

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

Report No.: PIDA341

Project Name	Rio Grande do Norte: Regional Development and Governance (P126452)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	General agriculture, fishing and forestry sector (30%), Public administration- Information and communications (20%), General education sector (20%), Health (20%), Irrigation and drainage (10%)
Lending Instrument	Specific Investment Loan
Project ID	P126452
Borrower(s)	Secretariat of Planning and Finance
Implementing Agency	Project Management Unit
Environmental Category	B-Partial Assessment
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Decision	

I. Project Context

Country Context

I. STRATEGIC CONTEXT

A. Country and State Context

1. Over the last decade, Brazil has made remarkable economic and social progress and is on a path of inclusive and environmentally sustainable growth. Between 2004 and 2011, annual GDP growth in Brazil averaged 4.3 percent, as compared to only 2.5 percent in the previous ten years. This growth is all the more notable given that Brazil has one of the cleanest energy matrices in the world, with nearly 45% of domestic energy supply coming from renewable sources. Brazil has also made significant strides in poverty reduction, notably through the guaranteed minimum income program Bolsa Família that has raised 22 million people out of poverty since it was launched in 2003. In 2011, the federal government launched the multisectoral Brasil sem Miséria poverty reduction strategy by targeting the 16.2 million people living (about 8.5 percent of the population) still living in extreme poverty.

2. Despite its achievements, Brazil still faces challenges in achieving a higher and more equitable development. The Brazilian economy is very concentrated in certain regions; the

Southeast and South regions accounted for 72 percent of GDP in Brazil in 2009. Yet the Northeast region persists as one of the poorest and most unequal in the country, and indeed, the entire Latin America region. While the Northeast of Brazil is home to about a quarter of the country's population, it accounts for 58% of Brazilians living in extreme poverty. Encouragingly, since the late 1990s, the Northeast region has begun seeing reductions in poverty and inequality attributed to the introduction of new technologies (e.g. irrigation for commercial fruit farming now constituting 52% of the value of Rio Grande do Norte's agricultural production), the discovery of natural gas and oil deposits, besides federal income transfers programs.

3. Economic and social indicators in the State of Rio Grande do Norte remain well below the national average (see Table 1). Although some human development indicators such as poverty rates, income inequality, illiteracy and infant mortality rates have also been improving, these remain higher than national levels. While the proportion of the population of RN living in poverty rate fell from just over half, to just over a third 2001 and 2009, it still remains significantly above the national rate of 21%. Furthermore, nutrition and food security remain a concern in RN with nearly half of all households still facing some level of food insecurity as compared to about a third across Brazil. In terms of average monthly household income at R\$ 456,64 in 2009, Rio Grande do Norte ranked 18th out of Brazil's 27 federal units. This picture worsens when taking distributional dimensions into account: 69.3% of this income is goes to the richest 20% of the population, thereby placing Rio Grande do Norte amongst the worst performing Brazilian States. Income disparities worsen further still when taking regional distribution and gender gaps into account.

4. Furthermore, economic development remains very uneven across the State's ten territories prompting the GoRN to develop an integrated regional development strategy. The strategy (described further in Annex 2: Detailed Project Description) is organized around three axes: (i) the recovery of the economic dynamism in the Seridó region, (ii) stimulus for the central belt characterized by significant development gaps, and (iii) the development of the western border region, characterized by lack of basic public service provision and very limited penetration of formal economic activities. It also seeks to increase connectivity, enhancing the integration of lagging and leading regions (in terms of both economic development and access to services) through improvements to intra-State transportation networks.

5. Gender inequality is pervasive but is most severe in lagging regions and within vulnerable groups. Income inequality is more marked in the State's lagging central belt and western border region, and this gender gap worsens further when focusing on rural areas with higher concentrations of female-headed households. According to the 2010 Census, 40% of households in Rio Grande do Norte are headed by women; this group suffers high rates of extreme poverty – a phenomenon that is particularly marked in the State's 'lagging' development regions. While gender wage gaps and poverty distribution point to asset inequality, women are also disadvantaged through inequalities of economic opportunity as revealed by comparing male-female labor market participation rates and time use indicators as well as by looking at access to productive assets such as land and credit. Finally, inequality of agency is revealed through gender imbalances in the public administration, high levels of domestic violence and through women's under-representation in leadership positions within producer groups and value chains.

6. The rural poor depend on largely on agriculture for their livelihoods and food security; however they remain poorly organized within agriculture production/value chains. The agriculture sector of Rio Grande do Norte has two distinct characters: (i) multinational large-scale

agribusiness, particularly fruit farming and sugarcane plantations; and (ii) small-scale family agriculture producers. The share of family agriculture in Brazilian food production is 70 percent, which means that it has a strong potential not only for food security and improved nutrition but also for economic inclusion and food price balance. Family agriculture in RN includes primarily smallholders, sharecroppers and migrant laborers who depend on a diverse strategy of income-generating activities, which are mostly subsistence production of maize, beans, cassava, rice and small livestock. These small farmers have generally not benefited from advances in agricultural technologies and practices; nor have they organized collectively to improve their productivity or market position. Thus, although it represents only a small percentage of the State's GDP, the agriculture sector is an important element in the State's sustainable development, food security and poverty reduction strategy supported by this Project.

7. However, the agriculture sector faces productivity constraints and intensifying environmental and climatic challenges. Aside from its fertile eastern coastline, the Brazilian Northeast region is characterized by poor soils, low rainfall index, with long drought periods, which results in poor quality crops and low capacity to generate income, particularly in the semiarid and transition areas. Although it one of Brazil's driest States, RN has also been experiencing extreme weather, with some of the heaviest recorded rainfalls occurring in recent years, causing severe flooding and disruption. In addition to drought and flooding, advancing desertification affects much of the State at a 'moderate' or 'severe' level (See map in Annex 2). Thus a one of the constraints for increased productivity and value chain development is the low water use efficiency at farm level, requiring modern water-saving techniques and practices. Besides climatic constraints on productivity, access to land is also a concern with many smallholders cultivating plots smaller than the minimum required to achieve commercial viability. Moreover, physical infrastructure is of key concern. Despite the availability of a highway that allows for inter-regional connectivity, transportation within the State remains challenging, particularly during periods of heavy rains.

8. To help overcome these challenges, the GoRN has been working with local development partners to identify value chains with on-farm and off-farm income and labor-generating potential in both rural and non-rural areas. Initial assessments have identified potential in aquaculture, honey and bee-keeping, coconut and cashew production, goat and sheep farming, irrigated agriculture, handicrafts, and tourism. Further assessments and market analysis are being undertaken to identify the APLs (Local Productive Alliances) eligible to receive Project support (within a broader strategy of coordinated public and private investments), that will enable small-holders to overcome productivity constraints and harness sustainable economic returns through value chain integration.

9. Coverage and quality of public service delivery- particularly in health, education and public security – remains very uneven across the State and insufficient to meet demand. Inefficient monitoring and referral systems, incomplete coverage, and poor quality of health care services have limited the State's capacity to respond to increasing rates of chronic non-communicable diseases (NCDs), the rise of violence and traffic-related injuries (mainly in urban areas), and stubbornly high infant and maternal mortality rates. Adult illiteracy in Rio Grande do Norte - at 15.8% for ages 15 years and older in 2011 (down from 26.6% in 1999) - remains much above the national average of 8.6% and jumps further to 49% amongst those working in family agriculture (and higher still amongst rural women in lagging regions). Furthermore, as a result of poor curriculum strategies and inadequate pedagogical interventions, and of insufficient infrastructure investment to meet increasing demand for secondary education, secondary enrollment rates and student performance at all levels of schooling in Rio Grande do Norte, are low by national standards. Public security

agencies lack effective management and information systems to monitor the incidence of crime and violence in Rio Grande do Norte (and social context within which it is taking place). These capacities are critical for the design of more effective program and policy responses to increasing rates of homicide, domestic violence, and other violent crime affecting much of the Northeast of Brazil.

10. An outdated and inefficient public administration struggles to support the State's ambitious development objectives. Since 1995, when the Federal Government launched a broad discussion on public sector reform in Brazil, and in light of their fiscal adjustment needs, several subnational governments have taken measures to restore fiscal balance and undertaken reforms as a means to improve their performance. This wave of reforming efforts, however, has not been uniform or homogeneous. While Rio Grande do Norte has adopted some isolated modernization measures, it has not yet made a more comprehensive reform. Moreover, little has been done to shift the focus from input control and formalistic procedures towards achievement of results. This has undermined the ability of the public administration to contribute effectively to the State's social and economic development.

11. This document presents a proposed Specific Investment Loan (SIL) to support the State Government of Rio Grande do Norte to achieve planned strategic results, combining investments which would favor economically inclusive growth and human development. The proposed Loan of US\$ 360 million for this Project phase would have a duration of five years. This responds to a first phase of a request of US\$ 540 million, which was approved by the Federal Government via COFIEX Recommendation No. 1306 in January 2, 2012. The proposed operation will support the State's human and regional economic development goals, through public sector modernization, social inclusion via expanded health and education services, and productive inclusion through increased productivity and market access for small-scale agricultural and non-agricultural producers.

II. Sectoral and Institutional Context

12. The GoRN is aligning its development strategies with federal government's goal of eradicating extreme poverty by promoting greater regional integration, productive inclusion and access to public services. The State's Strategic Development Plan (Plano Plurianual 2012-2015, PPA) and its Poverty Reduction Strategy (Plano RN Sem Miséria e Programa RN Mais Justo 2012-2015 – aligned to the national Brazil Sem Miséria Poverty Reduction Strategy and integrated with the PPA) reflect the goals of equitable, inclusive and efficient growth, by focusing, in particular, on sustainable and integrated regional development, the elimination of extreme poverty, and modernization of public sector management.

13. The proposed Project would support priority programs selected from the PPA and RN Sem Miséria. Investments will be linked to a very well-designed strategy focused on: (a) promoting regional development and inclusive growth through productive inclusion, entrepreneurship, infrastructure and logistics investments; (b) elimination of extreme poverty through enhanced food security and income-generation; (c) improvement of public services delivering, namely education and health; and (d) modernization of public sector management through a results-oriented program that introduces integrated and results-based management methodology and ICT, as well as measures for strengthening public institutions.

14. Thus, the proposed Project reflects and builds on the logic of the PPA and RN Sem Miséria,

in particular through emphasis on:

- (a) Regional/territorial approach and integration: Rio Grande do Norte's ten territories (aligned with the Federal Government's Territórios da Cidadania boundary delimitation) will aid in concentrating and coordinating various federal- and state-level programs to boost economic and social inclusion. These in turn are embedded within a broader integrated Regional Development Strategy to increase social and economic inclusion, boost growth and reduce poverty (described further in Annex 2).
- (b) Integrating Producers' Organizations in Value Chains: Collective action among small-scale producers can reduce asymmetric bargaining power in markets dominated by intermediaries. Using the APL framework for value chains interventions ensures the direct participation of local stakeholders in the process of identifying and mobilizing collective demands, resulting in Project interventions that are more targeted and adapted to local specificities, which in turn strengthens their impacts and sustainability. Producer organizations that participate in value chains can: (i) improve the uptake of technological innovation; (ii) expand access to timely commercial intelligence; and (iii) reduce individual risks through risk spreading across value chain actors.
- (c) Public Private Partnerships: The GoRN understands removing barriers and increasing competitiveness requires both public interventions and partnerships with private sector actors (where divisions of responsibility and roles are clearly identified) in a comprehensive, sequenced, and coherent approach. Therefore the GoRN is integrating its support to value chains/APLs within a broader Regional Development Strategy. This strategy will include a common vision and set of objectives, drawn from the joint and integrated actions of the different Secretariats, along with potential partners such as the development banks, Sistema S and the Federal Government, private sector, amongst others.
- (d) Gender and Equity: Equity among value chain actors would be promoted through alliances with private companies that promote "win-win" market solutions. The project's inclusive design will also promote the participation of women and youth, as well as marginalized indigenous and quilombola communities amongst selected producer and community groups, and increase equitable access to productive resources (e.g. land, water, credit). By enhancing equal access to basic public services, focusing particularly in lagging development regions but also on poor and vulnerable groups in other areas, the Project aims to reduce persistent regional, gender and other disparities in human development indicators.
- (e) Innovation and Technology Strategy: The State will give priority to the establishment of a network and mechanisms to facilitate the dissemination and adoption of new technologies and practices among producers groups and community organizations, including through provision of technical, financial and other assistance to support innovative projects. 'Demonstration projects' will be supported to stimulate an "innovation culture" conducive to adopting new technologies and market-oriented practices.
- (f) Climate-smart responses: The proposed Project would stimulate innovations that jointly increase agricultural productivity, increase the efficient use of scarce water and natural resources management, and promote climate change resilience and recovery of areas affected by deforestation and erosion.
- (g) Linkages between Agriculture, Nutrition, Food Security and Poverty Reduction: The agriculture sector in Rio Grande do Norte, particularly small-scale family farming, is of fundamental importance to improving human nutrition, food security and poverty outcomes - both as a direct determinant of household food consumption, and through its role in livelihoods and food systems. Furthermore, agricultural investments targeted to smallholder farmers are more likely to succeed if they address the human capital constraints (lower health and educational outcomes) due

to malnutrition. The Project will maximize poverty reducing and nutrition/food security improving impacts, while identifying and mitigating potential harms, through multi-sectoral coordination (agriculture, education, health and social protection sectors). It will establish a system for monitoring these impacts, particularly on the most vulnerable groups, including smallholder farmers, women, and poor/food insecure households.

(h) Education: Improve both access to the State's public education system (increasing coverage mainly at secondary level and in remote rural areas) and the quality of education at all levels. Furthermore, the Project will strengthen links between local farmers with the National School Meal Program (PNAE) in support of the State's regional development strategy. Furthermore, technical education activities will target the youth and young adult population living in lagging regions to strengthen their labor market integration; while illiterate farmers (particularly women) in lagging regions will be targeted for literacy programs in order to reduce their economic and social exclusion. The adoption of monitoring and evaluation systems will provide critical information for further defining policies and programs to increase the performance of schools and students, and to better orient students towards changing labor market opportunities.

(i) Health: Respond to the State's rapidly changing demographic and epidemiological profile (aging population with increased incidence of NCDs – particularly breast and cervical cancers and increasing rates of injury from accidents and violence) as well as its persistent under-performance in infant and maternal health outcomes. The Project will therefore support the GoRN's health sector priorities with a strong gender focus, namely: (a) reduction of maternal and infant mortality rates; (b) increased availability of quality treatment for female cancer patients (given that mortality from breast cancer has been increasing in Rio Grande do Norte, and the State still show an extremely elevated mortality from cancer of the cervix, and that together these constitute the third highest cause of mortality in RN); and (c) scaling-up availability of facilities, as well as human and financial resources to establish a State-wide, regionalized, emergency health services network.

(j) Citizen Security: The Government of RN is adopting a multi-sectoral response to increasing rates of crime and violence within a holistic 'citizen security' framework. Project activities support this approach and are in line with one of four key pillars "promoting the protection of life" of the RN Mais Justo program, which integrates all State efforts for violence prevention and crime reduction. The Project's public security Sub-component will therefore support Government efforts improving IT and management systems that will support better data collection and analysis of violence and its social context and underlying causes. These will contribute to better decision making in the design and implementation of public security policy and programs focused on populations more at risk of victimization.

(k) Public Sector Management: The Government of RN has proposed interventions to modernize its public sector and increase fiscal space for investment to improve service delivery (particularly in sectors key to the reduction of poverty, vulnerability and insecurity) to promote integrated and sustainable development across the State. The State's own diagnostics recognize that its ability to promote integrated development depends on introducing significant changes to public administration. Such changes are to promote greater efficiency and effectiveness of the public sector and to increase access to quality public services, especially among the poorest groups of the population and the poorest regions of the State. Increasing fiscal space for investment and modernizing and simplifying bureaucratic procedures are also central to improve conditions for private investments.

(l) ICT for Transparency and Improvement of Public Sector Management and Services Delivery: The automation of processes limits opportunities for graft, and the improved access to information allows greater public scrutiny. Additionally, e-Transparency measures can reduce information asymmetries, create greater equality through automated processes and lower transaction

costs for both government and citizens, improve service accessibility, increase competition in the procurement process, and lead to better decision-making because of better information. Moreover, access to information is often a precondition for meaningful participation, especially through the more recent internet, geospatial, and mobile technologies.

III. Project Development Objectives

The objectives of the Project are to support the Borrower's efforts to: (i) increase productive inclusion of poor and vulnerable groups living in the State's lagging development regions (ii) improve access to and quality of health, education, and public security services; and (iii) modernize public sector management.

IV. Project Description

Component Name

1. Component 1: Sustainable Regional Development and Productive Inclusion aims to reduce regional inequalities and increase productive inclusion in support of the State's Sustain. Regional Dev Plan
2. Component 2: Improving Public Services aims to improve the quality of, and access to, basic public services - health, education and public security
3. Component 3: Public Sector Management would provide support for the modernization of the State's public sector management in strategic sectors

V. Financing (*in USD Million*)

For Loans/Credits/Others	Amount
Borrower	40.00
International Bank for Reconstruction and Development	360.00
Total	400.00

VI. Implementation

Project Institutional and Implementation Arrangements

42. The proposed SIL is a multi-sector Project, which would be jointly implemented by nine State Secretariats/Departments (see Table 2) drawing largely on existing Government capacities and systems, thus avoiding the creation of separate Project Implementation Units (PIUs). The State Secretariat of Planning and Finance – SEPLAN, through a dedicated Project Management Unit (PMU), will be responsible for the overall management, coordination, planning, and monitoring and evaluation of all Project activities both at central and regional levels. The other Secretariats and Departments involved in Project Implementation would be supported by their respective Unidade Executora Setorial (UES). The UES will assist the Secretariats and Departments in the execution of technical, administrative, financial and procurement procedures. State employees and consultants working within the PMU and UESs are receiving financial incentives (salary top-ups) made possible through the amendment of Decree 16766 of 14 March 2003.

43. As it has been during Project preparation, SEPLAN will be the Bank's main interlocutor during Project implementation and responsible for project's financial management, procurement, disbursements and accounting, as well as for implementing social and environmental safeguards instruments and for disseminating project results through a proactive communication strategy. As the formal Project coordinator, it will compile all Project-related information furnished by the other

implementing agencies and be responsible for all reporting requirements under World Bank policies and described in the Loan Agreement. In addition, SEPLAN will ensure that counterpart resources are foreseen in the State's budget.

44. Sectoral State Secretariats will be responsible for operational execution of the different Project Components and Sub-Components (see Table 2). Component 1 (Sustainable Regional Development and Productive Inclusion) will be executed by the State Secretariat of Agriculture, Livestock and Fisheries (SAPE); the State Secretariat of Labor, Housing, and Social Assistance (SETHAS); the State Secretariat of Economic Development (SEDEC); the State Secretariat of Tourism (SETUR); and the Department of Roads of Rio Grande do Norte (DER). For Subcomponents 2.1 (Health), 2.2 (Education), and 2.3 (Public Security), the State Secretariats of Health (SESAP), Education (SEEC), and Public Security and Social Defense (SESED) will be the Project's executors, respectively. Component 3 (Public Sector Management) executed by SEPLAN and the State Secretariat of Administration and Human Resources (SEARCH).

VII. Safeguard Policies (including public consultation)

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

VIII. Contact point

World Bank

Contact: Maria de Fatima de Sousa
 Title: Senior Rural Development Specialist
 Tel: 5761+1003 /
 Email: mamazonas@worldbank.org

Borrower/Client/Recipient

Name: Secretariat of Planning and Finance
 Contact: Francisco Obery Rodrigues Junior
 Title: Secretary
 Tel: 55-84-3232-1900
 Email: oberyjr@rn.gov.br

Implementing Agencies

Name: Project Management Unit
 Contact: Ana Cristina Guedes
 Title: Manager
 Tel: 55-84-3232-1818

Email: rnsustentavel@rn.gov.br

IX. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>

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