I. Introduction and Context

Country Context

1. Over the last two decades, Brazil has made significant advances in economic management, poverty reduction, and social indicators. Growth in employment and labor incomes, as well as the implementation of targeted social assistance programs, such as Bolsa Família, have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R$70 a month from 10.5 percent at the start of the 2000s to 4.7 percent in 2011. These factors have also contributed to a reduction in inequality as reflected in a fall in the Gini coefficient from 0.59 to 0.53 over the same period. At the same time, a growing middle class is drawing attention to the challenges in the areas governance and the delivery of public services.
2. Over the last decade Piauí has made remarkable progress in achieving economic growth, but its growth model has not been sufficient to guarantee sustainability and enhance shared prosperity. Piauí has a population of just over 3.1 million living in a territory of over 25 million hectares. The state has the lowest population density among Brazil’s northeastern states (12.4 inhabitants per km²). Between 2008 and 2011, Piauí registered one of the strongest rates of economic growth among Brazilian states, achieving an average annual rate of 6.3 percent. Most of the recent increase in GDP is due to expansion of commercial agriculture, mainly soybean cultivation in the Cerrado macro-region – one of Brazil’s last agricultural frontiers. Between 2002 and 2010, growth of the agricultural sector outpaced growth in the overall economy as agricultural production expanded at an average of 7.1 percent annually. However, the increase in agricultural production is the result of cultivation of new areas rather than as a consequence of improved productivity. This has led to unsustainable practices such as unorganized occupation of large land areas, frequently with little or no regulation; deforestation; inefficient use of water resources; and other environmental damage.

3. Poor farmers and the rural population have not benefited from recent economic growth and are at risk of becoming further marginalized. Poverty in Piauí is predominantly a rural phenomenon. Approximately 21.3 percent of Piauí’s population lives in extreme poverty, out of which two-thirds live in rural areas (34% of the population as a whole or 1,067,401 inhabitants). Piauí had the second lowest annual per-capita income among Brazilian states (R$7,835) in 2011, well below the national average (R$21,252). The percentage of households with a monthly income below the minimum wage – including benefits from social programs such Bolsa Familia – is almost 40 percent in rural areas. Income distribution reveals a high level of inequality in the state. Piauí ranks 26th among 27 Brazilian states in income inequality with a Gini coefficient of 0.568 in 2012. Although 75 percent of the population aged 15 years and older is economically active, only 27.9 percent have formal employment. In addition, 617,000 people aged 10 years and older were occupied in agricultural activities in 2011, representing 39 percent of Piauí’s working population. The rural population mostly consists of subsistence and small scale farmers who generate low and unreliable income. Rural populations engaged in farming activities face numerous obstacles that limit their contribution to their families’ income and which increase their vulnerability. These obstacles include, among others, a lack of formal titles for their land; the use of outdated agricultural techniques that hamper productivity; a lack of access to regulated water resources and increased vulnerability to climate hardships, especially severe droughts.

4. Unequal income distribution in Piauí is compounded by less access to generally lower quality public services, particularly in education and health, particularly for rural populations. Although Piauí has achieved universal access to fundamental education (FE) grades 1-9, the proportion of dropout and over-age students, particularly in rural areas, remains high. While student performance as measured by the state and national student assessments in FE has improved, test scores for students in rural areas are slightly lower. The situation is worse in secondary education (SE), grades 10-12, due to a lack of investment by the State. Students in rural areas also perceive few incentives to remain in school due to limited economic prospects of outside low-productivity small scale farming. Similarly, despite high coverage of primary care, the quality of health care remains low at all levels of the health network (municipal and state) and has not been sufficient to meet the demands of the population. Facilities and staffing are insufficient in rural areas that are serving the most vulnerable groups; management and coordination are weak; and too many patients are transferred to the capital, Teresina, producing a bottleneck and compromising the entire health care delivery system. These problems are symptomatic of underlying weaknesses in the State’s
capacity to deliver and target services to the most vulnerable populations, including costly and outdated personnel and expenditure administration practices.

**Sectoral and Institutional Context**

5. The Government of Piauí’s (GoPi) Multi-Annual Plan for 2012-15 aims to support economic growth in a way that is more inclusive and sustainable, in order to achieve human development with equality of opportunity for the State’s population. Three strategic pillars have been identified by the GoPi that cut across multiple sectors, namely: 1) adopting a system of results-based management to improve service delivery to Piauí’s citizens; 2) promoting human development with a focus on social inclusion and quality of life; and 3) providing the necessary infrastructure and conditions for sustainable territorial development (See Annex 3).

**Rural Development**

6. Absence of land tenure regularization, the inefficient allocation of natural resources, and the lack of financial and technical support to improve productivity are important issues that perpetuate the poverty cycle in Piauí’s rural areas. Land regularization through the provision of full land tenure titles to small farmers contributes to social and productive inclusion because land: (i) is their primary means for growing crops that can improve food security and quality, reducing vulnerability to hunger and generating livelihoods; (ii) constitutes the main vehicle for investing, accumulating wealth, and transferring resources between generations; and, (iii) provides farmers with a basic social safety net. Furthermore, formal land ownership facilitates access to credit and subsidized financing lines, such as the National Program for Strengthening Family Agriculture (PRONAF) and National Rural Housing Program (PNHR). There is a backlog of about 8,000 farms in Piauí that need to have their land title regularized. By stipulating that land titles must be issued in the name of both spouses, land regularization policy supported by this operation would contribute to reducing gender inequalities associated with poverty and social and productive exclusion. Land tenure regularization would benefit from the Law 6.464/2013 enacted by the GoPi under the DPL 2, which has extended for two years the application deadline for small farmers to pursue land donation under Law 6.127/2011.

7. In parallel, high global commodity prices have driven the exploitation of the Cerrado biome for commercial agriculture, generating an unorganized occupation of large areas of land, frequently with little or no regulation. Deficiencies and inconsistencies in the collection, storage, validation and sharing of land information by notaries (cartorios) are major hindrances to effective land administration, giving rise to many land-related conflicts in Piauí. Vulnerable communities on public lands, including both Quilombola settlements and smallholders engaged in family agriculture, are at risk of losing some or all of their land rights if their occupation is not regularized. In addition, the disorderly and illegal occupation of rural land (grilagem) is common, especially in the Cerrado, generating tax losses and other adverse social, environmental and economic effects. A better operational and legal framework for land regularization and oversight of cartorios would be provided by the Corregedoria de Justiça under the DPL 2.

8. In Piauí, the most successful family farming activities include beekeeping, fish farming, sheep/goat raising, cassava and cashew cultivation. Notwithstanding their considerable potential, these activities have a limited productivity. Under the DPL 2, the GoPi would restructure the Program for Income Generation in Rural Areas (PROGERE), which aims at (i) strengthening family farming and production chains; and (ii) supporting program beneficiaries through technical assistance. Despite the improvements achieved with PROGERE thus far, family farming activities
supported by the Program have exhausted their possibilities for expansion. PROGERE’s new phase would comprise: (i) the development of productive chains (agricultural and non-agricultural); (ii) the strengthening of institutions focusing on the Municipal Council, which is responsible for managing projects at the local level; and, (iii) environmental conservation, taking into account the practices envisaged in the State Plan on Low Carbon Agriculture – also supported by the DPL 2. PROGERE’s new phase would be experimental. It would focus on anchoring productive chains targeted to poor communities in each Development Territory. After systematically recording and evaluating projects’ impact on income growth and social inclusion, the GoPi would make an informed decision on which ones to expand and/or restructure. These results would set a benchmark for subsequent targeted interventions to refine policies and grow production chains so that small farmers can see their incomes increase.

9. Inadequate and inefficient management of water resources has brought serious economic and social consequences for Piauí’s population, especially those people in the Semiárid macro-region. Water resources are used inefficiently across the state. This penalizes and reduces productivity and income generation of poor farmers. Applications for water use must be submitted to the State Secretary of Environment and Water Resources (SEMAR), which is required to keep a registry of applications and decisions made. However, the GoPi estimates that 90 percent of groundwater users – about 25,000 wells – have neither license nor authorization. The Government does not have information on users of surface water. The consequences are wasteful and excessive water use, degradation of aquifers, reduced flow of rivers and salinization. This operation would support SEMAR to set up a comprehensive database which would help to diagnose water resources and use in the State and promote efficient water use, particularly for small scale farmers. A decree creating the State Registry of Water Users (CEARH) would be enacted under the DPL 2.

Education

10. Uneven access and poor quality in secondary education contribute to decreasing demand, high dropout rates, and overall poor student performance—especially for the poorest and most vulnerable populations. Between 2008 and 2012, Piauí’s enrollment in SE, including secondary technical education (STE), decreased by 14 percent to 155,998 students. Enrollment in STE increased by 9,000 students (28,343) over the same period. The dropout rate in the first year of SE was 24 percent in 2012, one of the highest in Brazil. The percentage of over-age students is above 50 percent and 18 percentage points above the national average. With regard to quality and student performance, Piauí’s Index of Basic Education Development (IDEB) scores in 2011 for SE continued below the regional and national average (3.2 for the third year of SE compared to 3.3 for the Northeast and 3.7 for Brazil overall). State standardized tests also showed that 47 and 65 percent of students do not achieve basic levels in Portuguese and Math in the first year of SE, respectively. These figures are systematically worse for poorer and primarily rural municipalities. Furthermore, Piauí has the highest proportion of students in Brazil (45.3%) attending SE through evening classes, which are often of lesser quality and provide fewer hours of instruction. This is, in part, due to student preferences (in 2012, 117,860 individuals aged 15 to 22 were both studying and working in Piauí); however, evening classes are often the only modality offered by state schools in many of the poorest, rural municipalities, even where student demand for daytime SE may exist. The lack of access to SE in rural municipalities perpetuates social exclusion and inequality for this population of youth. Finally, the need to work and a relatively weak base in fundamental skills, especially for the poorest populations in rural areas, impede learning and increase the likelihood that students would drop out in SE.
11. To address the current crisis and remedy decades of under investment in SE, the GoPi has included several programs in its PPA specifically aimed at promoting equity by expanding access to SE, improving learning environments, and increasing retention—specifically targeting rural populations. To reverse the trend of declining enrollment in SE, the GoPi would expand: (i) the SE distance learning program (“Intermediação Tecnológica”) that was launched under the DPL1, focusing on rural areas with limited access to SE and (ii) existing modalities of STE to increase the number and diversity of labor market-relevant options for SE graduates in order to incentivize students to enroll in SE (STE would seek to create synergies with PROGERE). To create more dynamic, comprehensive and effective learning environments for teachers and students and provide additional extra-curricular activities, the GoPi would gradually expand the full-time school model throughout the state with the aim to improve students’ performance. To improve retention in the final cycle of FE and SE, the GoPi would: (i) develop learning acceleration programs addressing age-grade distortion in state schools; and, (ii) provide financial incentives for students to complete the SE cycle through the “Live more” scholarship program (“Bolsa Mais Viver”) to be enacted under the DPL2. These objectives and corresponding programs include a special focus on populations with a high incidence of poverty to promote social inclusion.

Health
12. A continued increase of circulatory diseases, external causes and cancer are the main causes of death among men and women in Piauí. Notwithstanding recent progress, the health network at the State and municipal levels is not sufficient to meet the demands of the population. The main causes of death in males are circulatory system diseases (34.4%), external causes (15.8%) and neoplasms (cancers) (11.7%). For women the main causes of death are cardiovascular diseases (39%) followed by cancer (14.1%), metabolic diseases (9%) and external causes (4.6%). In Piauí, 20.9 percent of the screened adult population report having received a diagnosis for hypertension and 5 percent for diabetes. The correlation between low socio-economic status (SES) and higher incidence of preventable chronic illnesses has been clearly demonstrated in several studies in Brazil. In Piauí, the difference in the occurrence of illness and early death among people of different SES can be attributed to factors such as variations in access to health services, exposure to risk factors and low awareness about preventative behaviors mostly in rural areas also with low educational levels. Facilities and staffing are insufficient, especially in rural areas serving the most vulnerable groups; management and coordination are weak; and too many patients are transferred to the capital, Teresina, which produces a bottleneck and compromises the entire health care delivery system. Public health facilities for diagnosis and specialized consultations, for example, are present only in urban areas, almost exclusively in the region of Teresina and more than six hundred miles away from the population living in the southern part of the state. As a result of this situation, many patients with diseases such as diabetes, arterial hypertension, breast and cervical cancer are not receiving adequate medical follow up and/or prevention procedures. Some will die prematurely or become unable to work due to their illness. Consequently, the vicious cycle by which poverty leads to disease that generates more poverty continues to perpetuate itself in Piauí.

13. To meet the demands of its population, especially concerning chronic diseases, the GoPi aimed at promoting equity by expanding access to good quality healthcare at mid-level complexity and for diagnoses and specialized consultations. To improve control strategies and access to secondary health care and to reduce the waiting time for diagnosis and treatment, the GoPi would create: (i) five specialized centers focused on exams and consultations for patients with chronic diseases; and (ii) expand targeted screening to identify patients with chronic diseases. To improve the quality of health care for non-communicable chronic diseases at primary and secondary levels.
and in synergy with the DPL 2 that proposes the same for neglected diseases, GoPi would: (i) develop and implement state protocols for diagnosis and treatment for chronic diseases; (ii) train Family Health Teams (FHT) in the management of patients with chronic diseases; (iii) develop and deliver technical support to primary health care teams in the management and prevention of chronic diseases; and (iv) provide incentives for performance to Primary Health Care (PHC) teams

Public Sector Management

14. Fragmented and outdated human resource management practices and limited monitoring capacity critically constrain the Government’s ability to deliver quality services and implement pro-poor policies. In 2011, the GoPi implemented a results-based monitoring system (SIMO) to identify the most common problems encountered in the execution of priority investment programs. This contributed to improving cross-sectoral coordination and information sharing that, in turn, resulted in the removal of bottlenecks and in more effective problem-solving. Nonetheless, this approach is yet to be formalized and extended to all major programs and State agencies. Line secretariats have few tools and resources to monitor programs and projects not included in the Governor’s list, creating a significant gap and hindering their ability to effectively address problems and delays. A shortage of staff with monitoring and evaluation skills and ad hoc information systems restrict the amount and timeliness of the performance data collected and used to inform policy-making and implementation. Furthermore, the outdated payroll system used by the administration constrains the capacity of central and line secretariats to efficiently manage employees and limited financial resources. The diversity of practices and the fact that many of the human resource management processes are still done manually is a major impediment for line Secretariats (e.g., education and health, together, employ more than half of the 120,000 State’s public servants) to effectively deploy staff where needed and track their performance.

15. To improve the Government’s capacity to implement inclusive and sustainable public policy, the GoPi would adopt streamlined and more transparent human management practices and the broadening of the monitoring system. The GoPi created the SIMO in 2011 with the support of DPL 1. DPL 2 would go further by strengthening monitoring and evaluation processes to assess the performance and the impact of investment programs tracked by SIMO. The GoPi would upgrade and increase coverage of the system, train additional staff, and pilot the operation of decentralized monitoring teams, specifically in education and health. The GoPi would also adopt the new Brazilian Accounting Norms by the end of 2014. The state would implement accrual accounting, in line with the International Public Sector Accounting Standards (IPSAS). Staff would be trained on procurement and reference prices would be developed to support better and more efficient procurement practices. A new integrated financial management system would allow the GoPi to more comprehensively and efficiently manage financial resources and physical assets, with positive impacts for all sectors and fiscal stability. Additionally, the GoPi would address structural problems with human resource management. It would establish standardized procedures for human resource management and modernize payroll administration. Streamlining practices and rolling out a new human resource and payroll management system would lead to faster and more transparent expenditure and increase the ability of the GoPi to react to new demands. The Government estimates that the implementation of a new human resources management system, together with an update of the public servant cadaster, would lead to savings in the order of 2–4% of the present payroll.

Relationship to CAS

16. The proposed operation is consistent with the Country Partnership Strategy (CPS) for Brazil
for the period of FY2012-2015 (Report No. 63731-BR, discussed by the World Bank Executive Directors on September 21, 2011). The Project directly addresses the first two of the four strategic objectives of the CPS, namely to (i) improve access to public services by low income households; and (ii) improve natural resources management and climate resilience. The CPS also emphasizes public management effectiveness, which is included in this operation. As mentioned, this operation is also aligned with Piauí’s PPA 2012-2015.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

17. The objective of the Project is to support the Government of Piauí to achieve: (i) equitable, inclusive and environmentally sustainable human and economic development in Piauí; and, (ii) more efficient and effective public management in these areas.

Key Results (From PCN)

18. Achievement of the PDO would be measured through the following five PDO level results indicators:

- Achievement of equitable, inclusive and environmentally sustainable economic development would be measured by: (1) the percentage of Piauí’s land area with tenure regularized and (2) the percentage of small farm production in relation to total rural production.

- Achievement of equitable and inclusive human development would be measured by: (1) the dropout rate in secondary education in state schools in the bottom 40 percent of municipalities with the lowest IDH-M and (2) the number of patients admitted at Diabetes, Cancer and Hypertension Specialized Centers.

- Achievement of more efficient and effective public management would be measured by: (1) the percentage of priority programs monitored through the Integrated Monitoring System (SIMO).

III. Preliminary Description

Concept Description

19. The proposed Sector-wide Approach (SWAp) Investment Loan in the amount of US$120 million to the GoPi would finance Eligible Expenditures Programs (EEPs) under Component 1 and Technical Assistance under Component 2 aimed at reducing vulnerability, particularly in rural areas, by making economic and human development more equitable, inclusive and environmentally sustainable. EEPs and Disbursement-Linked Indicators (DLIs) would target interventions and results in the following areas: (i) income generation for poor rural farmers; (ii) access, improvement of learning environment and retention in secondary education; (iii) access to healthcare for patients with chronic non communicable diseases; and (iv) strengthening of public sector management. An integrated approach among the aforementioned areas is crucial to foster social and productive inclusion in Piauí and, consequently, to break the poverty cycle. This SWAp complements and leverages policy and institutional reforms enacted by the GoPi in the “Piauí Green Growth and Inclusion DPL” (“DPL 1”) completed in 2012 and the “Piauí Inclusive Production for Sustainable Development DPL” (“DPL 2”) under preparation. The development objectives and sectors of the proposed SWAp and DPL 2 are fully aligned.

Component 1: Equitable, inclusive and environmentally sustainable human and economic development (estimated total cost: US$400 million; Bank: US$105 million)
20. Sub-component 1.1: Promote Income Generation for Poor Rural Farmers. Provision of support for the implementation of EEPs and DLIs, including programs to: (i) strengthen integrated land tenure regularization and land administration by (1) expanding the regularization (i.e.: joined land tenure and environmental regularization) of agricultural land occupation in the state for both small, medium and large farmers as well as Quilombola communities; and (2) hiring contractual services for geo-referencing, cartographic and titling processes; (ii) promote employment and income growth in rural areas by (1) assisting small rural producers to engage more effectively in profitable businesses through PROGERE; and (2) fostering a transition towards more sustainable agricultural practices; and (iii) improve access to water resources by (1) financing the State Registry of Water Users (CEARH); (2) identifying the distribution of water resources within the state and at different periods versus demand; and (3) designing and implementing action plans to minimize the effects of draught, which particularly impact the most vulnerable groups.

21. Sub-component 1.2: Improve Access, Learning Environment and Retention in SE. Provision of support for the implementation of EEPs and DLIs, including programs to: (i) increase access in SE through support for the expansion of: 1.) SE distance learning program and 2.) STE; and, (ii) improve learning environment and retention in SE through support for the expansion of: 1.) full-time school; 2.) learning acceleration programs in both FE and SE; and; 3.) the “Live More” scholarship (“Bolsa Mais Viver”).

22. Sub-Component 1.3: Expand access to healthcare for patients with chronic diseases. Provision of support for the implementation of EEPs, including programs to: (i) expand targeted screening to identify patients with chronic diseases; (ii) develop and implement State protocols for diagnosis and treatment chronic diseases; (iii) train FHT in the management of patients with chronic diseases; (iv) develop and deliver technical support to primary health care teams in the management and prevention of chronic diseases; (v) create five specialized centers focusing on exams and consultations for patients with chronic diseases; and, (vi) provide incentives for performance to PHC teams.

23. Component 2: More efficient and effective public sector management through cross-sectoral technical assistance (Estimated total cost: US$15 million; Bank: US$15 million). This component would provide technical assistance to strengthen the Borrower’s public management in the following areas: (i) integrated land tenure regularization and land administration to increase capacity for supervision and management of information and data regarding land; (ii) support for studies and evaluations, as well as the implementation of monitoring systems and support for program beneficiaries to guarantee employment and income growth in rural areas; (iii) support for studies and establishment of monitoring systems to improve educational evaluation and policy-based evidence in the choice of key interventions implemented under Sub-component 1.2. One suggested activity would be the carrying out of diagnostic and preparation of a state teacher professional development plan to palliate for the lack of a teacher policy and training plan for teachers, school directors and education administrators; (iv) support for health diagnoses and evaluation and administration focused on neglected and chronic non communicable diseases; and, (v) support for establishment of monitoring systems and capacity building for improved public sector management, including financial management and procurement (See Annex 5 for a tentative list of proposed activities for each sector).
IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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