I. Project Context

Country Context

A. State of Paraná Context

1. Located in the south region of Brazil and with an area of 200,000 km², the State of Paraná has the fifth largest economy in Brazil and overall social indicators above the national average. The state economy represents 5.9 percent of the country’s GDP (R$251.5 billion or US $149.5 billion ) and is composed of: services, 63.9 percent; industry, 26.7 percent, and agriculture, 9.4 percent. With a total population of 10.44 million, Paraná is home to 5.4 percent of the country’s total population, with 85.3 percent living in urban areas. Its GDP per capita, the fifth highest in the country, is 5.9 percent above the national average. Overall, Paraná has achieved a high level of economic and social development. Social indicators, such as income inequality, illiteracy and child mortality suggest a higher level of social development than the national average (Table 1), as would be expected given the state’s economic development.

2. In spite of these overall achievements, the State of Paraná is marked by persisting regional inequalities and a recent loss of economic dynamism. The State of Paraná is characterized by major disparities amongst regions, with lagging regions characterized by lower income levels and worst access to quality social services. Strong performances in the West, the North and the East contrast with poverty and economic stagnation in the Centre. The three former regions concentrate population, economic activity and institutional capacity. Municipalities in Paraná’s central region consistently lag below the rest of the State in terms of employment, income, and human development. Moreover, the metropolitan region of Curitiba, the state capital, is also marked by pockets of high poverty and low access to services in its periphery. Paraná holds the seventh and ninth position (from the top down), respectively, for poverty and extreme poverty rates when compared to other states; the lagging region of Curitiba would be closer to the 19th position, with 30 percent of total households considered poor. This suggests that there is still significant room for improvement in social development in the state.

3. An inefficient and ineffective public administration has hampered the state’s ability to address regional inequalities and improve its economic performance. Unlike what has been seen in other Brazilian states over the past fifteen years, Paraná’s public administration has not yet been subject to significant modernization efforts. 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 sub-national 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. In the case of Paraná, while the state seems to have adopted some isolated modernization measures, it has not yet made a more comprehensive reform effort. Moreover, little has been done to shift the focus from input control and formalistic procedures towards achievement of results. Therefore, the ability of the public administration to contribute effectively to the state’s social and economic development was undermined, as is evident from the recent path of the state economy and the persisting regional inequalities.

4. Seeking to transform this situation, the recently elected Government proposed an aggressive program to modernize its public sector and increase fiscal space for investment in order to promote integrated social and economic development across the state. The government’s own diagnoses recognized that its ability to promote the state’s integrated development depends on introducing significant changes to public administration. Such changes are fundamental to promote greater efficiency and effectiveness of the public sector so as 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 in the state. Finally, fostering economic activities in lagging regions of the state and better managing risks and vulnerabilities are central for the state to reclaim its position in the Brazilian economy in a socially and environmentally sustainable manner.

II. Sectoral and Institutional Context

B. Sectoral and Institutional Context
5. **Public Sector Management.** The central and cross-cutting goal of the new Government of Paraná is to reform its public sector in order to introduce a “new way to govern” that effectively translates into a new form of leadership in the public sector, focused on results and more attuned to the needs of citizens. Therefore, the start of the new government was marked by its firm commitment to restore administrative efficiency, adjust the state’s public finances and introduce results-based management (through the introduction of performance agreements and sectoral targets). Paraná’s administrative structure dates back to 1978 and there is a growing concern that it is not adequate anymore for implementing the present policy priorities. The inadequate structure is accompanied by overly bureaucratic or cumbersome procedures that further aggravate existing inefficiencies. Finally, there is a lack of orientation towards results. The challenges faced by Paraná’s public administration may be grouped into three broad areas, which are identified with the three pillars of the government’s strategy: fiscal quality; institutional modernization (including the introduction of new tools and practices in the areas of planning, budgeting and management); and more strategic and efficient human resources management.

6. **Sustainable Rural Development.** In the central region of Paraná, smallholder agriculture is the main source of income and it shapes the social and economic fabric of most municipalities. To date, this region has succeeded in developing only a few economic alternatives to public services and agriculture. There is still little agricultural processing and few linkages with agri-business and other economic activities outside the region. Recently, rural tourism has started to generate some income, and seems to show potential for expansion. Overall, the central region still offers few job opportunities and low wages, especially for women and youth, leading to a further exodus to Paraná’s growing cities and to neighboring States.

7. **Education.** Paraná has achieved near universal enrollment in fundamental education and is one of the best performing states in Brazil on the index of Development of Basic Education (IDEB) score. However, 23.8 percent and 25.6 percent of the children enrolled in State schools in fundamental and secondary education, respectively, were at least two years older than the normal age-grade level. Furthermore, there is almost a 40-percentage point difference between the net enrollment rates in fundamental and secondary education indicating that many children in age of being enrolled in secondary education are held back in fundamental education and many students do not continue to secondary education. Moreover, despite recent improvements, the repetition and dropout rates remain high, especially in the second cycle of fundamental education: 13.6 percent for repetition and 4.4 percent for dropout in 2010.

8. **Environmental and Disaster Risk Management.** A final central aspect to ensuring a sustainable development path for Paraná is related to the state’s environmental management capacity and to its ability to manage the risks of and respond to natural disasters. Overall, the state of Paraná has a very good regulatory capacity to address environmental issues, however, unclear and complex operating procedures for environmental compliance contribute to delays and to a low satisfaction by the private sector regarding the quality of the government services. Regarding the management of disaster risk, a recent analysis undertaken by the government agencies (based on Civil Defense registries) indicates a growth in critical events in the state. These events include floods, storms, winds, landslides and other anthropogenic in nature (such as oil spills and toxic substances). Currently the State has a Civil Defense System more oriented towards response activities and is lacking a structure to approach disaster risk management in a preventive, more proactive and organized manner.

9. **Health.** Paraná is marked by a new reality regarding both epidemiological and demographic context that challenges policy makers to increase the health condition of the population in a context of limited resources. Although the state has broadly adequate health care coverage, there are concerns over the quality of services provided. There is still significant room for improvement in access and quality of health services in Paraná and this may be the case even for the richest areas of the state. Two recent indicators that reflect this problem are the reversal in the maternal mortality trend in the past year (Error! Reference source not found.) and also the 18 percent increase in congenital syphilis cases from 2007 to 2009. Over the past years, child and maternal mortality has been declining in Paraná. Nonetheless, this decline has been slow and unequal across the state. There are regions in the state reporting maternal and child mortality rates compared to the northeast region of Brazil.

10. Another key concern is related to the low capacity of existing hospitals and health units to provide resolute services. While each of the 22 health administrative regions has a referral hospital, most of them are small and cannot absorb the demand for more complex healthcare procedures. Therefore, besides the concern over reducing inequality of access to quality services, the health sector in Paraná faces key challenges related to a distorted supply, weak management mechanisms, and poor information for decision making and organization of health provision in the state. Oversupply, underused, misplaced and inequitable concentration of medical equipment lead to accessibility issues, while also affecting quality and contributing to increased cost of service provision. Overall, these challenges have undermined state’s health system efficiency and led to suboptimal service provision, despite the broadly adequate coverage.

### III. Project Development Objectives
The Project Development Objective is to make access to economic and human development opportunities more equitable and environmentally sustainable in the state of Paraná through the modernization of public sector management with special emphasis on revenue management.

IV. Project Description

Component Name

Component 1: Fostering equitable and environmentally sustainable economic and human development
Component 2: Technical Assistance for more efficient and effective public management

V. Financing (in USD Million)

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<th>For Loans/Credits/Others</th>
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VI. Implementation

V. Implementation

16. The proposed Paraná SWAp is a multi-sector Project, covering activities across five sectors: (i) public sector management; (ii) sustainable rural development; (iii) environmental and disaster risk management; (iv) health; and (v) education. Given its nature, the Project would be jointly implemented by seven state secretariats with the support of associated entities. The implementing Secretariats are the State Secretariat of Planning and General Coordination (SEPL), State Secretariat of Finance (SEFA), State Secretariat of Administration and Social Security (SEAP), State Secretariat of Agriculture and Supplies (SEAB), State Secretariat of Environment and Water Resources (SEMA), State Secretariat of Education (SEED) and State Secretariat of Health (SESA). The implementing Agencies are Instituto Ambiental do Paraná (IAP); Instituto de Terras, Cartografia e Geociências (ITCG); Instituto das Águas do Paraná (AGUASPARANÁ); Instituto Paranaense de Assistência Técnica e Extensão Rural (EMATER PR) and the Civil Defense.

17. While several state entities would participate in project implementation, overall coordination would be conducted by SEPL through a Project Coordination Unit (PCU). Therefore, SEPL would be the Bank’s main interlocutor during Project implementation. As the formal Project coordinator, it would compile all Project-related information furnished by the other implementing agencies and produce the technical, financial, safeguards and disbursement reports as required by World Bank policies and described in the loan agreement. It would be responsible for the procurement of Technical Assistance activities under Component 2. It would also lead a Project Management Committee to be composed of representatives of all implementing secretariats and agencies and that would foster coordination across Government units for Project implementation. The PCU would be staffed with a minimum of four professionals, with TOR and qualifications acceptable to the Bank, in charge of providing cross support to all other involved Secretariats. Professinals include a Project coordinator, a deputy Project coordinator, a procurement specialist, and a financial management specialist. Finally, the implementation arrangements would also include the appointment of technical focal points for each of the EEPs. These staff would be responsible for the timely execution and adequate monitoring of their respective EEP’s and technical assistance activities supported under the Project. A Project Operation Manual has been prepared to clarify the institutional and implementation arrangements and inform the day-to-day implementation of the Project. (See Annex 3 for details.)

VII. Safeguard Policies (including public consultation)

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VIII. Contact point

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