1. Country and Sector Background

Ceará, one of the poorest states in Brazil, has made solid progress in improving both economic and social indicators in recent years. Between 1985 and 2006, the state’s GDP (currently ranked 15th in Brazil) grew by an accumulated 95.1%, well above the Brazilian average (71.0%). From 1992 to 2005, the average years of schooling per adult in Ceará rose by 50.0%, out-performing the Northeastern growth rate (42.9%). Other social indicators, including infant mortality and life expectancy, also have shown significant improvement over the last two decades.

2. Notwithstanding this recent progress, the state faces significant challenges. Poverty levels are still unacceptably high in Ceará, with more than half the population (53%) living below a poverty line of ½ minimum wage, and more than a quarter (26%) below an extreme poverty line (¼ minimum wage). It is evident that sustaining social inclusion gains and obtaining a substantial reduction in current poverty levels will require more rapid economic growth. Fittingly, the present administration, inaugurated in January 2007, has placed a greater emphasis on “inclusive growth,” while maintaining a commitment to develop further the good public sector management practices adopted by its recent predecessors.

3. The Ceará Government has asked for the Bank’s support to implement its Inclusive Growth Strategy. This operation is the second SWAp loan of an APL, a follow-up to the Ceará SWAp I loan. The first SWAp supported implementation of the state’s development agenda, including numerous sectoral investments, from 2004 to 2007. The innovative design of the project elevated the importance of Results-based Management (“Gestão por Resultados”) and provided an important model for inter-sectoral and inter-institutional management of key programs. The
The current operation will preserve many of the SWAp I sectors—including education, health, and water & sanitation—as these are closely linked to the policy priorities of Ceará’s new Governor, Cid Gomes. In addition, the SWAp II will expand beyond the social sectors to address issues of growth and competitiveness.

4. The state’s policy priorities are reflected in its Multi-Year Budget Plan (Plano Plurianual 2008-2011 – PPA), approved by the legislature in December 2007. The PPA is a form of multi-year program budgeting, with corresponding results indicators. It aims to focus budgeting and public administration on cross-cutting outcomes rather than sector-driven inputs. This operation will support priority programs selected from the PPA, with loan disbursements linked to performance-based indicators.

2. Objectives

5. The higher-level objective of the Ceará SWAp II project is to contribute to expand and consolidate the social advances and institutional modernization of the State of Ceará. The project will achieve this by supporting nine key government investment programs in five sectors, selected to optimize development impact. A series of disbursement-linked indicators (14) are mapped to the five sectors -- public sector management, education, health, WRM/WSS, and business environment & innovation -- to strengthen the incentives to achieve results.

6. The project has five fundamental development objectives:

   (a) help the Government of Ceará to improve its fiscal situation;

   (b) strengthen the state’s system of results-based management;

   (c) promote better service quality in education (particularly early-childhood literacy) and health

   (d) improve access to Water Supply & Sanitation services, increase cost recovery in the water sector, and improve the efficiency of the two government autarchies with responsibility for water supply and management

   (e) reduce barriers to business investment

3. Rationale for Bank Involvement

7. The Bank is uniquely positioned to support the State of Ceará’s development strategy, based upon the Bank’s long partnership with the State. Ceará has for many years been one of the Bank’s primary sub-national borrowers. Ceará investment loans over the last decade have included education, health, rural poverty, water resources management and urban development.
As mentioned above, Ceará is implementing a first-of-its-kind, results-based Sector Wide Approach (SWAp) that supports six sectors and nine strategic government programs. And another World Bank loan is under development—the $41m Cidades do Ceará Project—to promote economic growth in identified regional development poles, beginning with the Cariri region. In addition, the IFC TA Facility and FIAS are supporting a technical assistance program of administrative simplification to improve business processes in several Ceará municipalities.

8. This loan fits squarely within the new Country Partnership Strategy (CPS), which highlights the Bank’s increasing role at the state level in Brazil and the importance of addressing complex development challenges in an integrated and multi-sector fashion. The Brazil CPS set’s out six “paradigmatic challenges,” four of which are directly addressed by the SWAp II: Fiscal & Public Sector Management, Private Sector Management, Infrastructure, and Human Development & Innovation. In addition, it should be noted that the Ceará SWAp II loan supports the achievement of five of the eight UN Millennium Development goals: achieve universal primary education; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; and develop a global partnership for development. The Government of Ceará, having achieved high levels of coverage in several of these areas, has now chosen to place greater emphasis on improving quality. That emphasis is reflected in Eligible Expenditure Programs supported by the SWAp II, and the corresponding disbursement-linked indicators.

4. Description

9. The proposed project is a US$240 million Investment Loan using the SWAp modality to support implementation of the Government's program. This is the second SWAp loan of an APL. The SWAp I closed in December 2007, fully disbursing the $150 million loan amount. Most of the triggers for APL 2 were met in full or in part, and the overall results achieved were quite substantial. These accomplishments have laid an excellent foundation for continued progress, and provide more than enough confidence to continue the partnership between the State of Ceará and the Bank. Consequently, the Bank is satisfied that the Government of Ceará has met the requirements for undertaking a second APL operation.

10. The SWAp II is comprised of a $235.7m SWAp component and a $3.7m TA Component. The SWAp component supports the government’s development program expenditures in a) public sector management, b) education, c) health, d) water resources management & water supply and sanitation, and d) business environment and innovation. The TA component provides analysis and institutional strengthening to support reforms in these sectors in furtherance of the development program objectives.

11. Public Sector Management (PSM) is a sector that spans all the rest. Strengthening fiscal and fiduciary oversight and institutionalizing Results-Based Management (RBM) in policy setting and public administration will have a positive impact upon the efficiency and effectiveness of the entire government, including the targeted sectors. The SWAp I initiated some preliminary, positive steps toward judicious fiscal management and RBM. In this second SWAp, fiscal indicators have been selected to reflect the emphasis on growth; instead of using the more
commonly-adopted primary surplus indicator, the project will target the current savings, which
takes into account the need to preserve—or even expand—the level of public investment while
maintaining fiscal discipline. In a similar way, the second SWAp includes an indicator of tax
concentration rather than simply tax revenue. The tax concentration measure aims to reinforce
the current policy of the State to adopt a balanced level of taxation across sectors. (This contrasts
with the tendency to overtax utilities such as energy, fuels and communications, as has been
done elsewhere in Brazil, with negative consequences for growth as firms must bear most of the
burden of increased taxation.) Expanding and mainstreaming RBM is now identified as perhaps
the single most important activity supported by the SWAp. Consequently, while the broad
objectives for Public Sector Management remain the same, the activities and indicators have
been adjusted from the first APL to the second.

12. Education. The SWAP I addressed the main sector challenges comprising a broad spectrum
of interventions: Implementation of a testing cycle and improving literacy; Upgrading
institutions, expenditure efficiency and quality; and Improving State/municipal cooperation.
Considerable progress was made in each of these areas, sufficient for the new administration to
consider a new set of priorities. For testing, the GoC has now committed to extending the
coverage of annual exams to rural and small schools that were not reached by the earlier testing
schemes. In addition, SEDUC is committed to tracking that these testing results—reported at the
level of individual schools—are utilized as an input to school development plans to address
weaknesses identified. The new GoC and SEDUC administrators have manifested a desire to
focus, as well, on two high-impact issues: (i) Children in the early primary school years (grades
1-4) are still not achieving satisfactory literacy levels which prejudices their subsequent
academic life, and (ii) youth conclude middle school and are unable to enter Universities or find
jobs owing to their academic deficiencies plus other, exogenous factors.

13. Health. Bank staff working with Ceará counterparts determined that the quality of healthcare
is, at this point, a more critical concern than coverage (which has improved considerably).
Although health indicators in Ceará are below national averages, the state compares well to
others in the northeast. In 2004, Ceará had the lowest infant mortality rate (29.4 per 1,000 births)
among Northeastern states (NE average: 33.9). Infant mortality related to diarrhea and
respiratory infections, as well as the incidence of most infectious diseases (measles, mumps,
tetanus, leprosy, and tuberculosis), continue to decline. The incidence of HIV/AIDS is leveling
off as it is throughout Brazil. Dengue remains endemic in Ceará, as it is elsewhere in the
Northeast, North, and Southeast regions of Brazil. The assessment of the Ceará health sector
concluded that SWAp II should support interventions along the following lines: (i) Advance the
government’s results-based framework by making a stronger effort to influence “sectoral
business,” supporting downstream results-based management that can influence behaviors at the
point of service delivery, and (ii) focus on improving the quality of care—the forgotten
component in municipal and federal programs—especially in terms of improving processes,
raising standards, and measuring results.

14. Water resources in the very arid Ceará are fundamental to the State’s economic and social
development. The programs and indicators selected for this sector are directed at strengthening
the financial health of the water companies responsible for providing bulk supplies (COGERH)
and WSS services (CAGECE), and sending economic signals to consumers about the true cost of
water and the need to rationalize its use across competing demands. In addition, the provision of potable drinking water and improved sanitation are essential to improving quality of life and combating water-borne health and pollution problems.

15. Business Environment & Innovation. Both the World Bank and the Government are acutely aware of the need to mobilize private sector resources and entrepreneurship in order to achieve sustainable growth. A 2006 World Bank Group report—Doing Business in Brazil—ranked Ceará last among 13 states in terms of business-friendly environment. Governor Cid Gomes strongly endorses measures to mobilize private sector resources for economic growth, particularly in the interior. Hence, these activities support the government’s strategy to strengthen development poles: dynamic municipal clusters outside of the Fortaleza Metropolitan Region. They also will support programs designed to foster technology innovation, and research and scientific development.

5. Financing

Source: ($m.)
Borrower 2228
International Bank for Reconstruction and Development 240
Total 2468

6. Implementation

16. The Ceará SWAp II will draw upon the successful implementation arrangements used for the first operation. IPECE, the research institute under the Secretary of Planning, will be the responsible implementing agency. The Project Coordinator will be the head of IPECE, who will report to the Secretary of Planning. He is assisted by IPECE staff and 1-2 consultants who will divide their time between the SWAp and other tasks. Despite being a research institute, IPECE has characteristics of a front-line technical unit in Ceará, and has proven ability to act as the implementation and coordination unit.

17. The GoC developed a very efficient means of managing and coordinating the diverse sectors over the course of the loan. Each secretary/sector is represented by a key technical staff person on a SWAp Committee to ensure close and continuing monitoring and evaluation by all sector stakeholders. The Committee meets monthly and each representative reports on progress in achieving indicators, technical assistance, and EEP so that any problems that surface can be identified and addressed promptly. Issues that require multi-sector responses can be addressed in these collaborative meetings.

18. Project coordination responsibilities comprise the activities normally undertaken by project coordinating/implementation units including (i) general Government and Bank coordination, (ii) monitoring and evaluation of EEP, Disbursement-linked indicators, and TA to ensure compliance, (iii) reporting of results in a timely and comprehensive manner to ensure loan disbursement and preparation of any “requests for reassessment,” as needed (iv) ensuring Bank fiduciary (financial reporting, procurement) regulations and requirements are followed, and (v) disseminating results and strengthening the Government’s reform constituency, (vi) coordinating
and leading activities within the Public Sector Management Sector and ensuring they are successfully carried out, and (vii) coordinating the effort of participating secretaries, running the SWAp Committee, and identifying and resolving problems.

19. The specific responsibilities to be carried out by the participating Secretaries include (i) implementing sector programs and meeting performance indicators, (ii) participating in the SWAp Committee and tracking and reporting on all activities for which the Secretary has assumed responsibility, (iii) collaborating with the Project Coordinator/IPECE in preparing specific TORs, processing procurement and overseeing implementation of such activities, (iv) taking the lead in municipal contacts essential to meeting loan objectives, (v) providing sectoral expertise as needed to optimize loan impact.

20. The FMIS and reporting capability have been vetted and the Bank relies upon Ceará systems for fiduciary oversight and reports. Sector units—the direct beneficiaries of TA—are expected to prepare sector-specific Terms of Reference for technical assistance support.

7. Sustainability

21. The project’s disbursement-linked indicators (DLI) are linked to key problems, programs/EEP, and other performance indicators. Each of these programs is included in the State’s PPA and the Government’s Results-Based Management framework—which is reinforced through the SWAp II operation. An overarching objective of the SWAp II is to institutionalize key sector results as well as Results-based Management, building on the progress achieved under the first SWAp.

22. Government commitment to these sectors—and government commitment to the SWAp instrument as a tool to help realize these development goals—is evidenced by the continuity of programs and objectives between the first and second SWAs, notwithstanding the change of government that took place in Ceará in the period between the design of these two loan operations.

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

23. The Ceará SWAp II draws directly upon the design and implementation experience of the Ceará Multi-Sector Social Inclusion Project, the first in Brazil to use a SWAp modality to support a multi-sector program. Under the SWAp I the Bank reimbursed key Eligible Expenditure Programs in accord with results based on key sectoral indicators. Critical lessons of that experience include the following:

24. (a) **Indicators Selection.** The most difficult challenge associated with the SWAp model is the selection of good indicators—important, measurable, unambiguous, and reasonable. The team has taken great care to define indicators in a way that will be clear, measurable, and verifiable. The indicators are fully owned by the Government and are incorporated into the Government’s monitoring framework.

(b) **Client Ownership.** If the sectors/secretaries do not believe in the merit of the program, it will be more difficult to achieve sector indicators and the desired outcomes.
Hence, stakeholders should play a primary role in loan design and should be fully aware of the benefits to the State, the treasury, and to themselves (namely, support for key sectoral programs/objectives/targets and assured Eligible Expenditure disbursement). strengthen the state’s system of results-based management;

(c) **Bank Ownership.** For the loan to generate the best results, World Bank sector specialists need to be involved in supervision and maintain a regular dialogue with the client. The loan should be considered a vehicle for such multidisciplinary involvement. Supervision resources need to be made available to participating sectors, and the responsibilities of sectoral specialists need to be clear.

(d) **Capacity to Disburse Technical Assistance Resources:** While the SWAp I was highly successful (e.g., strengthening financial management, encouraging sectors to identify the key results they were attempting to achieve, supporting sound sectoral implementation arrangements) the government was not able to implement much of the programmed TA activities. To a certain extent, the capacity of the state to absorb the TA component was overestimated. This lesson is reflected in the design of the TA component of this second operation: technical assistance should be used to strengthen incentives for sector units with strong ownership and interest in the outcomes, and should be highly selective.

9. Safeguard Policies (including public consultation)

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10. List of Factual Technical Documents


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


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