation and implementation of a regional environment strategy to address issues such as regional solid waste management, water management, sanitation and drainage improvements, and reforestation and prevention of deforestation; preparation and implementation of other regional strategies to address other critical regional management issues; development of the consortium for the construction and operation of the regional landfill, which will eventually tend to other regional issues such as metropolitan transport and environmental sanitation; and project preparation work to tap other sources of financing (such as PAC), as well as for follow-on projects of the Bank. (ii) Municipal Institutional Strengthening will be provided through technical assistance and capacity building activities in areas such as planning, local economic development, project design, appraisal and implementation (including procurement, M&E), revenue collection, budget and financial management, management of public services, and environmental management. (iii) Finally, the component will support the Secretariat of Cities in fulfilling its plan for municipal support and regional development, by financing technical assistance to the Secretariat for city and regional development, and implementation-related activities, including, *inter alia*, contracting of local and regional consultants and staffing of UGP, monitoring and evaluation activities, auditing, equipment, technical assistance, training, study tours, and incremental operation cost during project implementation.

² According to UNESCO, the Geopark is an area with a geological heritage of significance, with a coherent and strong management structure and where a sustainable economic development strategy is in place.

5. Financing

Source:	(\$m.)
Borrower	20
International Bank for Reconstruction and Development	46
Total	66

6. Implementation

The project will be carried out by the State Secretariat of Cities with the participation of nine municipalities of the Cariri area: Barbalha, Caririaçu, Crato, Farias Brito, Jardim, Juazeiro do Norte, Missão Velha, Nova Olinda, and Santana do Cariri in their respective components. Given the number of agencies involved with a project of such regional scope, implementation arrangements are simplified and streamlined, making the State Secretariat ultimately responsible for all project implementation, including fiduciary responsibilities.

The Secretariat of Cities will coordinate and supervise the entire project, through a project management unit (*unidade de gerenciamento do projeto*, UGP), led by a Project Coordinator, operating as an integral part of the Secretariat. The UGP will include technical personnel (infrastructure, economic development and institutional), and a regional coordinator based in the Cariri region. The UGP will also comprise an administrative staff (procurement, financial management), and will be financed by Component 3 of the project. The UGP will consist of a mix of current State Secretariat staff and consultants, and will serve as a highly integrated body within the Secretariat.

Project implementation will be assisted by a Consultative Committee (*Comitê Consultivo*) to be formed by the Secretariat of Cities and mayors of the nine municipalities. The committee will serve as an important instrument to meet project objectives in the sense of strengthening regional management. The functions of the committee would be, among others: discuss regional issues, such as a regional environmental strategy; evaluate annual plans of investment (POIs) and promote dialogue with the State Government regarding POIs; accompany project implementation progress; share experiences, ideas and information. Further details regarding committee composition and functions will be established before project negotiation.

The project unit (UGP) will be established by project negotiations and fully staffed within two months from project effectiveness, and the Consultative Committee will be established within two months from project effectiveness. Drafts of the legal instruments to establish the unit and the committee will be available and reviewed by the Bank by negotiations.

Project interventions cover the mandates of other entities of the State, namely the Secretariat of Infrastructure (Seinfra) and DER (a legally autonomous agency under Seinfra), and the Secretariat of Science and Technology (Secitece) and CENTEC (an agency linked to Secitece). DER will be responsible for the construction and maintenance of all road-related investments and other selected investments. A Technical cooperation agreement (*acordo de cooperação técnica*) will be signed between Seinfra, DER and SecCities prior to the implementation of all road-related investments, and between Secitece, CENTEC, and SecCities prior to execution of activities under Component 2 (see Table 1 in Annex 6 for details). In addition, the Secretariat of Cities will consult with other State entities during the elaboration and implementation of works. During the design and implementation of Geopark works Secitece will be consulted, as Secitece is charged with the management of the park, though the formal agreement for

Geopark works will be signed with DER, since all Geopark investments are construction-related.³ Other entities to provide feedback/consultation during the elaboration and implementation include the Secretariat of Tourism (SETUR), Secretaria de Cultura, and ADECE (Agencia de Desenvolvimento do Ceará). The Secretariat of Cities is ultimately responsible for the implementation of all investments.

The Secretariat of Cities will be responsible for all fiduciary aspects of project implementation, including the procurement and financial management requirements of the project. The Secretariat of Cities will be solely responsible for certain phases of the procurement process, such as emission of procurement notices and selection of the long list, while other steps in the procurement process will include the participation of municipalities and other involved State entities, such as DER. Such participation will take place in the form of a Technical Committee comprising representatives of the municipalities, the Secretariat of Cities, and other involved State entities. The Technical Committee will develop TORs, devise the short list and recommend the winning bid. The Secretariat of Cities will be responsible for selecting and contracting the chosen firm. Eventually, given the Secretariat of Cities' approval and the no objection of the Bank (based on a capacity assessment performed by the Bank), the municipalities of CRAJUBAR may be granted the authority to undertake small procurement (e.g. shopping).

7. Sustainability

Borrower Commitment: The Borrower has full ownership of the project and has worked diligently with the 9 municipalities to identify key areas for investment. The project is demand driven, with the Bank adding value in the areas of institutional and local economic development, as well as rigorous technical evaluation. The Borrower has formed a highly qualified team dedicated to the preparation and implementation of the project, and has conducted investment alternative analyses and contracted business plans to ensure the most appropriate technologies and most efficient resource allocation for investments, as well as their long-term sustainability.

Social sustainability: The project's social sustainability will mainly be rooted in citizen participation. Extensive public consultations, with participation of the public, private, academic institutions and NGOs in the region, were conducted throughout the project concept and preparation stages. A series of communication, dissemination and learning activities designed for the target population and based on the various components will be executed. The first public consultation of safeguards documents held in January 2008 entailed use of radio to reach a widespread audience. With respect to cluster development (APLs), specific participatory activities will be defined based on cluster-specific business plans, but will likely include participatory workshops and training sessions for stakeholders throughout Central Cariri. In addition, any activities involving resettlement will include full participation of affected families throughout the process. Social sustainability will also likely emerge as a result of the improved living conditions of beneficiaries in terms of jobs, infrastructure, and increased overall welfare.

Environmental sustainability: It is expected that the project will introduce a series of environmental improvements, resulting in improved environmental management of the area and, in turn, environmental sustainability of the project. Environmental sustainability of the project is expected through the achievement of reductions in pollution in city centers through the introduction of a bypass road, as well as the construction of the CRAJUBAR sanitary landfill. Investments in the Geopark will encourage responsible environmental management of the geotopes and provide tools for educating the public on the importance of the area's natural resources. Making improvements to at-risk areas, such as eroding hillsides which containing housing units, will also lend to the environmental sustainability of the project area. The regional environmental management plan drafted for this project will provide a detailed

³ Prior to commencing construction of works, Secitece will provide the Secretariat of Cities with a management plan for Geopark.

diagnosis of current environmental issues and a corresponding set of solutions aiming to increase environmental sustainability and improve environmental management throughout the region.

8. Lessons Learned from Past Operations in the Country/Sector

Experiences with Bank projects in urban development in the Brazil and in the State, especially the completed Ceará Urban Development and Water Resource Management Project (PROURB), have provided valuable lessons which are incorporated into the project.

Project emphasis on **regional development** highlights the need for a regional body to both fortify relationships among regional stakeholders and to serve as a continual feedback loop with the State. The Consultative Committee⁴ will play an active role for oversight of project implementation. Learning from the past experience, the Committee will include a relatively small number of municipalities (9 municipalities in Central Cariri, as opposed to the 32 municipalities which encompass the entire official Cariri Region) to address a common need and ensure feasibility for regional actions. The Committee will also be initially focused on a few action-oriented activities, particularly the regional environmental strategy, to ensure its effectiveness to both regional and state entities. The consortium to be formed for the landfill will also serve as an important regional body, especially as it will eventually address other metropolitan issues such as transport and environmental issues.

The **participation of civil society** during project preparation and supervision has been, and will be essential for ensuring stakeholder support of the proposed project as well as reducing stakeholder conflicts associated with any works, resettlement-related activities, etc. during project implementation. During project preparation public consultations were held locally and incorporated the use of radio to reach a wider audience. These consultations were critical for determining strategic axes for regional development and investment priorities, as well as receiving feedback and input regarding overall project design and safeguards. Participation of civil society will be encouraged throughout the life of the project, and oversight of implementation by the regional Consultative Committee will ensure active channels of communication between municipalities and the State.

Devolution of project execution and supervision to the municipal (or regional) level, which occurs to an extent with Cidades do Ceará, should include a component to **strengthen local capacity** in these functions. The institutional strengthening component should include capacity building in such areas as project supervision, monitoring, and procurement (where applicable). Supporting capacity building at the appropriate level of government will provide a means for successful project execution as well as the sustainability of investments. At the State level, a well-trained and technically competent staff is needed to adequately manage the institutional development activities and to articulate the policy goals and generate support and buy-in at the municipal and regional levels. **Decentralizing the supervision** of the project can have added benefits, both in terms of local capacity building as well as increased intensity in the monitoring and supervision of the project. The Consultative Committee comprising mayors of the 9 municipalities will oversee project implementation and provide the State with regular feedback.

To ensure **ownership**, the selection of investments at the local level must be undertaken in close consultation with the municipal governments. Furthermore, municipalities should contribute resources (e.g. counterpart funding), as appropriate.

With regard to **promoting local economic development**, past experiences in Brazil point to the danger of excessive government intervention, such as investments which remain unutilized (e.g. industrial parks that are mostly vacant) and subsidies or protection policies which build up firm reliance on government

⁴ formed during project preparation and to be further strengthened during implementation

support rather than enhancing competitiveness. Design of the project's economic development elements are based on close consultations with the private sector, and on careful analysis of areas where the governments can play a catalytic role based on the current and future domestic and international market conditions, as opposed to playing a dominant role. The focus of government actions will be on enhancing the business environment, improving infrastructure and public services, developing strategic directions based on participation and good analysis, facilitating private sector and public-private collaborations and social capital formation, promoting human resources development, and supporting capacity development of the micro and small enterprises.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[x]	[]
Natural Habitats (OP/BP 4.04)	[x]	[]
Pest Management (OP 4.09)	[]	[x]
Physical Cultural Resources (OP/BP 4.11)	[x]	[]
Involuntary Resettlement (OP/BP 4.12)	[x]	[]
Indigenous Peoples (OP/BP 4.10)	[]	[x]
Forests (OP/BP 4.36)	[x]	[]
Safety of Dams (OP/BP 4.37)	[]	[x]
Projects in Disputed Areas (OP/BP 7.60)*	[]	[x]
Projects on International Waterways (OP/BP 7.50)	[]	[x]

The Project triggers and addresses the following Bank safeguard policies:

OP 4.01 – Environmental Assessment. Project classification is of Environment Category A. An Environmental Assessment (EA) to identify this Project's potential environmental impacts has been completed in accordance with the Bank's environmental policies applicable to Category A projects. The EA report provides an overview of the Central Cariri Region's environmental challenges and strategic priorities, evaluates the positive and negative impacts of the proposed project interventions, assesses the capacity of the state and municipal agencies to implement environmental regulations, and proposes an environmental management plan with mitigating measures to address potential negative impacts and strategic environmental priorities. The Environmental Management Plan (EMP) comprises: (i) procedures criteria and environmental assessment for regional and urban infrastructure investments (framework environmental assessment); (ii) resettlement policy framework; (iii) environmental manual for works; (iv) mitigating actions for the envisioned interventions at this Project's stage; and (v) strengthening of environmental management in the Central Cariri Region.

OP 4.04 – Natural Habitats. The project is expected to have a positive impact upon natural habitats, as the proposed interventions seek the maintenance and consolidating of the existing Conservation Unit (APA do Araripe). Among the planned infrastructure investments, evaluations revealed that impacts on the natural habitat would be positive, as recovery of degraded urban areas and revaluation of the natural habitat - especially in the Araripe Geopark area, and also in the project area of the proposed ring road - have been contemplated in the Project.

OP 4.12 – Involuntary Resettlement. The project would require the resettlement of families living in risk areas (e.g. endangered by soil erosion in Crato). Also, land acquisition will be needed and there may be additional requirements for involuntary resettlements associated with the proposed infrastructure

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

investments. The number of families affected is not clear at this stage, as project area, scope, and design are still being refined, but the number of affected families is not likely to be significant. Compensation for these families will be provided through appropriate housing built in safe areas in the vicinities of their original housing area. A Framework for Involuntary Resettlement has been prepared in accordance with World Bank guidelines and safeguards (OP 4.12). The Resettlement Action Plan for the families will be developed in accordance with the cited Framework and executed at a later stage. Bank clearance of the respective Resettlement Action Plans will be a condition for the Bank to give no objection to the civil works bidding documents.

OP 4.11 – Physical Cultural Resources. The Project contemplates interventions in the critical infrastructure of the Geopark area, which contains archeological and paleontological assets. Moreover, the historic Tupinambá Sugar Mill site will be improved and the mill building may be given a historic patrimonial statute by the Federal Government. Brazil has a well-developed legislative and normative framework, which is under the oversight of the National Institute for Protection of Historical and Archeological Sites (IPHAN).

OP 4.36 – Forests. The Project contemplates activities related to the management and conservation of protected forest areas. In the project area such protected areas include FLONA - Floresta Nacional do Araripe; the Parque Arajara Reserve; the Timbaúbas Ecopark, and APA – Chapada do Araripe. Among the environmental control activities are planned actions to promote environmental preservation of the FLORA and APA - Chapada do Araripe, including reforestation activities to improve degraded natural habitats, and support to the region in the management and protection of these natural resources. No negative impacts are foreseen with regard to these activities.

Regarding the presence of **indigenous peoples** in the area, after careful analysis and screening, no indigenous peoples were found to be residing within the project area.

In accordance with the Bank's Information Disclosure Policy (BP 17.50) a process of disclosure and public consultation as a part of the Environmental Assessment was completed. In addition to the numerous consultations and stakeholder interviews that have been conducted throughout the project identification and preparation process, a large public consultation meeting was held January 2008 in Crato at URCA – Cariri Regional University auditorium in which about 250 people from all 9 municipalities participated (and signed the list of attendance). The open public consultation meeting discussed the background and initial proposed actions for the Project. The consultation event also provided disclosure of the socio-environmental studies, identified partners in the process, and invited the public to participate in the process involving experience exchange and suggestions to be incorporated to the Project. The meeting was transmitted to the entire region by Crato Educational Radio Station. The Environmental Assessment Report, including the Social and Environmental Management Plan and the Involuntary Resettlement Framework, were published on the Secretariat of Cities' public website on May 2, 2008. At the time at which the public consultation was conducted, the Resettlement Policy Framework for the Project had not yet been prepared and specific resettlement needs had not yet been identified. During the presentation of the social analysis of the Project, however, it was announced that minimal resettlement would occur under the Project and that Bank safeguard policies would apply and an RPF would be prepared in accordance with such policies. In the weeks following the public consultation, a meeting with key municipal representatives involved with resettlement processes, UGP members, and a World Bank social specialist was held to discuss Bank resettlement procedures. Among the topics covered were expropriation, indemnities, and cadastres. The project and municipal representatives agreed on a schedule for conduction of activities to satisfy the Bank safeguard requirement for involuntary resettlement. Details of the consultation are located in Annex 9 of the EMP.

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