

Document of
The World Bank

Report No: 17402-BR

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$62.5 MILLION TO THE
FEDERATIVE REPUBLIC OF BRAZIL
FOR THE
SCHOOL IMPROVEMENT PROJECT -- FUNDESCOLA I
MARCH 16, 1998

Human and Social Development Group
Brazil Country Department
Latin American and the Caribbean Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective: March 1, 1997)
Currency Unit = Real
R\$ 1.00 = US\$ 1.14

FISCAL YEAR (FY)
January 1-December 31

SCHOOL YEAR (SY)
March-December

ABBREVIATIONS AND ACRONYMS

CAS	Country assistance strategy
COEP	State-based Project Executive Coordination (<i>Coordenação Estadual Executiva do Projeto</i>)
CONSED	National Council of State Education Secretaries (<i>Conselho Nacional de Secretários Estaduais de Educação</i>)
CW	Center-West region of Brazil ¹
DEMEC	State-based office of the Ministry of Education and Sports (Delegacia do MEC)
DGP	Central Project Coordination Unit (<i>Direção Geral do Projeto</i>)
FNDE	National Education Development Fund (<i>Fundo Nacional de Desenvolvimento da Educação</i>)
FUNDESCOLA	School Improvement Program (<i>Programa Fundo de Fortalecimento da Escola</i>)
FUNDESCOLA I	First School Improvement Project (<i>Primeiro Projeto Fundo de Fortalecimento da Escola</i>)
FVM	Fund for the Development and Maintenance of Basic Education and Teacher Valorization (<i>Fundo de Desenvolvimento e Manutenção do Ensino Fundamental e Valorização do Magistério</i>)
GDE	School Development Group (<i>Grupo de Desenvolvimento Escolar</i>)
GT	Technical Group (<i>Grupo Técnico</i>)
IBGE	Brazilian Census Bureau (<i>Instituto Brasileiro de Geografia e Estatística</i>)
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion Report
IADB or IDB	Inter-American Development Bank
INEP	National Institute for Educational Research and Studies, a MEC-based agency (<i>Instituto Nacional de Estudos e Pesquisas Educacionais</i>)
LCS	Least-cost Selection
LDB	National Education Law (<i>Lei de Diretrizes e Bases de Educação Nacional</i>)
MEC	Brazilian Ministry of Education and Sports
MOS	Minimum operational standards
MOIP	Project Operations and Implementation Manual (<i>Manual de Operações e Implementação do Projeto</i>)
N	North region of Brazil ²

¹Comprising the states of Goiás (GO), Mato Grosso (MT), and Mato Grosso do Sul (MS), but excluding the Federal District (see map)

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NCB	National Competitive Bidding
NE	Northeast region of Brazil ³
NEBE	Northeast Basic Education Project
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
PAE	State Action Program (<i>Programação de Ação do Estado</i>)
PAM	Municipal Action Program (<i>Programação de Ação Municipal</i>)
PAZ	Microregion Action Program (<i>Programação de Ação Zonal</i>)
PDE	School Development Plan (<i>Plano de Desenvolvimento da Escola</i>)
PE	School subproject (<i>Projeto de Melhoria da Escola</i>) initiated under PDE
PNLD	National Textbook Program (<i>Programa Nacional do Livro Didático</i>)
PPO	Research and Operationalization Program of Education Policies (<i>Programa de Pesquisa e Operacionalização</i>)
PRASEM	Municipal Education Secretaries Support Program (<i>Program de Apoio aos Secretarios Municipais de Educação</i>)
PTA	Annual Work Plan (<i>Plano de Trabalho Anual</i>)
QCBS	Quality- and Cost-based Selection
SAEB	National System for Basic Education Evaluation (<i>Sistema Nacional de Avaliação da Educação Básica</i>)
SIED	Integrated Education Information System (<i>Sistema Integrado de Infomações Educacionais</i>)
SPA	Computerized Planning and monitoring system (<i>Sistema de Planejamento e Acompanhamento</i>)
SEE	State Education Secretariat (<i>Secretaria Estadual de Educação</i>)
SME	Municipal Education Secretariat (<i>Secretaria Municipal de Educação</i>)
TOR	Terms of Reference (for contracts, studies, missions, and so on)
UE	School Council (<i>Unidade Executora</i>)
UNDIME	National Association of Municipal Education Managers (<i>União Nacional dos Dirigentes Municipais de Educação</i>)
UNICEF	United Nations Children's Fund

²Comprising the states of Acre (AC) , Amazonas (AM), Amapá (AP), Pará (PA), Rondônia (RO), Roraima (RR), and Tocantins (TO) (see map)

³Comprising the states of Alagoas (AL), Bahia (BA), Ceará (CE), Maranhão (MA), Pernambuco (PB), Paraíba (PE), Piauí (PI), Rio Grande do Norte (RN), and Sergipe (SE) (see map)

Federative Republic of Brazil
School Improvement Project – FUNDESCOLA I
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**Document of
The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Latin American and the Caribbean Regional Office
Country Department 1

Project Appraisal Document
Federative Republic of Brazil
First School Improvement Project -- FUNDESCOLA I

Date: January 26, 1998		Task Manager/Team Leader: Robin S. Horn	
Country Director: Gobind T. Nankani		Sector Manager/Director: Julian Schweitzer	
Project ID: BR-PA50762	Sector: Education	Program Objective Category: Poverty Reduction	
Lending Instrument: Specific Investment Program of Targeted Intervention: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Loan			
Project Financing <input checked="" type="checkbox"/> Loan <input type="checkbox"/> Credit <input type="checkbox"/> Guarantee <input type="checkbox"/> Other [Specify] Data			
For Loans/Credits/Others:			
Amount (US\$m/SDRm): US\$62.5 million			
Proposed terms: <input type="checkbox"/> Multicurrency <input checked="" type="checkbox"/> Single currency, US Dollar			
Grace period (years): 5 <input type="checkbox"/> Standard Variable <input type="checkbox"/> Fixed <input checked="" type="checkbox"/> LIBOR-based			
Years to maturity: 15			
Commitment fee: 0.75%			
Service charge: Variable			
Financing plan (US\$m):			
Source	Local	Foreign	Total
Government of Brazil	62.5	0.0	62.5
IBRD	56.4	6.1	62.5
Total	118.9	6.1	125.0
Borrower: Federative Republic of Brazil			
Guarantor: n.a.			
Implementing Agency: Brazilian Ministry of Education and Sports (MEC)			
Estimated disbursements (Bank FY/US\$m):	1999	2000	2001
Annual	15.0	25.0	22.5
Cumulative	15.0	40.0	62.5
Project Implementation Period	April 1998 – December 2000		
Expected effectiveness date: June 1, 1998	Closing date: June 30, 2001		

I. Project Development Objective

A. Project development objective and key performance indicators

(see Annex 1)

The development objective of FUNDESCOLA I is to strengthen primary schools and the public institutions that are responsible for them within a coordinated management framework, in order to increase the participation, promotion and graduation rates, and achievement levels of children in the North and Center-West capital microregions of Brazil. FUNDESCOLA I is the first of several projects that will attend to educational needs in the three poorest regions of Brazil — the North (N), Northeast (NE), and the Center-West (CW). The overall FUNDESCOLA Program¹ has been agreed to in principle by the World Bank (Bank) and the government of Brazil (Borrower)², and will be financed through a series of loans. FUNDESCOLA I will contribute to achieving the overall sector goal of ensuring that children from the poorest regions of Brazil successfully complete a basic eight-grade education. This will help guarantee that these children are better prepared to participate as active and productive citizens in a democratic society; and will aid in reducing the stark inter-regional disparities in educational achievement.

To achieve this development objective, FUNDESCOLA will seek to ensure that all eligible children are enrolled in schools that: (a) meet Minimum Operational Standards, (b) are pursuing school-defined performance goals and projects, designed in partnership with the community, through participation in a *school development process*; (c) employ professionally qualified teachers; and (d) have principals trained in effective and efficient school management. FUNDESCOLA will provide these schools, in turn, with technical support from municipal and state education secretariat staff trained in facilitating, managing, sustaining, and replicating the *school development process*. In addition, FUNDESCOLA will provide the staff in these secretariats with instruments and training in school mapping, and in engaging the community and stakeholders in the education decisionmaking process. At the federal level, FUNDESCOLA will support the development and implementation of national programs, including assessment and distance learning and initiatives designed to improve school quality and attendance.

The key performance indicators for the project objectives (to be achieved by June 2001) are to:

- increase enrollment rates of children in schools meeting *minimum operational standards* from an initial estimate of less than 10 to over 50 percent in all participating microregions;

¹ For FUNDESCOLA program objectives and key performance indicators see Annex 1. From this point forward, reference to “FUNDESCOLA” refers to the program as a whole, while reference to the “Project” or “FUNDESCOLA I” refers to the first loan for the North and Center-West capital city microregions.

² See Project Concept Document dated October 16, 1997.

- promote the elaboration and implementation of coordinated municipal or state education action programs in at least 50 percent of the participating municipalities;
- increase enrollment rates of children attending schools with implemented *school development plans* from an initial estimate of less than 2 to over 50 percent in all participating microregions; and

FUNDESCOLA I will provide funding for FUNDESCOLA program startup, and will finance, on a pilot basis, all of the program components and activities, with the exception of school construction, in the ten North and Center-West capital city microregions. (For a discussion of the “microregion” concept, see below as well as Annex 7.) These ten microregions include the eighty municipalities centered around the cities of Belém (Pará), Boa Vista (Roraima), Campo Grande (Mato Grosso do Sul), Cuiabá (Mato Grosso), Goiânia (Goiás), Macapá (Amapá), Manaus (Amazonas), Palmas (Tocantins), Porto Velho (Rondônia), and Rio Branco (Acre). Consequently, FUNDESCOLA I will finance program activities oriented toward approximately 4,200 schools, 24,000 classrooms, and 1,350,000 children (aged seven to fourteen).

II. Strategic Context

A. Sector-related country assistance strategy (CAS) goal supported by the project

CAS document number: 16852-BR Date of latest CAS discussion: June 12, 1997

The education sector goal of the CAS is to provide the opportunity for all children to complete the eight-year fundamental schooling cycle by 2007, and to improve academic performance in basic subjects, particularly Portuguese and mathematics. FUNDESCOLA will contribute to these goals by increasing primary school quality and expanding access to primary school. FUNDESCOLA addresses the goal of improving education outcomes by its emphasis on reducing regional disparities in student achievement; it will do this by targeting the three poorest regions of Brazil. This will contribute to achieving the overall objective of poverty reduction as stated in the CAS.

Attainment of these goals requires effectively implemented projects that improve the quality of teaching and school management, clarify responsibilities between municipalities and states, and emphasize improved educational opportunities for the poor. FUNDESCOLA is a key component of a national strategy for improving primary education outcomes; it seeks to strengthen educational management by promoting the integration and rationalization of municipal and state systems, focusing on the school as the agent of educational change, and helping maximize the effects of existing primary education policies and programs.

B. Main sector issues and government strategy

Improved quality and access of basic education are at the center of social policies in Brazil. The government induced major reforms aimed at helping to ensure that by 2007 every Brazilian child will complete his or her primary education at an acceptable level of academic achievement. In spite of substantial progress and political and societal commitment, there is still much to be done to attain levels of efficiency and performance capable of ensuring quality education for all. The following sector issues pose a particular challenge for reform in the North, Northeast, and Center-West regions.

Low enrollment rates: The North, Northeast, and Center-West regions (excluding the federal district) have the lowest enrollment rates in the country. The percentage of children aged seven to fourteen not in school — 15 percent (or 350,000 children) in the North; 14 percent (or 1,250,000 students) in the Northeast, and 9.1 percent (or 150,000 children) in the Center-West regions — indicates the size of the gap in education services. In the ten capital microregions of the North and Center-West approximately 97,000 children aged seven to fourteen (nearly 8 percent of the age group) are not attending any primary school. Low levels of primary school enrollment and completion have two main roots: (a) an inadequate or ill-distributed supply of school places; and (b) uneven demand by parents and children for beginning or additional schooling. Supply of school places is severely affected by the lack of facilities, the inefficient use of existing schools, and poor planning strategies. Weak demand by parents correlates with poverty-related factors and can be stimulated by increasing school quality and relevance, reducing repetition (especially in the initial school years), and increasing community involvement.³

High repetition and age-grade distortion: Despite a doubling in national primary school completion rates between 1980 and 1994, aggregate repetition rates in the North (over 42 percent), Northeast (approximately 45 percent), and Center-West (over 35 percent) regions remain extremely high — especially in comparison with the South (approximately 25 percent). To the extent that evidence from Bank-supported sector work and other studies in Brazil confirm that students are more likely to repeat again and to drop out after having repeated a grade level, low completion rates become inevitable.⁴ Finally, over 60 percent of primary students are older than they should be for their respective grade level nationwide, with this rate reaching 81 percent in the North, 83 percent in the Northeast, and 69 percent in the Center-West. Age-grade distortion is the cumulative result of late-entry to school (especially in rural areas) and a chronic grade repetition syndrome across the Brazilian system. As a result, students spend 11.2 years, on average, to complete the mandatory eight-year primary education cycle.⁵

³ Brazil Ministry of Education, World Bank, and UNICEF. "A Call to Action: Combating School Failure in the Northeast of Brazil." June 26, 1997

⁴ *ibid.*

⁵ See Annex 4 for additional information on the effect of repetition on costs.

Low student achievement level: According to the Brazilian Ministry of Education and Sports (MEC)-managed 1995 National System for Basic Education Evaluation (SAEB), the average achievement level (measuring the probability of correct answer to curricular items on a scale of zero to one hundred) of fourth graders in Portuguese is 44.4 percent for the North, 46.4 percent for the Northeast, and 50.7 percent for the Center-West against 51.5 percent for the Southeast. Regional disparities are especially noteworthy for eighth graders in Portuguese, which varies between 57.2 percent in the Northeast, 61.4 percent in the North, and 66.4 percent in the Center-West compared with a 69.3 percent in the Southeast. The most recent SAEB mathematics assessment demonstrated that 49 percent of children who complete fourth grade in the Northeast are unable to perform at the minimum expected level. These children are unable to solve concrete problems, add fractions with the same denominator, or identify the graphic representation of simple fractions. The same proportion of eighth graders in the Northeast does not perform at the expected level of mathematics mastery. For instance, 49 percent of eighth graders from the Northeast are incapable of solving simple problems involving the four operations, ordering fractions with different denominators, or solving simple problems involving fractions. For Brazil as a whole, these figures are 35 percent and 26 percent, respectively.

Poorly qualified teachers: In the North, Northeast, and Center-West regions, out of a total of 380,730 primary school teachers, 57,000 primary school teachers have not completed primary school, and about 129,000 have an incomplete secondary school education or are not duly certified as teachers. Over 30 percent (or 29,410) of teachers in the North and 16 percent (or 11,325) in the Center-West are considered "lay teachers." Almost all of these teachers are in rural areas, where most of the schools belong to municipal school systems that have lower financial capacity. Municipal and state schools compete for unqualified teachers who are underpaid and who often work two or three shifts. The lack of an attractive career plan, with salaries adequate to attract and maintain adequately qualified and educated teachers, affects the entire system.

Poverty-related factors: In 1990, at least 40 percent of Brazilian children below the age of fifteen were living in poor families (defined as families whose aggregate annual income is less than US\$60 per person).⁶ This widespread poverty directly affects the ability of children to go to school, because their parents compare the benefits of an additional income earner and household support against future gains from additional schooling. A 1996 publication by UNICEF and the Brazilian Census Bureau (IBGE) showed that, relative to children aged ten to fourteen, 20 percent in the North, 20 percent in the Northeast, and 27 percent in the Center-West work outside the home more than forty hours per week. In Brazil, about 4.6 million children between the ages of ten and seventeen work and attend school, while 2.7 million work rather than go to school. These indicators demonstrate the effect of perceived low benefits from an education system that is marked by high repetition, low achievement, and low completion rates.

⁶ World Bank. Brazil Poverty Report.

Low parental and community participation: There is a strong relationship between student performance and the establishment of a school council or similar school-linked associations with parental participation.⁷ School performance is higher in schools that routinely inform parents about their children's progress. Communities with a greater concentration of adults with higher levels of schooling have greater expectations regarding education, know the mechanisms of the educational system better, and are better able to apply pressure to obtain quality schooling for their children. Active school councils or associations have not traditionally been part of the education tradition, particularly in the North and Center-West, where school authorities do not routinely seek community involvement and views.

Lack of focus on the school: Many municipal and state secretariats do not see the school as their primary client, but tend to serve other political agencies (such as the mayor, governor, or local legislators). The notion of accountability to the school community is alien to most mayors' and local politicians' experience. This lack of focus on the school is in part due to expanded numbers of schools and students, which has stretched the supervisory resources of state and municipal secretaries beyond their limits; in part due to sluggish education planning and scarce information on local needs; and in part due to the consequence of a patriarchal tradition. High turnover rates in the state and municipal education secretariats reduce continuity of personnel and commitment of education management staff to improving educational quality and student performance at the school level. In addition, there is little incentive for long-term planning or collaboration among the municipal and state system.

Weak municipal-state system coordination: The presence of a state education system and hundreds of municipal education systems within the states, functioning in parallel but without coordination, makes the administration of public schooling complex. The overlapping of administrative systems makes it difficult to optimize resources, engenders inequality of opportunities, and may pave the way for political patronage. One particularly critical point is the lack of clear regulations regarding the interaction of the agents participating in this complex two-system web. Until recently there has been little incentive for long-term planning or collaboration among the municipal and state systems. In addition, unlike seasoned state bureaucrats, the newcomers to the municipal systems find themselves at a loss when faced with increased legal requirements and documentation.⁸

Government Strategy: The launching of FUNDESCOLA occurs at a propitious moment for improving primary education in Brazil (see below, "Key policy and institutional reforms to be sought"). The federal government has given top priority to primary education, initiating a number of significant reforms including: (a) amendment of the constitution and approval of a law redefining the roles and responsibilities of each government level to ensure a minimum per student expenditure through the redistribution of revenues between states and municipalities and the federal provision to targeted regions of any shortfall in

⁷ "A Call to Action."

⁸ *Ibid.*

educational expenditures; (b) direct transfer of funds to the schools, in an effort to increase school autonomy and effectiveness; and (c) improvement of education quality, through a national assessment system (SAEB), a national distance teacher education program, a textbook quality and distribution improvement program, and national standards for curriculum development. These reforms, designed to decentralize the funding of primary education, diminish regional disparities, and increase coordination among the various systems, should have a profound impact on school quality, particularly to the degree that states, municipalities, and schools effectively use these resources, and to the degree that the public has efficient mechanisms to monitor the application of these finances. The FUNDESCOLA Program has been designed to help implement these reforms.

C. Sector issues to be addressed by the project and strategic choices

(a) Improving School Quality

By improving the quality of schools in terms of available materials, human resources, and school management capacity-building, the project will contribute to improving the quality of the learning process, as measured by completion and promotion rates, and student achievement scores. This improvement in the quality of the schools is essential for creating an environment for student success. School quality will be addressed principally by a dual strategy ensuring that schools meet Minimum Operational Standards, and promoting and supporting the *school development process*. The first part of this strategy will ensure that schools in the project regions meet minimal standards in terms of basic inputs, services, and infrastructure — prerequisites for children to have the opportunity to learn at school. The second part of this strategy will ensure community and school collaboration and commitment to school improvement through the elaboration and implementation of *school development plans* and their associated school subprojects, and will be financed through the FUNDESCOLA program.

(b) Expanding School Access

Another issue to be addressed is the unequal distribution of the supply of school places, materials, and facilities. In the North and Center-West regions there is a large deficit of school places in rural areas (of the capital-city microregions), with surpluses of school places in many urban areas. In addition, the rationalization of existing school spaces in each of the municipalities, the specification and adequate location of new classrooms through macro- and micro-planning, and the elaboration of state-by-state standardized architectural models will contribute to an increase in the supply of school facilities in a rational and cost-effective fashion.

(c) Improving School and System Management

FUNDESCOLA I will promote effective management of the school and school system so that the young population of the targeted regions receives quality education. The project will improve the school system management, administration, state and municipal coordination, monitoring, and evaluation at the school, municipal, and state levels, and will assist in elevating the efficacy and efficiency of resources for priority federal education programs and projects. FUNDESCOLA I will: (a) build the management capacity

of education institutions (at the school, municipal, and state levels); (b) provide and support specialized training modules and teacher certification programs; (c) foster community support for education; (d) support national systems, programs, and project management; and (e) strengthen national education information systems.

II. Project Description Summary

A. Project components⁹

<u>Component</u>	<u>Category</u>	<u>Cost Incl. Contingencies (US\$M)</u>	<u>% of Total</u>	<u>Bank-financing (US\$M)</u>	<u>% of Bank-financing</u>
1. Raising schools to minimum operational standards (a) Promoting minimum operational standards for schools (b) Educating and certifying teachers (c) Supplying basic furniture and equipment (d) Financing school improvement investments (e) Financing school-managed rehabilitation of physical facilities	Physical Institution building	90.2	72.2%	30.0	48.0%
2. Establishing a school development process (a) Designing and supporting school development plans (b) Financing school subprojects	Institution building	5.3	4.2%	3.0	5.0%
3. Planning and providing additional school places (a) Carrying out school microplanning and developing standard architectural plans (b) Testing standard architectural plans	Institution building	4.3	3.4%	4.3	7.0%
4. Strengthening education management and Project Administration (a) Building management capacity in schools, municipalities, and states (b) Providing specialized teaching and learning improvement programs (c) Fostering community participation (d) Strengthening National Education information systems and programs (e) Financing project management	Institution building Project management	25.2	20.2%	25.2	40.0%
	Total	125	100%	62.5	100%

⁹ See Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown.

1a. Operational mechanisms

The three principal operational mechanisms of FUNDESCOLA are the *minimum operational standards* model, the *school development plan*, and the *microregional planning* model.

The *minimum operational standards* model is an operational instrument — structured as a checklist — that specifies the essential package of inputs and services a school needs in order to function at a minimal level that will facilitate acceptable student learning. Each school is categorized by size, based on the number of students and classrooms, which determines the corresponding inputs for that school. Schools that are incomplete in any one of the essential elements are considered unable to provide children with the opportunity to learn. FUNDESCOLA will support the institutional responsibility and actions of municipalities and states in identifying substandard schools and will finance the inputs or services necessary to raise these schools to the standard operation level.

The *school development plan* (PDE) is another key operational mechanism FUNDESCOLA will apply in carrying out the *school development process*; this will be accomplished through capacity building with state and municipal education secretariats. The PDE is both the result of one process (diagnosis and strategy formulation) and the starting point of another (school improvement implementation and monitoring). With respect to the diagnosis and strategy process, the school and its community of parents, teachers, and local leaders meet to identify and prioritize the problems at the school, establish specific school improvement objectives, and to agree on an action plan. The expression of this overall diagnosis and agreement on actions and targets is the PDE. The PDE will include a section called the PE indicating the support the school needs to carry out their action plan and to achieve the agreed targets. Schools will use their PEs to inform municipal and state education authorities on which inputs or training they need to help them attain their objectives. FUNDESCOLA will finance the inputs and training of the approved PEs.

FUNDESCOLA will support a variety of PDEs, from the simplest — which may be little more than an agreement on the part of the school staff and parents to seek specified educational outcome targets (such as reduction of repetition or drop-out) — to the more fully developed PDE based on strategic planning or quality management approach. Finally, with respect to the school improvement phase, the PDE will be used as the tool to monitor the implementation of the school improvement strategy and school subproject, as well as the achievement of the agreed educational outcome targets. The most important outcome of the PDE is not the completion of a PE but rather the process of collaboration, participation, and teamwork among parents and teachers at every stage of project development, the value that each stakeholder will derive from the experience, and, in the end, the learning dividends of the students.

The *microregional planning* model puts together, through negotiation, the needs and priorities of all the municipalities involved in each individual microregion. FUNDESCOLA I does not intend to cover all of the 895 municipalities in the North (8.2 percent

of the total in Brazil) and Center-West (8.1 percent) regions. Instead, FUNDESCOLA will work with a microregional planning model, that is, with groups of municipalities based on the Brazil Census Bureau's microregion grouping. The reason behind this operational approach is the fact that there are no single education systems operating in any state in Brazil. Instead, each state contains a state education system and hundreds of municipal education systems, functioning in parallel and competing for resources. The result is an aggregation of educational activities, patched together by a jumble of agreements and conflicting interests, without sufficient regulations regarding the interaction of the participating agents, and without either level of government taking the total responsibility for assuring quality education for all.

The *microregional planning* model permits a more rational and effective managerial option than the traditional dispersion of resources among the individual municipalities or the concentration of resources to state governments chronically biased toward the state-run school system. Intervention by FUNDESCOLA I in a microregion will cover all of the municipalities in that microregion. Though composed of neighboring municipalities sharing many socio-economic interests, the microregion does not constitute an administrative division, but provides a basis for planning and negotiation among other municipal governments and the state government.

FUNDESCOLA I will initiate implementation of FUNDESCOLA in the capital microregions of the North and Center-West states, which together comprise eighty municipalities. The decision to focus FUNDESCOLA I implementation in the capital rather than the interior is based on both operational and equity concerns. In terms of operational issues, execution in the capital will allow the state secretariat to work with neighboring municipalities on an innovation basis and develop relationships into the state interior during subsequent projects. In addition, project startup in the capital will attend to the greatest number of poor children in each state. The total school-age population in the capital microregions of the states of Acre, Amapá, Amazonas, Rondônia, and Roraima, is greater than that of the remainder of the state. In the remaining states, the capital microregion contains more students than any other single microregion or group of microregions (see Annex 7 for a detailed description of the *microregional planning* model).

B. Key policy and institutional reforms supported by the project

FUNDESCOLA has been designed to complement key government strategies and programs and to assist education management at the municipal, state, and federal levels in meeting the requirements of recent legislation, with special attention to: (a) redistribution of resources as part of the Fund for the Development and Maintenance of Basic Education and Teacher Valorization (FVM); (b) decentralization of federal resources under the Direct School Funding Program; and (c) promotion of collaboration and cooperation among the state and municipal system as part of the 1996 National Education Law (LDB). The FVM, approved by the national congress in December of 1996, established January 1998 as the

starting point for national FVM implementation within each state.¹⁰ The FVM sets up fixed criteria for allocating funds with the aim of raising standards of opportunity, quality, and equity of education. The National Education Development Fund (FNDE)-sponsored Direct School Funding Program, which was designed to increase school autonomy and reduce inequalities, has expanded rapidly since its inception in 1995, transferring resources on the basis of school size and community participation. The LDB stimulates innovation and initiative on the part of educational agents in order to avoid excessive bureaucratization, give priority to primary education, and strengthen the role of the municipality in the provision of grades one through eight.

C. Benefits and target population

The direct beneficiary of FUNDESCOLA I is the primary school-age population currently in school or entering school in the near future (about 1.3 million students) in the North and Center-West capital microregions. These children will benefit from an education system endowed with an increased number of school places, adequate learning materials, certified and well-paid teachers, committed parents, and effective management at all levels.

The most important stakeholder group for the FUNDESCOLA program are the education decisionmakers, teachers, and other education specialists who manage and direct the primary education schools and system. In the context of decentralization, it is important that education managers at all levels be qualified in managing the education process and making effective and informed decisions across a wide range of issues. By providing management tools and training in such areas as teacher career planning, school mapping, and architectural plans, the System Planning and Monitoring System (SPA), subproject procedures in the school and system, and the *school development process*, the project will provide a large number of education professionals with the managerial capabilities they need to run a more autonomous local system (see Summary of Social Assessment, below)

D. Institutional and implementation arrangements:

Implementation period: 3 years, April 1998 through December 2000

Executing Agency: Brazilian Ministry of Education and Sports (MEC)

Project coordination: At the federal level, the Central Project Coordination Unit (DGP) (already in charge of the Northeast Basic Education Projects, NEBE II, and NEBE III) has been responsible for the preparation and will be charged with the administration of FUNDESCOLA. The DGP is institutionally and technically ready to: (a) serve as the key project counterpart to dialogue and participate in negotiation with the World Bank and key government and international agencies; (b) rely on the state-based Project Executive Coordination (COEP) and state-based office of the Ministry of Education (DEMEC) for implementation and monitoring at the microregional level; (c) analyze and approve state, intra-state, and microregional projects and annual work plans; (d) establish or sign

¹⁰ The FVM has already been initiated in the states of Pará and Goiás, both to be served by FUNDESCOLA I.

agreements with states, municipalities, and other government and international agencies; (e) determine, together with the states, the definition of *minimum operational standards*; (f) elaborate the *annual implementation program* based on the microregional programs; (g) conduct project-related regional, state, and micro-planning studies; (h) analyze and submit to the World Bank the relevant documentation for the acquisition of goods and services and expenditure receipts; (i) define operational norms and standards for FUNDESCOLA operation; (j) coordinate with the World Bank the general guidelines for FUNDESCOLA (and its project) MOIP; and (k) prepare the progress reports and participate in the mid-term and final review according to World Bank procedure.

At the state level, FUNDESCOLA will operate by means of the COEP established within each state education secretariat, which will: (a) serve as the key administrative project unit at the state level; (b) coordinate project execution across municipalities and state school systems; (c) promote the development of municipal action programs within the microregions; (d) coordinate communication and cooperation among the local government agencies involved in project-related activities; (e) supervise and collaborate on the municipal programs; (f) support the development of inter-municipal cooperation within the microregions; (g) assist municipal secretariats in implementing the *school development plan*; (h) analyze and consolidate the school subprojects submitted by the School Development Group (GDE); (i) foster the operation of school councils and community participation; (j) coordinate teacher certification programs; (k) procure goods and services according to the guidelines of the World Bank; (l) record and certify expenditures; (m) prepare progress reports; and (n) monitor and evaluate the outputs and outcomes of FUNDESCOLA in each state. As an executive agency, rather than a planning unit, COEP will be established and its members selected and trained at the initiation of the project implementation period.

At the *microregional* level, FUNDESCOLA has adopted the IBGE-designed concept of the microregion as the best way to promote collaboration and coordination between municipal and state education management personnel in each of the municipalities involved, and to maximize efforts and resources within a microregion. The mayors, or their representatives, in conjunction with the state secretary of education, the DEMEC representative, and the state president of National Association of Municipal Education Managers (UNDIME) are members of the *microregion forum* which operates as a local planning instance of the project to: (a) negotiate the priorities within and across the municipal and the state education systems in the microregion; (b) agree on the consolidation of the various municipal action programs into a single, prioritized microregion action program (PAZ), (c) agree on common targets for the *microregional action program*; (d) plan and monitor the implementation of the *microregional action program*; and (e) and propose the *annual implementation program* to be financed by FUNDESCOLA to be approved by the DGP. The *microregion forum*, is assisted and advised by a technical group, whose role is to complete the requisite surveys, the preliminary *microregional action program*, its implementation schedule, and other technical documents. The *microregion forums* have undergone extensive training by the DGP and are well established in each of the project states. The states of Acre, Amapá, Goiás, Pará, Mato Grosso do Sul, Tocantins and Roraima have already submitted the PAZ to the DGP, while the states of Amazonas, Mato Grosso and

Rondônia are currently finalizing their PAZ documentation with technical assistance from the DGP.

At the *municipal* level, each participating municipality, already participating in the *microregional forum*, is responsible for: (a) designing the municipal action program and schedule, and the municipal annual implementation schedule; (b) assisting the school in designing their own *school development plan* and *school subprojects*; (c) fostering the operation of school councils and community participation; (d) actively participating in their *microregion forums*; (e) developing inter-municipal cooperation within the microregion; and (f) monitoring the delivery of goods and services procured by the COEP.

IV. Project Rationale

A. Project alternatives considered and reasons for rejection

A number of alternatives associated with primary education quality, access, and management as well as other education levels were discussed. The program components were finally chosen as the most suited to maximize educational impact and resource allocation.

Primary Education: Alternatives for improving the *quality* of basic schooling for all included: (a) establishment of a completely bottom-up school-driven method for determining needs and resources; and (b) implementation of a entirely top-down model in order to ensure effective control at the national level. The fully bottom-up alternative was rejected based on the evaluation of capacity at the school and system level that indicated that school directors are not yet politically or technically capable of adequately expressing and rapidly attaining their needs for school inputs within the structure of the current system. High levels of control and centralized management at the federal and state level would further preclude school directors from taking control and effectively ensuring the best interests of the child. Furthermore, project components such as coordination of teacher certification, and assurance of selected school items was found to be more cost-effective if selected at the local level than if purchased and distributed at the state level. For these reasons, a more integrated form of project implementation that includes both top-down and bottom-up methods was selected.

The second alternative of a completely top-down method for ensuring school quality was rejected as prior project experience and education sector evaluations have demonstrated that local interests need to be considered in order to ensure effective implementation and use. In the case of school inputs, selection of materials at the school level by means of a survey, followed by definition of minimum standards at the state level, will help to guarantee that school needs are met, while reducing costs due to mass purchase and distribution. The government has committed itself to decentralization efforts through such programs as direct school transfer programs, school feeding programs, and textbook selection, in order to guarantee local autonomy and greater efficiency in the application of resources.

As to school *access*, from the supply side two major alternatives were examined: (a) embark in a school-building program; and (b) allow the states and all municipalities to design and build their own schools. Although the project regions show the highest level of school deficit in the country, the first alternative was rejected on three accounts: micro-planning could help rationalize the use of existing spaces; school quality could attract and retain the incoming population; and the resources were insufficient to meet all the needs of additional physical infrastructure. Due to quality and cost-effectiveness reasons, the second alternative was also rejected. Instead, FUNDESCOLA decided to motivate the states and municipalities to develop standard architectural plans for the schools of each state. Procurement for school construction will be carried out by COEP in future projects. On the demand side, an approach similar to *Bolsa Escola* which gives a minimum salary to needy families provided that they enroll and maintain their children in school, was considered. However further analysis demonstrates that this type of program has better chances of success in high quality school systems. Beneficiary assessment analysis and classroom observation studies (carried out under the "Call to Action" program) demonstrated that children's persistence in school, and their parents' expectations about educational attainment, are low when they believe that the school offers a low quality education. Consequently, this alternative was rejected in favor of a project that attacks the supply-based problems of the project's participating microregions, namely the lack of planning, low school quality and insufficient school places.

Competing management forms were examined. Three alternative options deserved more attention: (a) a low-key approach to management in favor of a heavy input orientation; (b) program delivery by the state education secretariat; and (c) focus on the municipality as the program work unit. The first approach would repeat mistakes of the past and therefore was rejected. Management has become a decisive component as the catalyst of other human, institutional, and financial resources of the program. The second alternative was eliminated as experience gathered by the Northeast Basic Education Project shows that an approach combining both state and municipal education secretariats would better serve the mandated decentralization process. The last alternative was promptly discarded given the multiplicity of municipalities with which the DGP would negotiate. The concept of microregion and its forum helped establish a cooperative and mediating instance between FUNDESCOLA, federal and state administration, and the hundreds of municipalities involved.

Other Education Levels: Preschool programs. The option of including preschool education in the project was rejected as it would have diverted scarce resources and diluted the impact on primary education. The importance of preschool education programs and their impact on future student success has been examined in Brazil and other countries. Preschool education is currently under investigation by the government as an area for future investment.

Adult education: The relationship between the average level of education of adults in the community and student achievement was found to be three times that of the impact of the teachers' level of education. The education of the current generation of

students was found to have a greater impact in terms of each dollar spent, as well as a greater length of time in which to realize those returns. The costs associated with adult education, in terms of developing facilities, training, and hiring of teachers and income foregone are very high. This project is based on the government's affirmation (as indicated at the 1995 World Conference on Basic Education for All) that provision of quality basic education to all children is of highest priority.

Secondary Education: Rates of return to primary education were found to be high, with an average of 13 percent for each additional year of primary school completed. Investment in secondary education in the North and Center-West regions would not at this time be considered the most equitable or cost-effective investment. Expansion of primary education will provide additional opportunities for children to advance to secondary education, where rates of return are higher (in excess of 20 percent). This may be an added incentive for children to complete upper primary education, where rates of return are lower. Secondary education is currently under consideration by the government for possible future investment.

B. Major related projects financed by the Bank or other development agencies (completed, ongoing, and planned)

Sector issue	Project	Latest Supervision (Form 590) Ratings	
		Implementation Progress (IP)	Development Objective (DO)
		(Bank-financed projects only)	
Bank-financed			
Primary education access and quality	Northeast Basic Education I	completed	
Primary education quality	Urban Basic Education Project, "Monhangara"	completed	
Primary education access and quality	Northeast Basic Education II	S	S
Primary education quality	Northeast Basic Education III	S	S
Primary education quality	Innovations in Basic Education	S	S
Primary education quality	Paraná Education Quality	S	S
Primary education quality	Minas Gerais Pro-quality	S	S

Sector Issue	Activities	Status
Other development agencies		
UNICEF	Complementary to Bank Projects; Child Rights focus Support to non-government sector	
Ford Foundation	Ceará Early Child Development Project	not started
IDB	Paraná Secondary Education Professional Education	not started just started

Notes: IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

C. Lessons learned and reflected in the project design

Following the lessons learned from the design and implementation process of the Northeast Basic Education Project (NEBE II, FY 1993, Loan 3604-BR and NEBE III, FY1994, Loan 3663-BR), and prior Bank experience in Brazil (including EDURURAL, FY1980, Loan 1867-BR), FUNDESCOLA will incorporate those project aspects that were successful in achieving their intended objectives, avoiding those aspects that, upon evaluation, were deemed incomplete or unattainable. These lessons primarily include (a) a fund design concept for project disbursement; (b) development of specialized training modules for targeted areas, with emphasis on the school; (c) the National Textbook Program (PNLD) evaluation and distribution processes; and (d) training programs for education managers. The focus on primary education is in line with the shift in overall World Bank policy, under which Bank lending is increasingly focused on primary education.

The design of FUNDESCOLA was heavily influenced by the fund design of the Northeast Basic Education Project, which allows for more efficient institutions to draw upon the available resources. This process was found to be very effective in reducing waste, promoting effective resource management, and ensuring the arrival of funds to those using them to the greatest advantage. As proved in the experience of the Northeast Basic Education Project, each state, municipality, and school will be accountable to and coordinate with existing systems managers to ensure successful implementation of the project.

International project experience has also influenced the formation of the FUNDESCOLA program, including (a) the lessons from Chile, Uruguay, and other Latin American countries in promoting school subprojects (PE) for the procurement of context-appropriate materials and increasing stakeholder input; and (b) the Colombian *Escuela Nueva* program, which achieved effective results in the modular use of textbooks, capacity-building of teachers, student-centered learning, evaluation of student attainment, and community participation for multi-grade schools.

The current nationwide evaluation process of textbooks (PNLD) was adopted and developed by MEC based on the previous experience of the NEBE I and II, which introduced innovative procurement procedures. The purchase of textbooks is now made through the teachers' choice based on a guide containing titles recommended by education specialists and teachers. This guide classifies the books according to content and pedagogical quality, promoting improvement by the publishers.

Textbook distribution for the entire country has improved significantly since the first delivery made under the Northeast Basic Education projects. The books now arrive at the start of the school year, their arrival in the school is being monitored through a special operation introduced by MEC, and a new delivery system is being implemented by the post office.

To promote effective personnel management of basic education, the project derives lessons from the positive experience of the Northeast Basic Education Project in the training and capacity-building of municipal and state secretaries in the Northeast (Municipal Education Secretaries Support Program [PRASEM]). The project coordination unit will continue to build upon the success of the Northeast Basic Education Project, especially in terms of effective management techniques and built-in accountability requirements.

D. Indications of borrower commitment and ownership

The government has shown extensive commitment to FUNDESCOLA by means of three principal channels: (a) the new legal, financial, and operational framework of the primary education sector; (b) concrete goals outlined in the National Plan for Education; and (c) project components and groundwork that are being initiated and implemented prior to project appraisal.

The *legal framework* of the education sector is shaped by two main statutes: (a) the *National Education Law* – LDB (fiscal 1996), which replaces the 1961 LDB and emphasizes basic education universalization and quality, strengthens the autonomy of municipal systems, stresses the adequacy of schooling to meet local demands, and fosters the creation of evaluation systems; and (b) the *Statute for Children and Adolescents* (Article 227 of the constitution, based on Law 8069/90), which guarantees the right to an education that includes personal, citizenship, and vocational development, in addition to outlining the responsibilities and channels for government, parents, and educators to ensure this right. The financial programs will be shaped by (a) the Fund for the Development and Maintenance of Basic Education and Teacher Valorization (FVM), which redistributes the financial resources for education; and (b) the *direct school transfer program*, which rapidly transfers FNDE resources directly to schools. Operational tools include (a) the National Textbook Program (PNLD), which evaluates, selects, buys, and distributes textbooks for all eight grades of primary school; (b) the Research and Operationalization Program of Education Policies (PPO), which, in a series of thirteen studies, examined the root causes of student failure in

primary schools. Their findings provide the foundation for the strategies of FUNDESCOLA; (c) the Northeast Basic Education Project, which, since 1993, has expanded, rehabilitated, and built schools, trained teachers, purchased and distributed textbooks, and created new management systems. Its education strategies, research studies, and *fund* model markedly influenced the design of FUNDESCOLA; (d) the National System for Basic Education Evaluation — SAEB, which, since 1990, has contributed to the growth of an evaluation culture in the areas of student performance, teaching methods, and school management practices; and (e) the Computerized Planning and Monitoring System (SPA), which tracks the implementation of the Northeast Basic Education Project on-line, and which will be applied to FUNDESCOLA.

The recently released National Plan for Education outlines the government's goals and strategies for education over the next ten years. The proposed initiatives for the primary education sector include:

- (a) increased access and permanence to include all children aged seven to fourteen, with special attention to the Northeast and urban periphery;
- (b) increased number of graduates by 70 percent, which will require a reduction by 5 percent in dropout and repetition rates, and reduction of the average number of years it takes to complete primary school to nine years;
- (c) increase in student performance according to SAEB results;
- (d) elimination of the category of 'lay teacher';
- (e) definition of *minimum operational standards*;
- (f) guarantee that new schools meet the *minimum operational standards*;
- (g) provision of at least four textbooks to every child;
- (h) assurance that every school offers at least four grades of instruction;
- (i) provision of transport in rural areas;
- (j) continuation of the school feeding program;
- (k) increase in the community's role in the school through school councils, volunteer programs, and maintenance;
- (l) promotion of school autonomy;
- (m) expansion, within five years, of the mandatory primary education to nine years of instruction, beginning at six years of age;
- (n) assurance that within three years there will be at least twenty hours of instructional time per week;
- (o) elimination, within three years, of programs with more than two daily sessions and one evening session; and
- (p) expansion of instructional time to a full school day with priority to low achieving groups and the first few grades of the primary cycle.

In preparation for FUNDESCOLA the DGP has: (a) discussed the project's proposed design through several meetings with state and municipal education staff in each of ten capitals of the North and Center-West regions; (b) conducted training for thirty-four state and municipal government staff in the application of one of the key instruments for the program; (c) held at least thirty meetings with state and municipal representatives to discuss

the project's framework and reach agreements on: the participation of executors, the creation of the *microregional forum*, the naming of the project team in each state, and the time-frame for project execution. In addition FUNDESCOLA was formally presented and discussed by participating municipal and state secretaries in the three regions through nineteen PRASEM seminars, as well as meetings with the National Council of State Education Secretaries (CONSED) with all state secretaries of Brazil in Gramado (RS) and Belém (PA). Meetings were also held with World Bank staff in Washington with the project preparation team, the country director in Brasilia, the minister of education, and the presidents of UNDIME and CONSED.

The status of preparation of FUNDESCOLA is well advanced, with such completed items as detailed and operational instruments with a schedule for implementation; instruments for macro-planning and micro-planning, including a detailed assessment of each participating school; and instruments for the microregional plans (*municipal action program* (PAM) and *microregional action program* (PAZ)). Much of the initial definition of instruments was completed prior to project appraisal, and at the time of this report, many of the microregions had completed the PAZ and school survey process, demonstrating substantial initiative and commitment on the part of the project team.

E. Value Added of Bank Support

Informed Cooperation: As the chief external financing institution in the area of basic education over the past ten years, the Bank has had the opportunity of developing a well-informed and close familiarity with the key education issues. More importantly, over the last few years it has built up a fluent dialogue with the leading education authorities and institutions of Brazil. This dialogue has grown despite the presence of ideological differences between a number of the key actors (including UNDIME, CONSED, UNICEF, MEC, and the universities), and across changes in the political landscape, resulting in such products as "A Call to Action," PRASEM and the PPO. Consequently, the Bank is able to play the role of the "honest broker" in policy dialogue, and provide continuity, critical in supporting the implementation of both development projects and policy reform.

Identification of Key Poverty Issues: Bank education and poverty sector work have facilitated the identification of key poverty and regional imbalance issues, which have contributed to FUNDESCOLA strategic choices.

Local and Regional Knowledge: The recent cooperation and exchanges developed with the two major national professional associations of education managers of the country, the National Council of State Education Secretaries (CONSED) and the National Association of Municipal Education Managers (UNDIME), have provided the Bank with detailed information and analytical perception of local, state and regional needs and demands. Especially important is the Bank's ability to use global knowledge to create local solutions in the areas of education evaluation and assessment, teacher certification and training programs, governance reforms and management techniques. Derived from experience gathered from supporting basic education projects in other countries in the region

(as well as elsewhere in the world), particularly with regard to *school development process*, this ability will provide a tremendous benefit to the Borrower.

Readiness to Work in the Developing Regions: Based on the lessons learned from EDURURAL (completed in 1990) and studies and instruments prepared by the ongoing Northeast Basic Education Project, the Bank is well prepared to incorporate poverty targeting into an education project.

Innovation: Although World Bank-financed projects in Brazil differ from one another tremendously, all have generated innovation. During the preparation and implementation of this program, the Bank will leverage the success and experience gathered from these innovations, including textbook development and student performance evaluation from the Northeast Basic Education Projects, school strengthening in the Minas Gerais project, teacher development and accelerated learning in São Paulo, and municipalization in Paraná.

V. Summary Project Analysis¹¹

A. Economic¹²

The starting point of FUNDESCOLA I's economic analysis is the fact that high repetition rates have clogged the flow of students in such a way that both academic achievement and per student costs depend primarily on increasing approval rates. The high cost of primary education is related to the fact that 19.26 years of enrollment are necessary to produce one 8th grade graduate¹³, instead of the 8 that would be necessary if the flow of students were perfect. FUNDESCOLA's main weapon against high repetition is the School Development Plan (PDE) - the other components are responsible primarily for creating the environment where PDE s will be fruitful. The two variables that will determine how much repetition drops are: (i) the percentage of schools undertaking PDE s, which depends on the number of schools raised up to Minimum Operating Standards and (ii) the average effectiveness of each PDE.

The cost-benefit analysis of FUNDESCOLA was undertaken in the following manner: (i) a flow model was estimated for each participating microregion; (ii) a historical trend was applied to project how the flow of students would look without the project; (iii) the impact of the project on this flow was estimated using the two key variables described above; (iv) the difference between the two flows was taken; (v) given this difference, the savings in enrollment and increases in academic achievement were calculated ; (vi) these

¹¹ Detailed assessments are in the project file; see Annex 9.

¹² See Annex 4.

¹³ In the North, the number is 31.55 and in the Center-West 19.97. The figures refer to 1996 educational census. This does not mean that the average 8th grade graduate takes 19 years to finish school, as enrollment years pertaining to those who drop out before 8th are also counted.

savings and increases were converted into two monetary flows up to the year 2012 using per student cost and private rate of return to education; and finally (vii) the internal rates of return for each of the two flows were calculated for five to ten and 15 years of project life.

The IRR results are as follows:

Scenario	Worst	Middle Poor	Middle Good	Best
Social IRR after 10 years	1.01%	12.54%	24.26%	39.37%
Social IRR after 15 years	9.26%	19.08%	29.23%	42.66%

Even under the most unfortunate and bleak of scenarios, the social rate of return after 15 years is quite satisfactory. The reasons for these impressive results is dismal state of the flow of students in Northern and Center-Western schools. High repetition rates make each student cost from twice to three times what he might under a perfect flow and by discouraging students drastically reduces their academic achievement. The consequence is that even small increases in approval rates can have large effects.

B. Financial¹⁴

Two issues are important in analyzing the project from the financial point of view: whether it places a burden upon the Federal treasury and whether it is sustainable.

Annex 5 shows that the fully disbursed project will amount to less than 0.1% of the total Federal debt. Counterpart funds for the project will amount to less than 3% of Federal education expenditures, showing that these will also not be a weight upon Federal finances.

Sustainability was analyzed in the economic analysis: reduction in retention rates will cause the flow of students to be straightened out and thus reduce the per student cost of education. For example, in a steady state flow model, a hypothetical reduction in retention rates from 50 to 20 percent will reduce the number of enrollment years to produce a primary school graduate from 14.8 to 9.9, a cost reduction of nearly 50 percent.

C. Technical:

Summarize issues below (for example, appropriate technology, costing)

To be defined (indicate how issues will be identified) None

During the last three years, curriculum parameters for all lower primary grades were revised and thoroughly updated and detailed by MEC for use by all schools in the country. These parameters are being completed for all eight grades of primary school. The FUNDESCOLA teacher and staff development programs, and the education materials to be acquired with FUNDESCOLA support will be evaluated by education experts during project

¹⁴ See Annex 5.

preparation and implementation to ensure that they are consistent with these curricular parameters.

The Program of Research and Operationalization of Education Policy conducted structured classroom observations in 140 grade schools in the Northeast. A direct observation methodology was employed, complemented by an observation schedule, a teachers' questionnaire, an interview schedule on the socioeconomic conditions of the students, a test of student performance in the Portuguese language, and a card for describing the school. Among other findings, the study confirmed that the classroom continues to be focused on the teacher and teacher activities, rather than on the student, that there is an emphasis on routine activities in the classroom, that very little actual teaching is being accomplished during the school hours, and that educational materials are not being used in the classroom. These findings will be tested in the North and Center-West regions during project startup.

Teacher certification and career planning are crucial aspects of education policy as teacher salaries normally comprise up to 90 percent of the education budget of each municipality. As mandated by the 1996 LDB, all teachers must hold at least a teaching certificate by 2001. A portion of the FVM may be used to fund teacher certification programs. The cost of developing, implementing, and coordinating the programs will be supported by FUNDESCOLA. Teacher career planning, another vital issue to both financial sustainability and planning at the municipal level, will also be addressed in the seminars and training modules provided to the municipal and state secretaries.

D. Institutional:

[X] Summarize issues below (for example, project management, monitoring and evaluation capacity, administrative regulations)

a. Executing agencies: Much of the success of FUNDESCOLA I will hinge on the willingness and capacity of the state and municipal secretaries to cooperate within the environment of the *microregion forum*. In assessing the capacity of the municipal and state secretaries to coordinate with one another, the project's experience in training and collaboration in a number of FUNDESCOLA instruments has been very telling. In many cases the discussions generated among the state and municipal secretaries were among the first recorded by either party. The *microregion forum* provided an historic opportunity for state and municipal coordination, with FUNDESCOLA and the imminent FVM as incentives. The collective ability of the group of secretaries in terms of planning, monitoring, procurement, and management is much greater than that of any one municipal secretary, operating independently. The range of experience, education, and abilities that each secretary brings to the *forum* will enrich both the experience of the forum members and the product of their efforts, the microregional action plan.

b. Project management: The Project Coordination Unit has more than five years of experience in managing the disbursement of resources of the Northeast Basic Education Project.

E. Social:

FUNDESCOLA I's ability to achieve its educational goals as an equity oriented project may be somehow affected, both positively and negatively, by identified social factors. Three of the most positive factors at play are the solid and increasing political support provided by the government to basic education, the brand-new and many-faceted national consensus for and commitment to education, and parents' continuing demand for educational services for their children in spite of serious economic constraints. Four social factors, however, may still deter people in the two project regions from taking advantage of FUNDESCOLA educational opportunities: (a) insufficient supply of primary school places, particularly in rural and Amazon areas (even though 75 percent of the schools but 19 percent of the students in both regions are rural); (b) scarce availability (only 15 percent) of primary schools offering grades five to eight in the North and Center-West; (c) the direct and opportunity costs of attending school, both for boys and girls; and (d) children's and parents' discouragement and aversion to school, generated by grade repetition (approximately 17 percent or over 730,000 students in the two regions) and overall school lack of relevance and attractiveness. Within an increasingly flexible productive system and versatile society, the Brazilian basic school has changed in scale without changing in nature.

FUNDESCOLA will address these negative factors by: (a) rationalizing and maximizing the use of school facilities, rehabilitating existing schools and building schools closer to demand, especially in rural and dispersed areas; (b) expanding schools and systematically adding new grades to the incomplete schools¹⁵ so that grades five through eight can be offered as part of the mandatory eight years of primary education; (c) reducing the financial costs of education through the provision of more convenient school places or location (microplanning) in order to reduce transportation cost or walking distance; and (d) making school more relevant and efficient through quality-oriented inputs. By targeting the poorest regions of Brazil the FUNDESCOLA program and the FUNDESCOLA I project seek to reinforce socioeconomic reform, reduce interregional disparities, and promote social equity, cohesion, and stability.

The *Program of Research and Operationalization of Education Policy* conducted beneficiary assessments in the Northeast region. Interviews with social groups were used as a data-gathering procedure. The interviews were conducted without a closed interview schedule; there were only a few selected themes, and considerable freedom was given to the interviewers. The selected themes were the value of the school, the quality of the school, the school-family relationship, barriers to schooling, and suggestions for school improvements. The key findings were that parents' aspirations and expectations regarding the level of schooling their children should attain are limited by their own experiences and knowledge. Children and youth attribute importance to the school, but their vision is less idealized than that of the adults. They have a low opinion of the utility of what they learn, and their expectations for educational attainment are low. Parents and children alike explain that low school quality deters children from completing the schooling process.

¹⁵ Incomplete schools are mostly those that only offer grades one through four, or less.

F. Environmental assessment:

Environmental Category A B C

As a Category C project, FUNDESCOLA not only does not present any environmental risk but will contribute to improving environmental awareness through the dissemination of the New National Curriculum Parameters for environmental education. School rehabilitation to allow for provision of minimum operational standards (MOS) will take place on existing school sites. Considerable planning will be undertaken for future construction of schools, which will be built according to acceptable standards and environmental norms.

G. Participatory approach¹⁶

a. Primary beneficiaries and other affected groups:

Stakeholders	Identification/Preparation	Implementation	Operation
State Secretaries of Education	IS + CON	IS + CON	IS + CON + COL
CONSED	IS + CON	IS + CON	IS + CON + COL
UNDIME	IS + CON	IS + CON	IS + CON + COL
Municipal Secretaries of Education	IS + CON	IS + CON	IS + CON + COL

b. Other key stakeholders:

Beneficiaries	Identification/Preparation	Implementation	Operation
Students	IS	IS	IS + CON
Teachers	IS + CON	IS + CON	IS + CON
Parent and Community Organizations	IS + CON	IS + CON	IS + CON+COL

(IS, Information Sharing; CON, Consultation; COL, Collaboration)

FUNDESCOLA has been prepared adopting a wide and detailed participatory strategy. The experience gathered by the FUNDESCOLA team in managing NEBE II in coordination with key stakeholders (municipal and state education secretariats, UNDIME, CONSED, universities, and DEMEC, among others) prompted, from the start, a very participatory preparation process in the capital microregions of the ten states involved. In each of these capital city microregions (eighty municipalities on the whole), their active involvement and initiatives have been channeled to FUNDESCOLA through the following activities: (a) the discussion and elaboration of the conceptual framework, or log-frame, as a disciplined way to organize and mobilize the project preparation team around a conceptual and operational instrument; (b) the involvement of mayors and the municipal and state secretaries of education in two consultation PRASEM meetings; (c) the setting up of Municipal Education Plans by the municipal education secretaries in view of the upcoming

¹⁶ Key stakeholders, how involved, and what they have influenced.

project; (d) the development, by municipal and state education secretariats, of a thorough assessment of their schools as compared to the agreed minimum operational standards checklist; and (e) the participation in a preliminary beneficiary assessment carried out in five of the ten project states and which will be completed by further and more factual consultation with a variety of representative stakeholders.

VI. Sustainability and Risks

A. Sustainability

Financial Sustainability: Financial sustainability of the first project is ensured by both the external context and internal composition of FUNDESCOLA. The most important issue of financial sustainability in terms of the external context of FUNDESCOLA is ensured by its relationship to the FVM. FUNDESCOLA will operate concurrently with the FVM, which automatically transfers resources within each state to assure a minimum per-student expenditure of R\$315 (1997).. With regard to internal composition, financial sustainability is ensured by the phasing mechanism of FUNDESCOLA. For school construction, typically the largest fraction of total project expenditures, FUNDESCOLA requires that microplanning and architectural plans be approved prior to school construction, which is expected to occur in subsequent project in the FUNDESCOLA program. The *school development process* encourages the school to manage its own affairs as well as to look to community and state resources for support, through the *school development plan*, which must indicate sources of funding (FUNDESCOLA or otherwise) for current and planned projects.

Institutional Sustainability: The fact that FUNDESCOLA was designed to work in synergy with other major national primary education programs shows that the project is not an exception in the government's strategy to eliminate regional disparities and promote quality education throughout the country. Several initiatives adopted by the government have made the institutional framework more conducive to sustainability. In addition, FUNDESCOLA I has been designed as a prospective operation with a clear-cut preparatory role. Its strategies and components aim to serve as a building block and to create medium- and long-term institutional conditions and instruments for more ambitious subsequent projects to unfold under the FUNDESCOLA program. These strategies include (a) the definition, establishment, and dissemination of minimum operational standards as a permanent yardstick to gauge the several elements of school quality; (b) the managerial and change-oriented skills, including microplanning and evaluation, to be incorporated into the municipal and state education secretariats; (c) the focus on school and community participation, including the school council, the *school development plan*, the school subprojects, and the direct school funding program, all of which point to grassroots identity, local ownership, sustainability, and increased demand for education services and their quality; and (d) the decentralization of education authority and resources to the municipal level and, where possible, to the school level, brings crucial decision elements closer to the school/community context. Its first consequence is the strengthening of the Municipal Education Secretariats, possibly the most decisive step toward local school affirmation and continuity; and (f) the participatory and vigorous scheme maintained by the National Council of State Secretaries (CONSED) and the National Association of Municipal Education Managers (UNDIME) ensures institutional conditions for permanence. Although the microregional forum is not a institutional level per se, it plays a powerful role in promoting local political representation, cooperation, and planning. Furthermore given the staggered nature of elections in Brazil, the presence of a functioning microregional forum will help assure that the impact of post-election changes in leadership and institutional instability is minimized.

Additional mechanisms that the project management itself will undertake to ensure sustainability vary by each component. Minimum operational standards will be defined in accordance with those proposed by MEC in the ten year plan for education. In addition the project management will initiate a national campaign to identify and rank top schools according to criteria such as minimum operational standards; promotion, repetition, and drop-out rates; level of teacher and school director education; existence of a school council; and other school-quality indicators. *School development plans* and their accompanying school subprojects will benefit from coordination between the existing direct school funding program, such that the mechanisms for FNDE are used according to MEC regulation. Experience in Mato Grosso and elsewhere has shown that once a school and its community become involved in the *school development process*, they are much more likely to continue. With respect to the management component, the creation of a certification and training culture, such that school councils will demand certified, experienced school directors and municipal secretaries of education, will promote sustainability beyond the life of the project.

B. Critical Risks¹⁷

<u>Risk</u>	<u>Risk Rating</u>	<u>Risk Minimization Measure</u>
Lack of political commitment and technical support of state and municipal education secretariats.	N	Social Marketing fosters community pressure for change.
Low level of cooperation among the state and municipal systems in operationalizing resources.	M	Microregional forum and required cooperation.
Lack of commitment of the school team and low community participation.	M	Fostering community support through various media.
End of decentralization efforts on the part of federal government.	N	Political awareness of success at local level.
Failure to implement the Fund for Maintenance and Development of Primary Education and Valorization of Teachers.	M	Understanding on the part of secretariats of the redistributive value of the Fund.
Lack of community and political commitment for reform including demand for quality services, social mobilization, and monitoring.	M	Social Marketing.
Low commitment for improving the educational experience as a means of poverty reduction and national development.	M	Fostering of social awareness through publication of success of project.
Overall Risk Rating	M	

Risk Rating — H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

¹⁷ Reflecting assumptions in the fourth column of Annex 1.

VII. Main Loan Conditions

A. Effectiveness Conditions

There are only two effectiveness conditions:

- 1) the signing of at least five Microregional participation agreements, which govern the relationships and Project-related responsibilities of MEC and the participating state and municipal governments in each Microregion.
- 2) the registration of the Loan Agreement by the Central Bank.

VIII. Readiness for Implementation

The engineering design documents for the first year’s activities are complete and ready for the start of project implementation. Not applicable.

The procurement documents for the first year’s activities are complete and ready for the start of project implementation.

The Project Operations and Implementation Manual has been appraised and found to be realistic and of satisfactory quality.

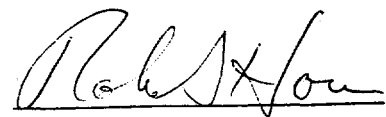
The following items are lacking and are discussed under loan conditions (Section G):

IX. Compliance with Bank Policies

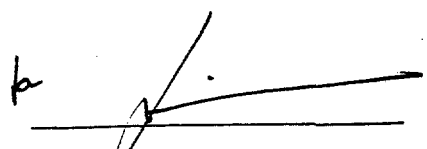
This project complies with all applicable Bank policies, especially those indicated below:

- | | |
|---|---|
| <input type="checkbox"/> Indigenous peoples | <input type="checkbox"/> Riparian water rights |
| <input type="checkbox"/> Cultural property | <input type="checkbox"/> Financial management |
| <input type="checkbox"/> Environmental impacts | <input type="checkbox"/> Financing of recurrent costs |
| <input type="checkbox"/> Natural habitats | <input checked="" type="checkbox"/> Local cost sharing |
| <input checked="" type="checkbox"/> Gender issues | <input checked="" type="checkbox"/> Cost-sharing above country three-year average |
| <input type="checkbox"/> Involuntary resettlement | <input checked="" type="checkbox"/> Retroactive financing above normal limit |
| <input type="checkbox"/> NGO involvement | <input type="checkbox"/> Disputed territory |
| | <input checked="" type="checkbox"/> Other (provide necessary details) |

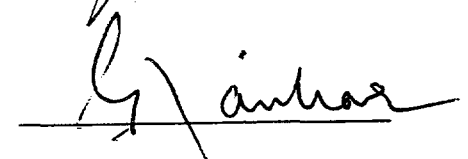
Task Manager/Team Leader: Robin Scott Horn, LCSHD



Sector Manager/Director: Julian Schweitzer, LCSHD



Country Manager/Director: Gobind T. Nankani, LCC5C



Annex 1
FUNDESCOLA I
Program Design Summary

Narrative Summary	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
<p>Sector-related CAS Goal:</p> <p>Achieve universal primary education by 2007 and improve academic performance in basic subjects, particularly Portuguese and mathematics.</p>	<p>1. Increase net enrollment rates by 5%, (currently 90%, 95%, and 83%) in the North, Northeast and Center-West regions, respectively (MEC 1996);</p> <p>2. Increase the ratio between 8th grade graduates and 1st grade enrollments from 12%, 13%, and 26% to 20%, 20%, and 30%, in the three regions, respectively;</p> <p>3. Increase the proportion of 4th graders achieving at the elementary level of proficiency in mathematics by 10% (currently 55%, 52%, and 60%) in the three regions, respectively; and the proportion of 4th graders achieving at the elementary level of proficiency in Portuguese by 8% (currently from 59%, 58% and 62%) in the three regions, respectively (SAEB 1995).</p>	<p>Sector studies, SAEB results, National Census, and surveys.</p>	<p>(from Goal to Bank Mission)</p> <p>Significant commitment on the part of the population and Government to pursue targeted educational efforts that will contribute to improve educational access, completion, and quality outcomes for the poor.</p>
<p>Program Development Objectives:</p> <p>Strengthen primary schools and the public institutions responsible for the schools within a coordinated management framework.</p>	<p>(End of Program Indicators, by June 2001)</p> <p>1. Increase enrollment rates of children attending schools that meet Minimum Operation Standards from an initial estimate of less than 10% to over 50% in all participating microregions;</p>	<p>Project completion report, official records, surveys and research studies.</p>	<p>(from Program Development Objectives to CAS Goal):</p> <p>Continuity of the governments' commitment to implementing the ongoing educational reforms.</p>

	<p>2. Increase enrollment rates of children attending schools with implemented School Development Plans from an initial estimate of less than 2% to over 50% in all participating microregions;</p> <p>3. Promote the elaboration and implementation of coordinated municipal/state education action programs in at least 50% of the participating municipalities.</p>		<p>The school-based development process and the minimum operational standards model are adopted and institutionalized at state, municipal, and school levels</p> <p>Community and political commitment continues for reform, including demand for quality services, social mobilization, and monitoring.</p>
<p>Project I Development Objectives:</p> <p>Strengthen primary schools, and the public institutions responsible for the schools, within a coordinated management framework within the capital city microregions in the North and Center-West states.</p>	<p>(End of Project I Indicators, by 2000)</p> <p>1. Increase enrollment rates of children attending schools that meet Minimum Operation Standards from an initial estimate of less than 10% to over 50% in all participating microregions;</p> <p>2. Increase enrollment rates of children attending schools with implemented School Development Plans from an initial estimate of less than 2% to over 50% in all participating microregions;</p> <p>3. Promote the elaboration and implementation of coordinated municipal/state education action programs in at least 50% of the participating municipalities.</p>		<p>(from Project I Development Objectives to Program Development Objectives)</p> <p>Community and political commitment for reform including demand for quality services, social mobilization, and monitoring.</p> <p>Continued commitment for improving the educational experience for all as a means of poverty reduction and national development.</p>
<p>Project I Outputs:</p> <p>1. Schools with Minimum Operational Standards (MOS) met.</p>	<p>1.1 Specification and quantification of equipment and materials within the Minimum Standards for purchase.</p> <p>1.2 Provide equipment and furnishings to at least 80% of</p>	<p>1.1.1 DGP Reports.</p>	<p>(from Project I Outputs to Project I Development Objectives)</p> <p>Continued decentralization efforts on the part of the federal government.</p> <p>Adequate and timely implementation of the Fund</p>

	<p>schools (1-8) in targeted areas.</p> <p>1.3 Provide didactic materials, teachers' guides, and reading materials for grades 1-8 in 100% of schools in targeted regions.</p> <p>1.4 Financing of school rehabilitation, learning and administrative materials in targeted regions.</p> <p>1.5 Technical and financial support of selected programs to contribute to the certification of at least 80% of lay teachers.</p>	<p>1.2.1 System Planning and Monitoring Reports (SPA), and site-inspections.</p> <p>1.3.1 Ibid.</p> <p>1.4.1 Ibid.</p> <p>1.5.1 Ibid., as well as National Census.</p>	<p>for Maintenance and Development of Primary Education and Valorization of Teachers.</p> <p>Official and community commitment toward raising school quality.</p> <p>Municipal and State education managers ensure delivery of school inputs.</p>
2. School-Based Development Process Adopted.	<p>2.1 Definition and testing of strategy and instruments for School Development Plans (PDE) and School Subprojects (PE).</p> <p>2.2 School Development Plans (PDE) elaborated in at least 311 schools.</p> <p>2.3 Financing of 311 School Subprojects (PE) in targeted areas.</p>	<p>2.1.1 DGP Reports.</p> <p>2.2.1 Annual School, Municipal and State Secretariat reports.</p> <p>2.3.1 System Planning and Monitoring Reports (SPA), site-inspections, and interviews.</p>	<p>Political commitment and technical support of state and municipal secretariats in favor of school quality improvement.</p> <p>Collaboration among the state and municipal systems in optimizing resources.</p> <p>Commitment of the school team and community participation.</p>
3. School places provided.	<p>3.1 Preparation of Micro-Planning/School-Mapping for new school facilities in each participating microregion.</p> <p>3.2 Preparation of Architectural Plans for new school facilities in each state.</p> <p>3.3 Building School Prototypes</p>	<p>3.1.1 System Planning and Monitoring Reports (SPA), site-inspections, and National Census.</p> <p>3.2.1 Ibid.</p> <p>3.3.1 Ibid.</p>	<p>Political and institutional commitment to assume their own specific roles in school building and maintenance.</p> <p>Adequate acquisition of transportation services, when appropriate and cost effective.</p> <p>Provision for alternative school facilities during construction and rehabilitation.</p>
4. Administrative and management systems,	<p>4.1 Training of:</p> <ul style="list-style-type: none"> • 85% of school directors, 	<p>4.1.1 System Planning and Monitoring Reports (SPA),</p>	<p>Dialogue between CONSED and UNDIME, the national</p>

<p>procedures, and processes improved and operational at the school and system level.</p>	<p>municipal secretaries, and state secretaries.</p> <ul style="list-style-type: none"> • at least 100 technicians at the federal level. • Supply of equipment, information systems, and software to select education managers. <p>4.2 Provide specialized training and materials in selected areas to 20% of teachers for grades 1-8.</p> <p>4.3 Established strategies for social marketing for encouraging pro-school mobilization and the creation of school councils.</p> <p>4.4 Technical and financial support for national programs conducted by the Ministry of Education.</p> <p>4.5 Availability of Education Information Systems (SIED) outputs to at least 50% of schools in each participating state.</p>	<p>and Supervision Reports.</p> <p>4.2.1 System Planning and Monitoring Reports (SPA).</p> <p>4.3.1 DGP Reports.</p> <p>4.4.1 System Planning and Monitoring Reports (SPA).</p> <p>4.5.1 School Developments Plans show use of SIED information. System Planning and Monitoring Reports (SPA).</p>	<p>associations for education manager.</p> <p>Receptiveness and flexibility of the State and Municipal Education Secretariats to cooperate with one another.</p> <p>Willingness of municipalities to set up inter-municipal consortia and dialogue.</p> <p>Continuity of commitments and agreements across political transitions and administrations.</p> <p>Schools able to use information from SIED.</p>
<p>Program Components and Subcomponents:</p> <p>1. <u>Raising schools to minimum operating standards</u></p> <p>A. Promoting minimum operational standards for schools B. Educating and certifying teachers</p>	<p>(Inputs: budget for each component)</p> <p>1. US\$ 90.2 million</p>	<p>Financial Reports.</p> <p>Disbursement reports, procurement records, contracts, and audits.</p> <p>Evaluation Reports.</p>	<p>Timely availability of budgetary resources at the federal level.</p> <p>Competence, commitment, and continuity of education personnel at all levels.</p> <p>Commitment of state governments to give these bids a high priority.</p>

<p>C. Financing basic furniture and equipment D. Financing school improvement investments E. Financing school-managed rehabilitation physical facilities</p>			
<p><u>2. Establishing a school development process</u> A. Designing and Supporting school development plans B. Financing school subprojects</p>	<p>2. US\$ 5.3 million</p>		<p>Openness and willingness of school team and community to collaborate with one another. Continuous community and political commitment for improving education. Availability, continuity, and commitment of technical staff, both in the state secretariat and in municipal secretariats, trained and equipped to promote and support the school-based development process.</p>
<p><u>3. Planning and providing additional school places</u> A. Carrying out of school microplanning and developing of standard school architectural plans B. Testing standard architectural plans</p>	<p>3. US\$ 4.3 millions</p>		<p>Availability of statistical data and maps at the municipal level. Availability of properly defined (including legal conditions) sites for new construction. Availability of technical staff (including engineers, architects, and procurement specialists) to bid and supervise construction. Timely availability of other school inputs, including human resources and teachers. Commitment of state governments to give these bids a high priority.</p>

<p>4. <u>Strengthening education management and project administration</u></p> <p>A. Building management capacity in schools and participating municipalities, and states</p> <p>B. Providing specialized teaching and learning improvement programs</p> <p>C. Fostering community participation</p> <p>D Strengthening national education information systems and programs</p> <p>E. Financing project management</p>	<p>4. US\$ 25.2 million</p>		<p>Continuity of technical and administrative personnel involved.</p> <p>Availability of minimum state and local working conditions.</p> <p>Continuity of Task and Project Management and execution teams</p> <p>Assurance of qualified technical human resources.</p> <p>Continued federal support for the institutionalization of the Census.</p>
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Annex 2
FUNDESCOLA I
Detailed Project Description

FUNDESCOLA Program and Projects

FUNDESCOLA I is the first project within a medium-range and more comprehensive primary education FUNDESCOLA program designed to support primary education schools in the nineteen states of the North, Northeast, and Center-West regions of Brazil. All of the FUNDESCOLA projects, even though targeting different regions, will pursue the same objectives. They will consist of approximately the same structure and components, and adopt a similar decisionmaking process.

Summary of Project Objective and Components

FUNDESCOLA I focuses on the ten capital city microregions of the North and Center-West regions. The development objective of FUNDESCOLA I is to strengthen primary schools and the public institutions that are responsible for them within a coordinated management framework, in order to increase the participation, promotion and graduation rates, and achievement levels of children in the North and Center-West capital microregions of Brazil. In order to meet this objective, FUNDESCOLA I is based on four interrelated components. The first two components are primarily oriented toward schools, while the remaining components emphasize the systems that support schools, as described below:

- 1. Raising Schools to *minimum operational standards***
 - a) Promoting *minimum operational standards* for schools
 - b) Educating and certifying teachers
 - c) Supplying basic furniture and equipment
 - d) Financing school improvement investments
 - e) Financing school-managed rehabilitation of physical facilities
- 2. Establishing a *school development process***
 - a) Designing and supporting *school development plans*
 - b) Financing *school subprojects*
- 3. Planning and Providing Additional School Places**
 - a) Carrying out school microplanning and developing standard architectural plans
 - b) Testing standard architectural plans
- 4. Strengthening Education Management and Project Administration**
 - a) Building management capacity in schools, municipalities, and states
 - b) Providing specialized teaching and learning improvement programs
 - c) Fostering community participation
 - d) Strengthening national education information systems and programs
 - e) Financing project management

Decisionmaking and Implementation Framework

The basic decisionmaking and implementation framework for the FUNDESCOLA I project components oriented toward schools is shown in Figure Annex 2-1. The diagram makes it clear that the school and its community are at the center of the entire project. As shown here, the schools are supported and served by a *school development group* (GDE) at the municipal and state levels; the *microregion forum* at the microregional level; and the *project executive coordination* (COEP) at the state level, and the *central project coordination unit* (DGP) at the ministry of education level. The specific flow of decisionmaking, training, and financing for each subcomponent is described under the corresponding "Implementation Arrangements" segment in the Project Operations and Implementation Manual (MOIP).

Key Institutions Involved in the Decisionmaking Process

- COEP** The FUNDESCOLA project and coordinating body at the state level, working directly with SEE, SME, GDE, FORUM, and GT. It is generally located in SEE facilities and staffed mainly by SEE personnel.
- DGP** The major planning, implementing, and evaluating FUNDESCOLA project agency directly under the responsibility of the ministry of education.
- FNDE** A semi-autonomous agency under the MEC umbrella, closely associated with the FUNDESCOLA project and responsible for the counterpart funds of the federal government.
- FORUM** Collective body comprised of the microregion mayors, the state education secretary, a National Association of Municipal Education Managers (UNDIME) representative and a state-based office of the ministry of education (DEMEC) representative.
- GDE** Municipal-based technical and school-oriented team comprised of municipal and state representatives which deals directly with schools. It is located in SME facilities.
- GT** A technical team which works at the microregional level as an assistant group to the FORUM and relates mainly with COEP, SEE and SME.
- MEC** In project-related matters, MEC operates mainly through DGP and FNDE.
- SEE** Responsible for the state education system and headed by the state education secretary, who is a FORUM member.
- SME** Responsible for the municipal education system and headed by the municipal education secretary.
- UE** School level council, fiscal, and administrative unit operated by parents, teachers and the community.

Description of the Decisionmaking and Implementation Process

The general decisionmaking flow (see Figure 2.1) of the *school development process* supported by FUNDESCOLA I is described below:

1. DGP prepares instruments and systems and trains COEP in project activities and in the use of instruments.
 - a) During the initial implementation phase, DGP also trains GDE.
2. DGP and COEP continue training of, and provide technical assistance to GDE.
3. GDE works with schools to collect data and help them prepare *school development plans* (PDE) and *school subprojects* (PE).
 - a) School works with the community, including the UE, in the PDE and PE preparation process.
4. School submits PDE and PE to GDE for analysis and prioritization of needs.
5. GDE analyzes and submits PE to technical group (GT), which ranks PE in the light of updated municipal action plans (PAM), which are included as chapters of the *microregional action program* (PAZ).
 - A) GT submits PE to the microregion FORUM, which on the basis of the FUNDESCOLA funding ceiling for microregion, negotiates the best PE resource allocation.
6. The FORUM recommends FUNDESCOLA funding for the best PE, and COEP coordinates the corresponding *annual work plan* (PTA) involving the state and the municipalities.
7. COEP delivers draft PTA to DGP for clearance, approval, and preparation of a contract.
8. DGP submits the contract to state education secretary and mayors for signature.

A description of the implementation arrangements, as well as indicators and targets for each subcomponent, can be found in the Project Operations and Implementation Manual (MOIP).

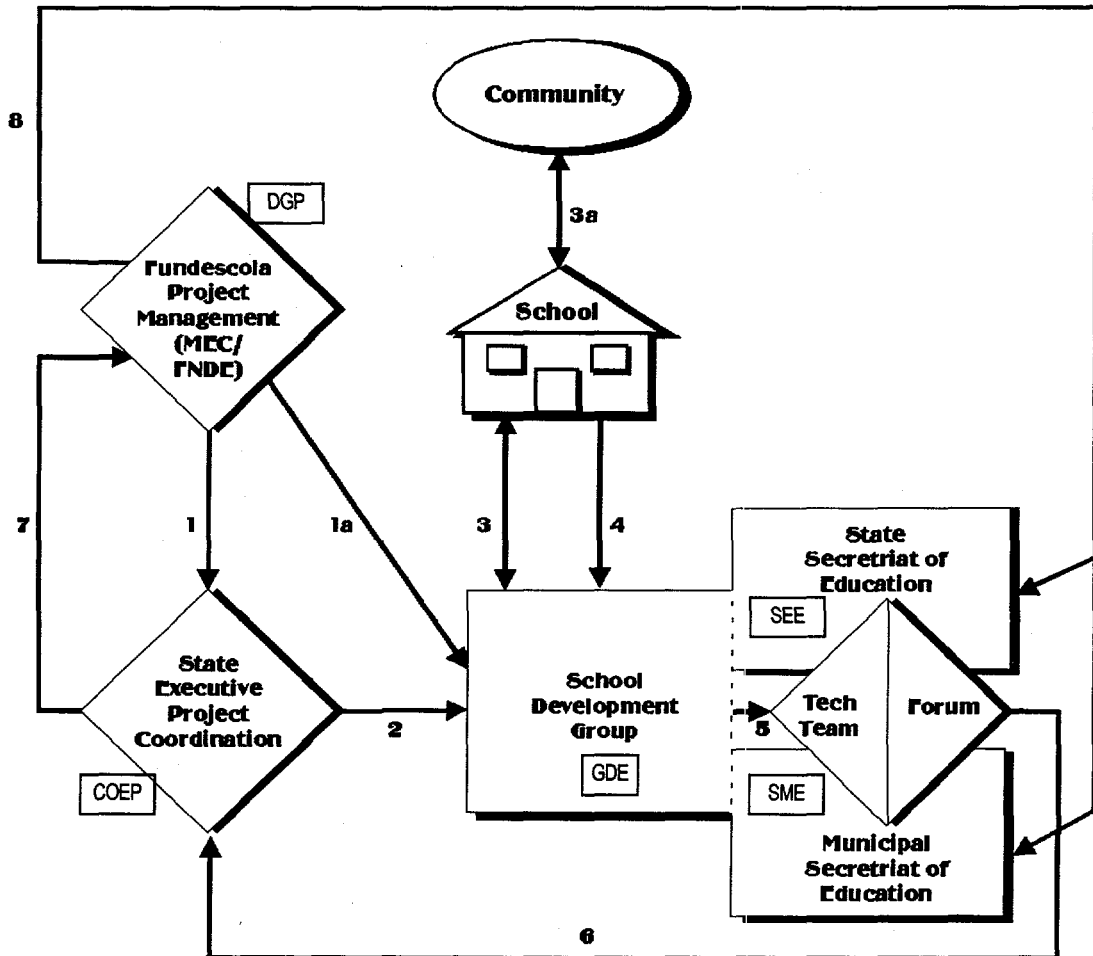


Figure Annex 2 - 1

Project Components

COMPONENT 1: Raising Schools to *Minimum Operational Standards*

Objectives

This component will provide inputs and services to assure that the schools in each municipality participating in the project meet *minimum operational standards*. This means that the schools of the North and Center-West regions will offer at least a pre-defined, minimal set of educational materials, teaching staff, equipment, furniture, and facilities. The specific objectives are to:

1. Define and agree on *minimum operational standards* objectives and contents;
2. Promote the establishment of *minimum operational standards* in the participating schools to assure that for each municipality the GDE:
 - a) knows what the *minimum operational standards* are;
 - b) is able to assess each school with respect to *minimum operational standards*;
 - c) is able to mount a strategy to raise all schools to *minimum operational standards*;
 - d) knows the critical importance of disseminating the *minimum operational standards* model to each school; and
 - e) is prepared to mount a strategy to involve the schools in self-evaluation and upgrading with respect to these standards.
3. Provide inputs and services to assure that the students in these municipalities are enrolled in schools that meet *minimum operational standards*.

Operational Framework

Minimum operational standards is an input-based framework for improving educational equity with respect to the basic prerequisites of schooling. The rationale for this approach is based on the existence of a very large number of schools in the project regions that simply should not be called schools, because they do not provide even the most minimal conditions for teaching and learning.

The *minimum operational standards* model is designed to operationalize the concept of a functioning school. It consists of an agreed-upon, pre-determined set of essential inputs and conditions needed for a school to be considered “operational.” The key instrument for implementing this model is a simple checklist of the inputs and services needed for a school to carry out its basic functions. The items included in the checklist vary with the size of the school. For example, a very small school can operate without a main office or a school library, whereas a large school would need these facilities in order to function.

A school operating at *minimum operational standards* is one that is considered minimally capable of providing satisfactory conditions for student learning. The model assumes that a school must have all of the minimum inputs and services

present in order to achieve the *minimum operational standards* status. Although schools and their secretariats can and should seek to provide improvements above these thresholds in order to enrich the learning environment, schools unable to offer these essential factors are simply cannot provide an opportunity for children to learn. Furthermore, attainment of *minimum operational standards* is considered a prerequisite for schools to be capable of preparing a PDE and PE.

Definition of Minimum Operational Standards

FUNDESCOLA defines a school operating at the *minimum operational standard* as one characterized by the following conditions:

1. the school staff and community are informed of the *minimum operational standards* model, are familiar with the checklist, and understand the equity considerations associated with this model;
2. all students have access to basic textbooks and reading books, and all teachers have access to teaching guides;¹
3. all students have teachers who are minimally qualified under the law;
4. all classrooms have a minimum set of furniture and equipment; the school has the facilities and equipment to carry out a school feeding program; and, if the school has more than three classrooms, it will have a basic set of administrative furniture and equipment;
5. all classrooms have access to basic teaching materials needed for the teacher to teach;
6. the school offers physical conditions to permit it, at a minimum, to receive or maintain the inputs and services indicated above.

Subcomponent 1: Promoting *minimum operational standards*

There are striking disparities between the schools in the North and Center-West regions as far as teaching and learning conditions and classroom equipment are concerned. The 1996 National Education Law (art. 4, IX) guarantees that each public school in Brazil meets acceptable operational minimum standards. However, an operational definition is still needed; its incorporation into the daily life and culture of school and system management becomes imperative. Under this subcomponent, the project will provide technical assistance, training, materials, and communication services to support: (a) the development of *minimum operational standards* instruments and instructional materials; (b) the dissemination of the *minimum operational standards* model and checklist; and (c) capacity building for state and municipal education secretariats to develop, implement, monitor, and evaluate their own initiatives to mobilize schools around the *minimum operational standards* model and to raise all schools to these standards.

¹ The ministry of education regularly delivers these teaching inputs which therefore have not been included in the FUNDESCOLA I project.

Subcomponent 2: Educating and Certifying Teachers

At the end of the year 2001, it will be illegal under the National Education Law for states or municipalities to have individuals employed as classroom teachers if they have not been certified. In the project's two regions, there are today 40,700 uncertified primary school teachers, which is approximately 25 percent of all primary education teachers in the two regions. This subcomponent will support the national distance teacher education programs combined with the presence of education strategies designed to upgrade those teachers who do not have the legally required education and training to teach grades one through four.

Subcomponent 3: Supplying Basic Furniture and Equipment

This subcomponent will acquire all of the basic furniture and equipment, as defined in the *minimum operational standards* checklist, in the quantity and technical specification necessary to allow classrooms, school administration, and school feeding programs to function satisfactorily. The classroom items would include chalkboards, student desks and chairs, teacher desks and chairs, bookshelves, and storage cabinets. Besides specifications that address durability issues, particular attention will be given to durability and utility of chairs, the flexible use of desks in the classroom, and possible mobility of the chalkboard. Administrative items, which would only be distributed to schools with more than three classrooms, would include furniture for the principal and a minimal set of office equipment.

Subcomponent 4: Financing School Improvement Investments

The *minimum operational standards* checklist includes teaching materials, school supplies and other secretarial and minor operational tools that a school needs to adequately conduct its daily work. This would include:

- a) supplemental reading materials, instructional materials, bulletin boards, globes and maps, and other audio-visual equipment;
- b) administrative supplies;
- c) minimal cooking and serving utensils.

This subcomponent will finance the direct acquisition of these teaching and otherwise operational materials, as well as maintenance services, by schools which count on UEs for these purchases.

Subcomponent 5: Financing School-managed Rehabilitation of Physical Facilities

Under this subcomponent, the project will finance school rehabilitation with the sole objective of permitting those schools which have UEs to maintain or to receive the inputs and services provided under the *minimum operational standards*. Rehabilitation means, in this case, small and targeted physical repairs and adjustments carried out by the school and the communities to upgrade their facilities to the educational and safety criteria as defined by *minimum operational standards* program.

COMPONENT 2: Establishing a School Development Process**Objective**

This component will promote the development of a planning and decisionmaking process for school improvement that is centered on the school. The school team — composed of teachers, parents, community, and the school council — will work together to identify school needs, and formulate a PDE for the improvement of student performance. Under the PDES (which include financial sources other than FUNDESCOLA), schools will propose PES to be funded under the FUNDESCOLA I project, which will finance a subset of the PES proposed by the schools.

This component will also support the development of instruments (i.e., manuals and training materials), and skills for school teams and for state and municipal education secretariats to manage the entire process. Therefore, the main objectives of this component are to: (i) develop within schools a process of educational planning and local empowerment to improve school quality and efficiency; (ii) prepare both state and municipal education secretariats to guide, evaluate, facilitate and supervise the PDE design and implementation processes; and (iii) implement, monitor, and evaluate PES. Under FUNDESCOLA I this component will place special emphasis on the testing and improvement of school development instruments and processes for future FUNDESCOLA projects. SEE and monitors will continue training the GDE and additional municipalities. The DGP consultants will provide technical assistance when necessary.

Operational Framework

The overall framework for this component is the school based management paradigm, which is being supported by the ministry of education and by a number of states and municipalities. This process is being facilitated by direct transfer of funds to schools that meet certain requirements. Successful experiences of local ownership and school autonomy are being implemented, for example, in the schools of the states of Minas Gerais, Mato Grosso, and São Paulo. The project will establish or strengthen institutional capacity at the school and system levels, to prepare or to facilitate the preparation, execution, and monitoring of the PDE and the PE.

Subcomponent 1: Designing and Supporting *School Development Plans*

The *school development plan* (PDE) is a quality-oriented, multi-year instrument of strategic planning aimed at improving school quality and efficiency. Through the PDE the school defines its own values, mission, goals, strategies, educational targets and responsibilities, with the participation of the community. It also defines the conditions, including financial, needed to meet the school-specified targets. The PDE is the product of one process — diagnosis and strategy formulation — , and the guide for a subsequent process — school improvement.

First the school and its community of parents, teachers, and leaders meet to identify and prioritize the problems of the school, establish specific school improvement

targets, agree on a timed action plan, and specify inputs needed to achieve these results. Once agreed, the PDE serves as a step-by-step guide to the implementation of the school improvement strategy and the derived PES (see below).

In the same way that the *minimum operational standards* model varies in accordance with school size, the PDE instrument can take a variety of forms to adjust to differences in school or community capacity or interest. In its simplest form, the instrument will be an agreement on the part of the school staff and parents to seek specified educational outcome targets. At its most sophisticated, the PDE will be based on the strategic planning or quality management approach.

Subcomponent 2: Financing School Subprojects

The *school subproject* (PE) is a section of the PDE that the school can use to apply for financing from FUNDESCOLA in order to implement selected actions. In particular, the school is entitled to use the PE instrument to indicate which project inputs, services, or training activities it needs in order to achieve the educational targets agreed in the PDE. Just as the *minimum operational standards* model is designed to equalize the school environment, the PE aims to individualize the school by responding to school specific initiatives in order to upgrade school attractiveness and classroom performance. FUNDESCOLA will finance those PES that are top-ranked in terms of consistency with project objectives and procedures, coherency with the PDE, focus on student achievement and performance, and anticipated speed of implementation. PES are meant to be executed in one year, and is expected that no PE will exceed US\$10,000 in total cost. Only those schools with a UE and a bank account are entitled to PES financed by FUNDESCOLA I.

COMPONENT 3: Planning and Providing Additional School Places

Objectives

This component plays a clearly preparatory role in developing planning methodologies and devising interments which ultimately will contribute to increase access to and student retention in schools of the North and Center-West capital city microregions. The rationalization process will seek to assess the available capacity of each municipality, whose deficiencies are indicated either by lack of schools close to demand (a frequent occurrence in the rural areas) or by the repeated daily use of school facilities in three- or four-shift schedules (as is the case in urban zones).

This process will also seek to replace makeshift schools that cannot offer the minimally adequate environment for learning activities and children's safety. These schools are frequently small, poorly located as regards population demand, and poorly built in terms of design and materials. Moreover, these makeshift schools provoke the misleading idea that the surrounding school demand has been effectively met. The lack of school planning and rationalization has meant, therefore, a significant waste of scarce resources in the poorest regions of Brazil. FUNDESCOLA I will focus on a planning role and will not finance school construction.

Subcomponent 1: Carrying out of School Microplanning and Developing Standard Architectural Plans

This subcomponent will: (a) provide education secretariats with reliable microplanning methodologies and technologies and the respective training on their use; (b) promote, on the basis of microplanning results, a school rationalization process.

Subcomponent 2: Testing Standard Architectural Plans

This subcomponent will develop and promote the adoption of standard school architectural plans to be applied at state level. In addition, this component will support the construction of one to three model schools in order to evaluate the viability of the model architectural plans.

COMPONENT 4: Strengthening Education Management and Project Administration Objectives

This component seeks to raise the quality of management of the schools and intermediary institutions so that they can better achieve their academic functions and social responsibilities of providing equal access and quality education to the children of the capital city microregions of the North and Center-West regions. Planning, administration, monitoring, analysis and evaluation capacities of each level of the system will be developed, from the school level, including community participation and improvement of teaching skills, to the Municipal and State Education Secretariats, including fostering the interaction between the two school systems. Technical and financial support for national quality-oriented programs at MEC, and institutional strengthening for project coordination and implementation are also included. There are five subcomponents.

Subcomponent 1: Building Institutional Capacity in Schools, Municipalities and States

This subcomponent will develop and support better management levels, with emphasis on the school, municipal education secretariat and state education secretariat. The centralized and highly bureaucratic administration of the education system has served for decades to marginalize local management, leaving little room for school initiatives. In the management of inputs and classroom-related activities — and they will increase significantly both under the FUNDESCOLA project and the new MEC programs — schools lack modern management techniques and instruments regularly used by other comparable social institutions. Under this subcomponent, the project will provide training, equipment, and technical assistance to develop professional capability of school principals and managerial and technical staff at state and municipal education secretariats. Since the purpose of this subcomponent is to strengthen the state and municipal secretariats, enabling them to support the school-based development process, FUNDESCOLA I will finance only

those activities that directly support the work being developed under the project.

Subcomponent 2: Providing Specialized Teaching and Learning Improvement Programs

This subcomponent will focus on the improvement and provision of specially designed teacher's professional development programs such as "Active School" (*Escola Ativa, Escuela Nueva*) and "Accelerated Classes" (*Classes de Aceleração*). This strategy is in response to well-identified problems faced by schools and teachers at the earliest stages of children's schooling, particularly in the poorest and rural areas. Examples are, for instance, children's lack of readiness for school, latecomers to schooling, students who are repeating a grade, and slow learners in general.

Children's early struggles and defeat at school are at the root of most repetition and dropout cases. For several reasons, the decisive first years of schooling need extra professional attention and technical expertise. Three additional factors add to the importance of this subcomponent: (i) the MEC-sponsored implementation of the new curriculum parameters in the ten project microregions will aggravate the need for teaching improvement in very specific knowledge areas; (ii) the low-performance profile of unskilled teachers points to the need for upgrading in crucial aspects of both content and methodology; and (iii) the documented difficulties that teachers have in taking advantage of innovations embedded in new educational paradigms, technologies, and approaches demands the kind of stimulus and support provided by this subcomponent. The subcomponent will selectively address these problems in a targeted number of schools.

Subcomponent 3: Fostering Community Participation

Given the importance and novelty of the focus-on-school strategy (see Component 2) and the implementation requirements of FUNDESCOLA itself, a social mobilization effort is necessary to involve parents, communities, political leaders, and even education professionals both in the school development process and the FUNDESCOLA implementation activities. This mobilization will occur by means of media communication, national social marketing campaigns, video production, posters, conferences, socialization activities, and capacity building of interested groups.

In order to reach these objectives, this subcomponent is designed around the following three lines of action. (a) First, it will involve community mobilization and clientele building, by helping different segments of society (parents, communities, political leaders, and media professionals) to value basic education and organize themselves around participation in and strengthening of school life and educational results. (b) Second, the project will initiate information dissemination on FUNDESCOLA I objectives, strategies, results², and reciprocity with other MEC

²Such as *minimum operational standards, school development plans*, and the new focus on school.

programs, through the media and other communication resources. (c) Finally, FUNDESCOLA I will emphasize the development of informed ownership at the local level by parents, surrounding community and local leadership in order to assure practical involvement in school activities, use of school as a community-oriented space and maintenance and protection of school facilities. As a consequence, this subcomponent supports the three FUNDESCOLA I components by increasing the involvement of parents, families, and communities in the schooling process of their children (including access to schooling, and remaining in school), support of school activities, participation in their children's learning progress, and participation in the activities of the school and the UE.

Subcomponent 4: Strengthening National Education Information Systems and Programs

The project, based on previous and successful experiences, will continue to support existing and emerging national MEC-sponsored programs designed to improve school quality. Two main lines of action will be financed by FUNDESCOLA I: (i) education evaluation which includes the National System for Basic Education Evaluation (SAEB), the National Databank (BNI); and initiatives to integrate national and international best practice in educational evaluation; (ii) the Integrated Education Information System (SIED), the school census, and activities associated with data collection and analysis of educational statistics. Financed by the NEBE II or *Projeto Nordeste*, SAEB will continue to receive assistance and support from FUNDESCOLA. SAEB's reports and recommendations, used by education managers, administrators, researchers, and teachers, have provided the states and the municipalities with information to identify and address problems and improve educational practice. SIED is an information system that connects schools, municipalities, and states with MEC and enables the collection of information to ensure planning and continuous monitoring of the system. An integral part of MEC, SIED was also financed by NEBE II, and offers society, administrators, and researchers an accurate and detailed look at education at the local, state, and national levels.

Subcomponent 5: Financing Project Management

To effectively reach all the beneficiaries at school, municipality and microregion levels, the FUNDESCOLA I management will rely mainly on central (DGP) and state (COEP) implementation units (see main text of project appraisal document for further details). Created by MEC to help manage education projects for the poorest regions of Brazil, the DGP has played a principal role in the FUNDESCOLA project preparation. Its primary responsibilities include administration of financial resources of the project, operating as the World Bank counterpart in the preparation, discussion, and negotiation process.

During the implementation process DGP will continue to be the key technical intermediary between regional and local implementation level and the World Bank. Moreover, DGP will enter into partnership with the other operation levels as the major responsible for beneficiary assessment, instrument and system designer, human resource trainer, and provider of key inputs and support. The state-based

project executive coordination (COEP) will be located in the state education secretariat and will benefit from its human resources and facilities. On a complementary basis, DGP can provide COEP with technical assistance and equipment whenever justified. Under this subcomponent, the DGP will finance an ongoing and comprehensive study to assess the progress and improve the implementation and impact of the project and its four components by means of contracting researchers, assessments and reviews, and beneficiary surveys.

Annex 3
Federative Republic of Brasil
School Improvement Project - FUNDESCOLA

ESTIMATED PROJECT COSTS

PROJECT COMPONENT	LOCAL	FOREIGN	TOTAL
	<i>US \$ million</i>		
1. Raising Schools to Minimum Operational Standards			
1.1 - Promoting Minimum School Operational Standards;	200	0	200
1.2 - Educating and Certifying teachers;	300	0	300
1.3 - Supplying basic furniture and equipment;;	23,000	0	23,000
1.4 - Financing school improvement investments;	48,140	0	48,140
1.5 - Financing the rehabilitation of school physical facilities.	15,500	0	15,500
Subtotal	87,140	0	87,140
2. Establishing a School Development Process			
2.1 - Desinging and Supporting School Development Plans;	2,050	0	2,050
2.2 - Financing School Subprojects.	3,110	0	3,110
Subtotal	5,160	0	5,160
3. Planning and Providing Additional School Places			
3.1 - Carrying out School Microplanning and Architectural Plans	4,000	0	4,000
3.2 - Testing Standard Architectural Plans	200	0	200
Subtotal	4,200	0	4,200
4. Strengthening Education Management and Project Administration			
4.1 - Building management capacity in schools, municip. and states;	800	4,000	4,800
4.2 - Carrying out of specialized training and learning improvement programs;	635	0	635
4.3 - Fostering community participation;	4,000	0	4,000
4.4 - Strengthening national education information systems/programs;	6,000	1,000	7,000
4.5 - Financing Project management activities.	7,000	400	7,400
Subtotal	18,435	5,400	23,835
Total	114,935	5,400	120,335
Total Baseline Cost			
Physical Contingencies	2,629	540	3,169
Price Contingencies	1,337	159	1,496
TOTAL PROJECT COST	118,901	6,099	125,000

Annex 4
FUNDESCOLA I
Economic Analysis

Part I: Project Context and Description

Primary education projects usually have as their greatest benefit the increase in wages associated with higher levels of academic achievement, resulting from higher enrollment levels. In Brazil, this is important, but it is not the main issue. High repetition rates have clogged up the flow of students to the extent that both academic achievement and per student costs depend primarily on increasing promotion rates. The high cost of primary education is related to the fact that 19.26 years of enrollment are necessary to produce one eighth grade graduate,¹ instead of the eight that would be necessary if the flow of students were perfect. Low educational achievement has been shown by many researchers to be a consequence of multiple repetition and the ensuing high drop-out rate.²

While repetition, promotion, and drop-out rates figure neither in FUNDESCOLA's program goals nor in its components because they are neither objectives in themselves nor instruments to achieve them, they are the key indicators that must permeate any economic analysis of its chances of success or failure.

Another important issue is the relation between the project to be financed by FUNDESCOLA I and the FUNDESCOLA program to be financed by a subsequent loan. While this analysis applies to the project, and will not be affected if for some reason the second loan is never approved, the actions and effects quantified are continued and improved in the next stages of the program.

The remainder of this analysis is divided into three parts. Part II describes the exact methodology to be used and its relation with project design; Part III describes the construction of the flow model and the estimation of the fundamental parameters; and Part IV shows the results of various scenarios.

Part II. Project Goals, Project Components, and Economic Analysis Methodology

Any economic analysis must start with the project it is designed to analyze, its goals, and the instruments to achieve them. As described in the program design summary (see Annex 1), FUNDESCOLA I's program goals are the following:

¹ In the North, the number is 31.55 and in the Center-West 19.97. The figures refer to the 1996 educational census. This does not mean that the average eighth grade graduate takes nineteen years to finish school, as enrollment years applying to those who drop out before eighth grade are also counted.

² Paes de Barros and Mendonça, "O Fluxo Educacional no Brasil" 1996 IPEA; "Gomes Netto, Fluxo de Alunos, Matrículas e Alguns Indicadores Educacionais no Nordeste Brasileiro" 1992 INEP; Schiefelbein and Heikkinen "Brazil: Access, Repetition and Efficiency in Primary School." 1992 Mimeo.

Table 4-1. FUNDESCOLA I Program Goals

Goal	Region	From	To	
Increasing net enrollment	NO	90%	95%	
	NE	95%	100%	
	CW	83%	88%	
Increasing the ratio between 8 th grade graduates and 1 st grade enrollment	NO	12%	20%	
	NE	13%	20%	
	CW	26%	30%	
Increasing the proportion of 4 th graders achieving elementary levels in mathematics by 10% and in Portuguese by 8%	Math	NO	55%	65%
		NE	52%	62%
		CW	60%	70%
	Portuguese	NO	59%	67%
		NE	58%	66%
		CW	62%	70%

While each of these goals can be easily measured in their own terms, the first two are not direct results of project components. Rather, they are the result of processes which can also be measured, which are the result of project components. The effect on student achievement in standardized tests, while measurable and very important, is not predicable due to the lack of matching data on inputs and tests scores. Tests scores for the 1997 testing round will provide this data, but they are not yet available.

The impact and measurability of each component varies. Component (d) cannot be quantified. Rather, it must be thought of as creating the environment that will allow the other components to be applied. Furthermore, this component will help secretariats to better manage their school system as a whole, including secondary schooling and, for the state secretariats, other microregions. It will therefore have large externalities with relation to this project. Component (c) will have no quantifiable effect until the schools it helps to plan are built, which will happen only in the second project. Because this analysis takes into consideration only the first project, component (c) will be considered "lost money": it will be included as a cost of the project, but no benefits will be assigned to it. Components (a) and (b) have immediate impact on the intermediate measures because they are direct inputs of the educational process. The table below summarizes which components directly affect the program goals as inputs.

Table 4-2. Program Goals, Intermediate Measures, and Components

Goal	Intermediate measures	Component
Increasing net enrollment	◦ Access to school places	Provision (c)
	◦ School flux	MOS + PDE (a) & (b)
Increasing the ratio between eighth grade graduates and first grade enrollment	◦ School flux	MOS + PDE (a) & (b)
Increasing the proportion of fourth graders achieving elementary levels in mathematics by 10% and in Portuguese by 8%	None	MOS + PDE (a) & (b)

The table shows that MOS and PDE work together to make schools perform better. While improving material conditions brings about some small improvement in school performance, it is overwhelmed by the improvement brought about by better management resulting from a successful PDE. The existence of minimum operational standards, however, is a necessary condition for successful implementation of a PDE.

As will be shown below, the two fundamental variables are the number of schools choosing to undertake PDE and the average impact of SDPs on promotion rates. The average impact of SDPs will be estimated using a sample of schools in Rondonópolis in Mato Grosso, where the FUNDESCOLA methodology was used with great success. Rondonópolis results — a 6 percent increase in promotion at the end of the first year and a 20 percent increase at the end of the second year — will be taken as an ideal case scenario; middle and worst case scenarios will be lower percentages.

The percentage of schools implementing SDPs depends on variables beyond the project's control, such as leadership, but also to a large extent on MOS, which place more schools in the "PDE basin." Thus, MOS are important in increasing the proportion of schools capable of undertaking a PDE.

The cost-benefit analysis of FUNDESCOLA will be undertaken in the following manner:

- a) a flow model will be estimated for each participating microregion;
- b) a historical trend will be applied to project how the flow of students would look without the project;
- c) the impact of the project on this flow will be estimated using the two key variables described above;
- d) the difference between the two flows will be taken;
- e) given this difference, the savings in enrollment and increases in academic achievement will be calculated ;
- f) these savings and increases will be converted into two monetary flows using per student cost and private rate of return to education; and finally
- g) the internal rates of return for each of the two flows will be calculated using various time horizons.

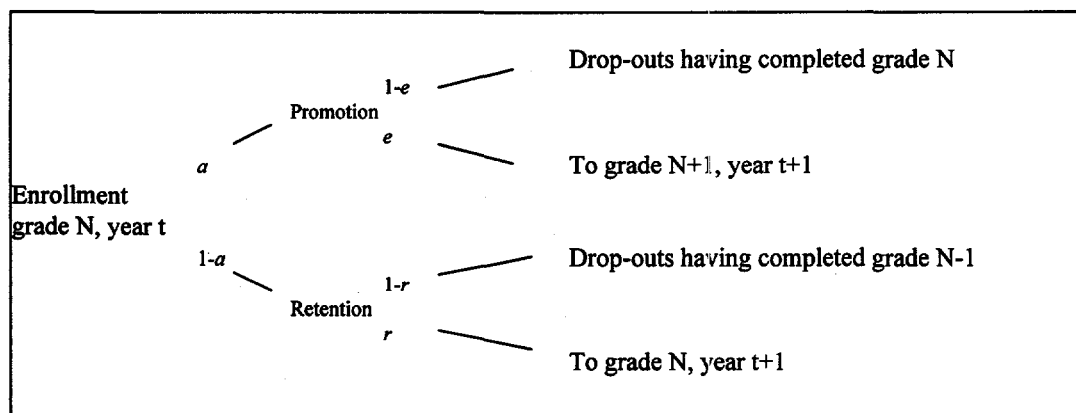
Part III: Estimation of Parameters

Before actually calculating the income flows and internal rates of return, the basic parameters must be estimated. We will divide this into three sections: parameters for calculating student flows, parameters for calculating per student costs, and individual educational rates of return.

i. *Student Flow* — The first component necessary to estimate the project's impact is a flow model with the appropriate parameters and their historical trend.

Making accurate flow models is relatively easy given progression, repetition, and drop-out rates. Unfortunately, the estimation of these rates is extremely difficult. Apart from the fact that the educational census is known to have a relatively high error rate, the categories "drop-out" and "failed student" as reported in the census are themselves misleading. When filling in the forms on student achievement, teachers consider as "failed" a student who stays in school until the last day but is not allowed to go on to the next grade level, and "drop-out" a student who does not stay in school until the last day. However, it is a widespread practice for teachers to encourage students to leave school and return next year to the same grade level, if they consider the students have little chance of passing; in some cases, the students themselves take this initiative. Thus, most of the drop-out rate is actually a veiled repetition rate.

Several researchers³ have created flow models using a plethora of auxiliary information, from chain-linked educational census data to household surveys, to estimate the true repetition and drop-out rates. Unfortunately, these estimates vary considerably as to the percentage of official drop-out rate that is actually veiled repetition, but they do all agree on one issue — this percentage is relatively stable over time and across regions. In other words, once the "repetition compensation" is estimated, the school flow may be accurately estimated using promotion and retention rates, which are subject to much less systematic error. A diagram of the basic flow model used by all is shown below:



The rates of promotion, repetition given retention, and progression given promotion (p , r , and e) determine the flow. Promotion rates can be estimated directly by using the ratio of students approved to initial enrollment. While this does not take into consideration transfers between schools, it is quite accurate on an aggregated level.

³ Paes de Barros and Mendonça, "O Fluxo Educacional no Brasil" 1996 IPEA; "Gomes Netto, Fluxo de Alunos, Matrículas e Alguns Indicadores Educacionais no Nordeste Brasileiro" 1992 INEP; Schiefelbein and Heikkinen "Brazil: Access, Repetition and Efficiency in Primary School." 1992 Mimeo; and Klein and Costa Ribeiro "O censo educacional e o modelo de fluxo: O problema da repêntencia" in *Revista Brasileira de Estatística* 52 (197/198) pp. 5-45 1995.

As r and e vary according to the methodology used, a choice was imposed. We chose to use the two whose assumptions on student behavior are least strict and whose calculations are most up to date: Barros and Mendonça and Schiefelbein. The estimates converge at around fourth grade but are quite different for first, second, and third grades. For these grade levels, we took the average and rounded. The coefficients finally arrived at are shown in table 4.3.

Table 4-3. r and e

Grade	r	e
1 st	0.88	0.98
2 nd	0.85	0.96
3 rd	0.88	0.96
4 th	0.88	0.93
5 th	0.90	0.96
6 th	0.90	0.96
7 th	0.90	0.96
8 th	0.90	0.96

Source: Barros and Mendonça (1996) and Gomes Neto (1992)

Given the above coefficients and promotion rates, flow models were set up for all ten microregions, in order to model future effects in enrollment and final achievement (in terms of grade level) due to changes in these rates.

The next issue to consider is the trend on promotion rates. Barros and Mendonça (1996) have calculated a reasonable time series for first to fifth grades showing that these rates have been stable or even decreasing up to 1988, but that since then they have begun a slow but steady climb. This happens at about the same time as the change of mentality from quantity to quality in the principal regions of the country.

Table 4-4. Evolution of Promotion Rates by Grade Level

Year	1st grade	2nd grade	3rd grade	4th grade	5th grade
1981	41	66	70	71	56
1982	39	63	67	66	52
1983	40	63	66	66	51
1984	43	61	66	64	49
1985	47	60	66	66	51
1986	47	58	65	64	48
1987	49	58	65	66	50
1988	48	58	65	66	51
1989	50	60	67	68	51
1990	54	61	67	68	51
1991	54	61	69	70	53
1992	53	61	68	71	55
1993	52	62	69	72	57

Source: Barros and Mendonça (1996)

Regressing promotion on time from 1988 to 1993 yields the following coefficients, all significant at a 5 percent level: 0.92 percent, 0.63 percent, 0.65 percent, 1.12 percent, and 1.12 percent for first, second, third, fourth, and fifth grades respectively. We will assume that this rate of improvement will continue over the next ten or fifteen years. This assumption is somewhat optimistic, but not unrealistic given the positive changes that have been occurring in education. We will also suppose that sixth through eighth grades will improve at the average of first through fifth: 0.8 percent per year.

ii. *Per Student Cost* — To convert changes in flow into savings or costs in Reais (R\$), an estimate of each student's marginal cost is necessary. Unfortunately, there are few data on student cost, marginal or otherwise, available. The only data available are expenditures on the budget item *Education and Culture*. One option would be to run a regression on municipal expenditures as compared with enrollment to estimate marginal expenditure and then equate it to marginal cost. This would have the disadvantage of confusing the concepts of cost and expenditure, but would at least allow a rough estimate. Starting January 1, 1998, however, educational expenditures will change drastically as the National School Maintenance and Teacher Valorization Program (FVM - Fundo de Valorização do Magistério) will come into effect. The fund will not be the only source of income for basic education; there are also voluntary transfers and the education tax. Nonetheless, it will account for at least 75 percent of first through eighth grade educational expenditures.

FVM provides formula-driven per student transfers for school systems dictating *per capita* expenditures that are the same in all systems — municipal or state — within a state. This expenditure is subject to two minima:

- (a) 15 percent of pooled state and municipal revenues spent on basic education and
- (b) R\$315 per student per year.

If 15 percent of own tax and transfer revenues do not amount to R\$315 per year, the federal government will complement the fund up to that amount. In a sense, the marginal cost of an additional student is, by fund definition, equal to average cost. In other words, each additional student will cost (the federal government) R\$315.

However, of the FUNDESCOLA I states, only Pará will receive federal complementation. In all others, 15 percent of revenues will amount to more than R\$315 per student. In this case, increasing enrollment becomes a 'beggar thy neighbor' policy for any given school system within a state: each additional student will reduce the *per capita* for all while bringing in an additional revenue to the school system in which the student is enrolled⁴. If we consider the sum of states and municipalities, each additional student will bring, by definition, zero marginal revenue; if cost is equated to revenue, it will have zero marginal cost. This reasoning is patently absurd.

⁴ This is a possible benefit of the FVM, because school systems may begin to compete for students.

How then do we estimate benefits incurred by reducing repetition? Two alternatives are possible.

- a) The first is to look from a strictly public finance point of view — savings in enrollment will generate savings in expenditures in Pará, but the two will have no relation anywhere else.
- b) The second is to consider that a student is “worth” his FVM *per capita* value and that savings in enrollment will generate increases in per student expenditures that will translate into better paid teachers, better educational inputs, and greater quality of education.

We will calculate both alternatives and their respective internal rates of return.

In both cases, to estimate savings or cost streams generated by straightening out the flow of students, the value of the fund must be projected into the future. The fund is made up of 15 percent of the sum of own VAT tax collection and federal government constitutional transfers.⁵ While predicting future VAT collection is difficult, particularly considering the volatile growth rates of the Northern and Center-Western economies, their 4.2 percent average growth rate from 1990 to 1996 can probably be used as a reasonable projection.⁶ Federal constitutional transfers can be expected to grow at the roughly the same rate as the Brazilian economy, which was 2.7 percent from 1990 to 1996.

The best procedure is to suppose that the FVM will increase in each state at the weighted average of the Brazilian economy’s 2.7 percent growth rate and that of the Northern and Center-Western economies: 4.2 percent, where the weights are given by the fund’s composition in each state. Finally, the population under age seventeen is growing at a rate somewhat less than 1.4 percent, which will be subtracted from the fund’s weighted growth rate to yield *per capita* growth rates. The FVM values in 1996, composition in terms of federal transfers and VAT, and growth rate projections are shown below.

⁵ These transfers amount to 6.75 percent of the income and industrial products tax collection in the entire country, distributed in proportion to population and in inverse proportion to income.

⁶ The FUNDESCOLA I states had strong economic performances from 1990 to 1996. Their average growth rate was 4.2 percent, compared to 2.7 percent for the Brazilian economy as a whole. Of the seven best performing state economies from 1990 to 1996, no less than six — Tocantins, Acre, Mato Grosso do Sul, Rondônia, Amapá, and Goiás — are in the project area. However, the third worst — Amazonas — is also a FUNDESCOLA I state. Both the North and the Center-West are new economies in rapid transition and their future is very hard to predict.

Table 4-5. FVM Predicted Growth Rate

State	1996 <i>per capita</i> Value	Composition		Weighted Growth Rate	Per capita Growth Rate
		Federal Transfers	VAT Tax Collection		
Rondônia	R\$329	57%	43%	3,35%	1.95%
Acre	R\$518	82%	18%	2,98%	1.58%
Amazonas	R\$472	29%	71%	3,77%	2.37%
Roraima	R\$747	70%	30%	3,15%	1.75%
Pará	R\$315	66%	34%	3,21%	1.81%
Amapá	R\$577	74%	26%	3,10%	1.70%
Tocantins	R\$320	80%	20%	3,00%	1.60%
Mato Grosso do Sul	R\$346	49%	51%	3,47%	2,07%
Mato Grosso	R\$391	48%	52%	3,48%	2,08%
Goiás	R\$322	49%	51%	3,46%	2,06%

Sources: 1996 FUNDEF; FNDE; FVM composition: FNDE; regional growth rates: IPEA/DIPES; population growth: IBGE.

The only issue remaining to be resolved is whether students in different grade levels have different marginal costs. Adding students to empty classrooms is very cheap because no new teachers or construction is necessary, but adding students to overcrowded systems will be quite expensive. Straightening out the flow will add students in fifth to eighth grades and reduce enrollment in first to fourth. This is financially more rewarding if first to fourth students cost more, but is less rewarding if fifth to eighth students cost more. To investigate this, the student-classroom ratio was calculated for all microregions for both first to fourth and fifth to eighth students.

Table 4-6. Students per Classroom

Microregion	Students / Classroom		D
	1 st to 4 th	5 th to 8 th	
Porto Velho	30,83	32,54	1,71
Rio Branco	28,17	32,29	4,12
Manaus	33,79	41,40	7,62
Boa Vista	27,18	30,51	3,33
Belem	33,05	41,10	8,04
Macapa	27,57	34,43	6,86
Porto Nacional	29,17	31,27	2,11
Campo Grande	27,16	32,72	5,56
Cuiaba	29,87	34,36	4,50
Goiania	32,29	41,11	8,82

Source: 1996 Educational Census Microdata.

Table 4.7 shows that in all cases fifth to eighth grade classrooms are more crowded, but that the difference is always less than ten. According to federal norms, fifth to eighth grade classrooms are expected to have on average ten students less than first through fourth

grade.⁷ This means that we can suppose that the marginal cost of adding students in higher grade levels will be equivalent to marginal savings of reducing enrollment in lower grade levels.

The final procedure used to calculate savings was the following:

- a) enrollment streams for each grade level with and without the project were calculated and their differences taken;
- b) marginal costs for grade levels first through fourth and fifth through eighth were estimated;
- c) FVM values were projected as explained above; and
- d) a “strictly public finance” income stream taking into account only Pará was generated and a “quantity = quality” income stream taking into account savings in all states was also generated.

iii. Rates of Return — Estimation of Coefficients

Given good household surveys, rates of return to education are simple to estimate. Brazil is fortunate to have the PNADs (Pesquisa Nacional por Amostragem de Domicílios) that are yearly household surveys with extensive coverage — the sample size for 1995 is 334,263 people, 51,525 of them in the North and Center-West — and accurate to the state level. We estimated rates of return to education using the standard mincerian earnings equation: $\log Y = S d_i + \text{Age} + \text{Age}^2$,

where Y is the hours-adjusted wage received the week before⁸ and d_i is a dummy representing whether the person has completed the i -th year of schooling⁹ so that a person having completed fourth grade will have: $d_1 = d_2 = d_3 = d_4 = 1$ and $d_5 = d_6 \dots d_{12} = 0$.

The equation was estimated only for those of working age (sixteen to sixty-five years), receiving non-zero income the week before, not employed in agriculture or by any level of government, working at least twenty hours in that week, and knowing their educational level. This creates an obvious selection bias in the equation, so the equation was estimated with a Heckman correction term.¹⁰ The ideal procedure would have been to estimate the wage equation separately for men and women but since the educational census does not provide gender information, this is not very useful.

⁷ Federal council of education norms state that for first to fourth grades, the desirable number of students per classroom is from twenty-five to thirty students; for fifth to eighth from thirty-five to forty.

⁸ An education age interaction term was also used, but it never proved significantly different from zero for educational levels inferior to high school.

⁹ In previous PNADs, such as the 1981–90 series, it was impossible to determine highest grade level completed; years spent in school had to be used as a proxy. In the 1992, 1993, and 1995 PNADs the actual highest grade level completed is determined.

¹⁰ A Probit for predicting the probability of being included in the sample was run with the education and age variables, in addition to two dummies: “head of household” and “male.” The resulting inverse Mills ratio was then substituted into the wage equation as an independent variable. This procedure provides unbiased but inefficient coefficient estimates. The sample size was too big for full maximum likelihood estimation.

The equation was estimated separately Brazil as a whole, the North, and the Center-West. The North region presents a problem because the PNAD does not cover its rural area, making interregional comparisons not too meaningful, but since those employed in agriculture are excluded, this is not too grievous an oversight. Finally, the coefficients d_i can be read directly as the marginal log rates of return on the i -th grade level. The coefficients for Brazil, the North, and the Center-West are shown below, together with their respective estimated errors, for the wage equation estimated both with and without the Heckman correction.

Table 4-7. Marginal Rates of Return – Without Heckman Correction

Variable	Coefficients		
	Brazil	North	Center-West
d1	0.183	0.027	0.146
d2	0.188	0.056	0.184
d3	0.110	0.159	-0.003
d4	0.233	0.132	0.125
d5	0.070	0.029	0.096
d6	0.129	0.050	0.026
d7	0.037	0.075	0.076
d8	0.152	0.052	0.100
dplus	0.410	0.428	0.532
age	0.107	0.109	0.103
age2	-0.001	-0.001	-0.001
cons	2.433	2.785	2.837

Source: PNAD 1995 microdata (rates of return on above 8th education were aggregated into the *dplus* dummy)

Table 4-8. Marginal Rates of Return – With Heckman Correction

Variable	Coefficients		
	Brazil	North	Center-West
d1	0.181	0.032	0.090
d2	0.179	0.016	0.107
d3	0.100	0.120	-0.045
d4	0.221	0.115	0.079
d5	0.049	0.021	0.053
d6	0.116	0.023	-0.027
d7	0.029	0.058	0.028
d8	0.162	0.020	0.039
dplus	0.416	0.386	0.401
age	0.047	0.079	0.070
age2	0.000	-0.001	-0.001
invmls	-0.158	-0.268	-0.367
_cons	3.791	4.956	5.881

Source: PNAD 1995 microdata (rates of return on above 8th education were aggregated into the *dplus* dummy)

The presence of negative coefficients for some years in Center-West is due to an incomplete specification of the model. These are regions of high migration and the decision to migrate is independent neither of education nor of income; a model taking migration into

account would be far too complicated for the purposes of this analysis. We will thus consider all negative rates of return to be zero.

It is interesting to note that while the Heckman correction has little effect on rates of return in Brazil as a whole, in the Northern and Center-Western rates are considerably lowered. Once again this is probably due to migration and its effects.

One last issue to be considered is how to impute earnings to those who, either by choice or circumstance, are out of the workforce. In particular, many female graduates never join the workforce, either choosing or being forced to be full-time mothers and housewives. Unfortunately, economic theory gives us little choice but to suppose that if they have made this choice (or if it has been made for them), the rewards are at least as desirable as receiving a market wage. Thus, we will attribute to all graduates the rate of return estimated in our equations.

Once in possession of the coefficients, there are two ways to proceed: (a) one is to calculate the net present value of the expected income streams, given some expected retirement age; (b) the other is to calculate the stream itself and then calculate internal rates of return over various time periods.

While conceptually better in principle, the first method has three drawbacks. First, in Brazil, retirement age is a difficult concept to pin down. While the law stipulates that in the formal labor market, men will retire after thirty-five years of contribution time and women after thirty, most retirees do not become inactive after this period but go on to accumulate pensions and another job, often in the same firm as before. This retirement system is patently unsustainable and will be changed far before today's graduates retire, but nobody knows in which direction this change will be. Second, thirty or thirty-five years is such a long time that any provisions relating incomes towards the end of this period are not much better than astrology. Finally, one of the main benefits of the project is to unclog the educational system by straightening out the flow of students. The effects of this thirty or thirty-five years down the line are so dependent on migration and other demographics so as to be almost impossible to estimate. In order to compare the two project benefits, the net present value until retirement is not a very good method.

On the other hand, calculating income streams for the next ten or fifteen years is much more trustworthy and easier to do. The procedure used was the following.

- a) The number of students leaving school at a certain grade level were estimated with and without the project.
- b) The difference of the two estimates was found year by year.
- c) The rate of return with relation to no schooling (the sum of marginal rates of return shown above) was applied to all those leaving school after a given grade level, the wage of a sixteen-year old with no schooling being used as the base.
- d) Each successive year of experience adds about R\$4 to wages, but this does not

vary according to educational level before the end of high school¹¹ so the net effect with or without the project is zero.

- e) The difference in income streams is calculated by adding every year each additional cohort of school leavers to the wages of those already working.
- f) No allowance was made for those continuing further studies. This strongly underestimates project rates of return as individual rates of return on high school are positive and high, but there is no way to remedy this because we have neither a reasonable flow model for high school and college nor a time series of progression and retention trends.

Part IV: Income Flows, Internal Rates of Return, and Sensitivity Analysis

With all assumptions and estimations clear, the income flows until 2012, fifteen years after project onset, are shown in pages fourteen to sixteen together with internal rates of return for five to ten and fifteen years of project life.

In order to do sensitivity analysis we identified the two fundamental variables that determine project success: the percentage of schools choosing to undertake school development plans and the average effectiveness of these plans, once undertaken. We chose four scenarios to analyze:

Table 4-9. Scenarios

Scenario	Percent of schools participating	Average effectiveness	
		1 st Year Increase in Promotion	2 nd Year Increase in Promotion
Worst	13%	2.4%	8%
Middle Poor	25%	3%	10%
Middle Good	50%	3%	10%
Best	75%	4%	13.2%

To have an idea of what the numbers mean, the 13 percent coverage of the worst case mean that only the 311 pilot schools to be directly financed in 1998 will undertake SDPs. Those responsible for the SDPs have stated that they will feel personally failed if SDP results are below two thirds of Rondonópolis' success, which is our best case scenario.

The IRR results are as follows:

¹¹ The age-grade level interaction terms before high school completion are not significantly different from zero; in other words, in the first through twelfth grades, education and experience are neither complements nor substitutes.

Table 4-10. Internal Rates of Return

Scenario	Worst	Middle Poor	Middle Good	Best
Social IRR after 10 years	1.01 %	12.54 %	24.26 %	39.37 %
Social IRR after 15 years	9.26%	19.08 %	29.23 %	42.66 %
Quantity Quality IRR after 10 years	-	-	-6.35%	2.59%
Quantity Quality IRR after 15 years	-	-2.07%	4.15%	11.46%

Although from a strictly public finance point of view the project never pays for itself, if the savings in quantity becoming quality argument is accepted, the project pays for itself, even under a not too optimistic scenario. More impressive is the fact that even under the most unfortunate and bleak of scenarios, the social rate of return after fifteen years is only slightly below satisfactory.

The reasons for these impressive results is dismal state of the flow of students in Northern and Center-Western schools. High repetition rates make each student cost from twice to three times what he might under a perfect flow; by discouraging students, repetition drastically reduces their academic achievement. The consequence is that even small increases in promotion rates can have large effects.

One final comment worth making is how the project fares in terms of its goals under each scenario. The information to predict the goal relating to standardized testing is not available; predictions on net enrollment rates depend heavily on demographic projections and new construction, but the ratio of first grade enrollment to eighth grade graduation can be calculated under each scenario.

Table 4-11. Ratio of first grade enrollment to eighth grade graduation

Scenario Project Time	Worst	Middle Poor	Middle Good	Best	Project Objectives	
					No/NE	CW
5 years	39%	41%	45%	54%	20%	30%
10 years	41%	44%	48%	58%	20%	30%
15 years	46%	48%	51%	58%	20%	30%

Once again, even under the worst of scenarios, the project achieves its objectives in five years time. Finally, the rates of return probably underestimate the true returns on the FUNDESCOLA I project.

- a) The fact that no allowance for the effects on secondary schooling means a cost is not counted but even larger social benefits are not counted.
- b) The spillover effect of improvements in school system management on schools not undertaking SDPs and, for the state system, on schools outside the capital microregion, are not counted.
- c) The resources to be spent on preparing provision of school places are counted as

lost money, because this analysis focuses on the project, and not on the program.

- d) The Heckman correction considerably lowered rates of return. This attenuation is probably overestimated due to interactions between migration and labor force participation decisions.

Project Cost and Benefit Streams and Internal Rates of Return Under Different Scenarios

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (4) - (1)	(6)	(7) = (5) + (6)	(8)
	Project Costs	Federal Savings (PA only)	Government Income Stream	Quality Effect (all States)	Income Stream with Quality	Social Benefits	Social Income Stream	1st enroll - 8th grad ratio
1997	110,464,000	0	-110,464,000	0	-110,464,000	361,369	-110,102,631	30%
1998	14,536,000	4,535	-14,540,535	16,064	-14,519,936	4,320,740	-10,199,196	35%
1999	0	49,161	-49,161	377,110	377,110	17,723,227	18,100,337	43%
2000	0	94,776	-94,776	2,279,202	2,279,202	35,805,442	38,084,643	50%
2001	0	-119,999	119,999	5,786,769	5,786,769	57,421,750	63,208,519	54%
2002	0	-729,248	729,248	10,634,524	10,634,524	80,245,819	90,880,343	55%
2003	0	-1,489,615	1,489,615	16,187,034	16,187,034	101,406,289	117,593,323	56%
2004	0	-2,155,598	2,155,598	21,303,411	21,303,411	121,733,626	143,037,036	56%
2005	0	-2,860,838	2,860,838	26,208,948	26,208,948	143,319,549	169,528,497	57%
2006	0	-3,814,933	3,814,933	31,732,159	31,732,159	165,968,717	197,700,876	58%
2007	0	-5,084,979	5,084,979	37,807,129	37,807,129	185,401,472	223,208,601	58%
2008	0	-6,381,930	6,381,930	42,762,823	42,762,823	199,855,627	242,618,450	57%
2009	0	-7,422,894	7,422,894	45,914,875	45,914,875	210,473,284	256,388,159	57%
2010	0	-8,129,537	8,129,537	47,681,921	47,681,921	218,975,702	266,657,622	57%
2011	0	-8,568,352	8,568,352	48,750,327	48,750,327	226,259,906	275,010,232	58%
2012	0	-8,840,794	8,840,794	49,454,383	49,454,383	233,144,339	282,598,722	59%

Internal Rates of Return after:

5 years	-	15.27%
6 years	-	24.83%
7 years	-	30.88%
8 years	-6.18%	34.85%
9 years	-1.22%	37.54%
10 years	2.59%	39.37%
15 years	11.46%	42.66%

Scenario: Best

75% of schools undertake PDEs
PDEs have 66% of Rondonópolis success

Project Cost and Benefit Streams and Internal Rates of Return Under Different Scenarios

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (4) - (1)	(6)	(7) = (5) + (6)	(8)
	Project Costs	Federal Savings (PA only)	Government Income Stream	Quality Effect (all States)	Income Stream with Quality	Social Benefits	Social Income Stream	1st enroll - 8th grad ratio
1997	110,464,000	0	-110,464,000	0	-110,464,000	273,764	-110,190,236	30%
1998	14,536,000	3,436	-14,539,436	12,170	-14,523,830	2,668,343	-11,855,488	34%
1999	0	28,301	-28,301	235,248	235,248	9,615,526	9,850,774	39%
2000	0	49,298	-49,298	1,237,949	1,237,949	18,792,540	20,030,489	43%
2001	0	-53,947	53,947	2,976,405	2,976,405	29,552,035	32,528,439	45%
2002	0	-330,915	330,915	5,303,514	5,303,514	40,838,180	46,141,694	46%
2003	0	-682,608	682,608	7,923,502	7,923,502	51,554,804	59,478,306	47%
2004	0	-1,007,398	1,007,398	10,429,091	10,429,091	61,884,057	72,313,149	47%
2005	0	-1,335,261	1,335,261	12,889,530	12,889,530	72,415,512	85,305,042	47%
2006	0	-1,747,062	1,747,062	15,455,051	15,455,051	83,299,283	98,754,334	48%
2007	0	-2,288,397	2,288,397	18,204,705	18,204,705	93,392,029	111,596,733	49%
2008	0	-2,895,214	2,895,214	20,705,686	20,705,686	102,290,036	122,995,722	49%
2009	0	-3,458,555	3,458,555	22,877,375	22,877,375	109,378,736	132,256,111	50%
2010	0	-3,906,406	3,906,406	24,435,553	24,435,553	114,598,317	139,033,870	50%
2011	0	-4,225,279	4,225,279	25,211,099	25,211,099	119,503,510	144,714,609	51%
2012	0	-4,439,132	4,439,132	25,850,323	25,850,323	123,139,409	148,989,732	52%

Internal Rates of Return after:

5 years	-	-2.90%
6 years	-	7.20%
7 years	-	13.95%
8 years	-	18.60%
9 years	-10.45%	21.89%
10 years	-6.35%	24.26%
15 years	4.15%	29.23%

Scenario: Middle Good

50% of schools undertake PDEs
PDEs have 50% of Rondonópolis success

Project Cost and Benefit Streams and Internal Rates of Return Under Different Scenarios

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (4) - (1)	(6)	(7) = (5) + (6)	(8)
	Project Costs	Federal Savings (PA only)	Government Income Stream	Quality Effect (all States)	Income Stream with Quality	Social Benefits	Social Income Stream	1st enroll - 8th grad ratio
1997	110,464,000	0	-110,464,000	0	-110,464,000	273,764	-110,190,236	30%
1998	14,536,000	3,436	-14,539,436	12,170	-14,523,830	2,064,384	-12,459,446	34%
1999	0	19,338	-19,338	185,558	185,558	5,841,441	6,026,999	37%
2000	0	24,796	-24,796	777,027	777,027	10,653,881	11,430,908	40%
2001	0	-35,378	35,378	1,707,178	1,707,178	16,139,106	17,846,284	41%
2002	0	-173,980	173,980	2,890,987	2,890,987	21,716,785	24,607,773	42%
2003	0	-343,450	343,450	4,142,101	4,142,101	27,022,078	31,164,179	42%
2004	0	-502,252	502,252	5,343,430	5,343,430	32,224,302	37,567,732	43%
2005	0	-661,453	661,453	6,592,410	6,592,410	37,454,228	44,046,638	43%
2006	0	-855,664	855,664	7,837,850	7,837,850	42,697,170	50,535,020	44%
2007	0	-1,105,099	1,105,099	9,088,490	9,088,490	47,556,066	56,644,556	44%
2008	0	-1,389,254	1,389,254	10,208,173	10,208,173	52,480,114	62,688,287	45%
2009	0	-1,665,278	1,665,278	11,492,715	11,492,715	56,675,002	68,167,717	46%
2010	0	-1,898,301	1,898,301	12,570,548	12,570,548	59,447,031	72,017,579	46%
2011	0	-2,075,018	2,075,018	12,947,263	12,947,263	62,674,057	75,621,320	48%
2012	0	-2,200,097	2,200,097	13,422,845	13,422,845	64,378,024	77,800,869	48%

Internal Rates of Return after:

5 years	-	-16.42%
6 years	-	-6.21%
7 years	-	0.91%
8 years	-	6.02%
9 years	-	9.76%
10 years	-	12.54%
15 years	-2.07%	19.08%

Scenario: Middle Poor

25% of schools undertake PDEs

PDEs have 50% of Rondonópolis success

Project Cost and Benefit Streams and Internal Rates of Return Under Different Scenarios

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (4) - (1)	(6)	(7) = (5) + (6)	(8)
	Project Costs	Federal Savings (PA only)	Government Income Stream	Quality Effect (all States)	Income Stream with Quality	Social Benefits	Social Income Stream	1st enroll - 8th grad ratio
1997	110,464,000	0	-110,464,000	0	-110,464,000	219,011	-110,244,989	30%
1998	14,536,000	2,749	-14,538,749	9,736	-14,526,264	1,418,696	-13,107,568	33%
1999	0	10,331	-10,331	127,699	127,699	3,254,094	3,381,792	36%
2000	0	5,540	-5,540	451,463	451,463	5,531,181	5,982,644	38%
2001	0	-20,599	20,599	931,695	931,695	8,058,907	8,990,602	39%
2002	0	-60,750	60,750	1,519,715	1,519,715	10,514,029	12,033,744	40%
2003	0	-100,894	100,894	2,086,754	2,086,754	12,835,251	14,922,004	40%
2004	0	-136,850	136,850	2,627,616	2,627,616	15,148,156	17,775,772	40%
2005	0	-173,709	173,709	3,230,733	3,230,733	17,401,469	20,632,202	41%
2006	0	-219,228	219,228	3,775,387	3,775,387	19,513,096	23,288,483	41%
2007	0	-274,864	274,864	4,248,638	4,248,638	21,328,887	25,577,525	42%
2008	0	-334,860	334,860	4,602,155	4,602,155	23,646,492	28,248,647	43%
2009	0	-391,255	391,255	5,264,872	5,264,872	25,758,114	31,022,987	43%
2010	0	-438,450	438,450	5,905,849	5,905,849	26,793,444	32,699,293	44%
2011	0	-474,653	474,653	5,949,336	5,949,336	28,833,365	34,782,701	46%
2012	0	-500,961	500,961	6,270,049	6,270,049	29,249,346	35,519,396	46%

Internal Rates of Return after:

5 years	-	-
6 years	-	-19.24%
7 years	-	-11.82%
8 years	-	-6.30%
9 years	-	-2.14%
10 years	-	1.01%
15 years	-	9.26%

Scenario: Worst

13% of schools undertake PDEs
PDEs have 40% of Rondonópolis success

Annex 5
FUNDESCOLA I
Financial Summary

Overview. In the 1990s Brazil has experienced a period of profound social, political and financial change, opening new and promising opportunities for development. Projected GDP per capita for 1998 is US\$4,970, one of the highest in Latin America. However the distribution of income, as reported in the World Bank's 1996 Development Report, remains one of the most unequal in the world. Overcoming the difficulties posed by this unequal distribution of wealth as well as the low average level of education (5.5 years for men, 5.7 years for women) will be one of Brazil's greatest challenges in the coming decade.

A successful program for monetary stabilization initiated under the Real plan in 1994 brought remarkable results, reducing inflation from near crippling rates of 50% per month to 7% per year. This adjustment, while introducing stability to a previously uncertain economy, imposed drastic budgetary restrictions on the public sector. No longer able to use inflation to deal with the deficit, the public sector has resorted to borrowing, raising the federal debt from 9.2% to nearly 18% of GDP. State and municipal debt has nearly doubled from 3.5% to 6.4%. Since most of this debt is held by the Federal Government, total public sector debt is just under 20%. This debt, however, remains considerably lower than that of most developing countries or developed countries.¹

Table 5.1 Government Debt and GDP
(R\$ millions)

Year	(a)	(b)	(c)	(d)=(c)+(b)	(e)	(f)=(c)/(e)	(g)=(d)/(e)	(h)=(a)/(e)
	State and Municipal Debt ¹		Total	Public	GDP ³	In Percentage of GDP		
	Total	Outside the Central Bank	Federal Debt	Sector Debt ²		Total Federal Debt	Public Sector Debt	Total State and Munic Debt
1993	1,920	1,920	4,988	6,908	54,247	9.2%	12.7%	3.5%
1994	24,203	6,856	47,470	54,326	545,281	8.7%	10.0%	4.4%
1995	37,581	8,476	82,824	91,300	696,211	11.9%	13.1%	5.4%
1996	49,906	15,059	140,187	155,246	782,493	17.9%	19.8%	6.4%

¹ State and Municipal Debt does not include the State Bank Debt.

² Public Sector Debt does not include Parastatal debt.

³ GDP is the average of January to December.

The stabilizing effect of these fiscal changes has permitted the government to pay more attention to a social reform program, with education at the top of the agenda. From

¹ France, Belgium, Greece, Italy, Sweden, and the Netherlands all have government debts well over 50% of GDP.

decentralization of the school lunch program to restructuring of the distribution of textbooks, the federal government has reformed, reviewed, and renewed its commitment to education. The reform process, as well as additional pressure from the community, has resulted in better performance and efficiency in the investment of available resources as measured by ever increasing performance when compared to educational expenditures.

When compared to other countries in Latin America, Brazil's expenditures in education are quite high (see Table 5.2).

Table 5.2 Comparison: Educational Expenditures in Latin America

Country	Total Education Expenditures		Year
	As % of GNP	As % of Gov't Expenditures	
Argentina	4.5	15.0	1995
Brazil	4.5	--	1989
Chile	2.9	14.0	1995
Colombia	3.5	12.9	1994
Paraguay	2.9	--	1994
Venezuela	5.2	22.4	1994

Source: UNESCO Statistical Yearbook, 1997

In 1995 public expenditure in education in Brazil totaled US\$34.8 billion, representing 4.85% of the GNP. As shown in the table 5.3, Brazilian investment in education is substantial. When total investments from taxes and other social sector contributions are considered, this total came to nearly 6% of GNP.

Table 5.3 Estimated Education Expenditures in 1995 by Sector

Sector	US\$ Million (1995)	Percentage of GNP
Public	34,804	4.85%
Federal Government	8,553	1.19%
State Government	16,320	2.27%
Municipal Government	9,951	1.39%
Private	8,056	1.12%
Families	6,423	0.90%
Non-School business and technical training	1,633	0.22%
Total	42,860	5.97%

Source: Report on the Evolution of Basic Education in Brazil: 1991-1997, MEC and INEP

The financial implication of FUNDESCOLA I, when compared to current expenditures in education or in Brazil as a whole, are decidedly low. The project represents approximately 0.1% of the total federal debt and less than 5% of public expenditures on education.

In addition, given the recent shocks in the Brazilian market and the battle to defend the Real, the further injection of low interest rate World Bank funds into the Brazilian economy, provide security to ensure future social sector investments.

**Table 5.4 Project Cost and Financing
(US\$ Millions)**

	Implementation Period			Operational Period	
	1999	2000	2001	2001	2002
Project Costs (US\$million)					
Investment Costs	17.7	27.7	31.4	24.5	24.5
Recurrent Costs	24.1	24.1	-		
Total	41.8	51.8	31.4		
Financing Sources (% of total project costs)					
IBRD/IDA	35%	49%	71%		
Government	65%	51%	29%		
Total	100%	100%	100%		

Annex 6
FUNDESCOLA I
Procurement and Disbursement Arrangements

Procurement

1. The procurement methods applicable to the various expenditures categories are summarized in Table A.

Table A: Project Costs by Procurement Arrangements^a
(in US\$ million equivalent)

Expenditure Category	Procurement Method				Total Cost (including contingencies)
	ICB	NCB	Other	N.B.F	
1. Goods					
Equipment	6.00 (5.5)				6.00 (5.5)
Furniture	24.5 (12.2)				24.5 (12.2)
2. Civil Works		2.5 (0.2)			2.5 (0.2)
3. School Grants			62.0 ^{b/} (15.3)		62.0 (15.3)
4. Training and Consultants' Services			20.3 (20.3)		20.3 (20.3)
5. Administrative Expenses** a			3.0 (3.0)		3.0 (3.0)
Total	30.5 (17.7)	2.5 (0.2)	85.3 (38.6)		118.3 (56.5)

Notes: * School Projects, Allotments for Schools to meet Standards, and Yearly Allotments for Schools to Maintain Standards.

**Administrative Expenses means incremental operational costs related to the management and supervision of the Project, including maintenance and supplies, communication services and spare parts for office equipment and vehicles.

N.B.F. = Not Bank-financed (not applicable).

The detailed procurement arrangements for the item "Other- Consultant Services" are listed in Annex 6, Table A.

Figures in parenthesis are the amounts to be financed by the Bank Loan.

^a local shopping

Procedures

2. The proposed project will be financed through IBRD and Government funds. All Bank financed procurement of goods and services under the project will be carried out in accordance with World Bank Guidelines: *Procurement under IBRD Loan and IDA Credits, January 1, 1995, revised September 1997 and Selection and Employment of Consultants by World Bank Borrowers, January 1997, revised September 1997.*
3. *National Competitive Bidding* (NCB) procedures acceptable to IBRD will be used for goods contracts that cannot be grouped into packages of at least US\$ 350,000. NCB procedures acceptable to IBRD will also be used for civil work contracts above US\$350,000 and with a maximum value of US\$ 5.0 million for each contract.
4. *International Competitive Bidding* (ICB) procedures acceptable to the IBRD will be used for all goods grouped into packages by each state secretariat and the Ministry of Education (for the national program) into contracts of more than US\$350,000.
5. *Local Shopping* procedures in accordance with provisions of paragraph 3.5 of the Guidelines will be used for works and goods estimated to cost less than US\$100,000 equivalent per contract. This project will include two operational initiatives involving small contracts (below US\$ 10,000) for approximately 5,000 schools to school quality investments, including small works, goods, books, and pedagogical materials. The first of these initiatives is to finance the investments needed by schools to meet the defined Minimum Operational Standards through school rehabilitation and a special program that promotes maintenance and development of first through eighth grade education. These contracts would be procured at the school level and estimated to cost less than US\$ 10,000 per contract, with a total aggregate cost of US\$ 65.0 million. The second initiative is the financing of 311 School Projects/School Development Plans -- estimated to cost less than US\$10,000 per contract, up to a total of US\$ 3.1 million.
6. *Selection of Consultants* procedures based on Quality and Cost will be used for all estimated contracts to cost more than US\$200,000. Selection based on Consultants' Qualifications may be used for services to carry out studies on Architectural Models provided that estimated contract values do not exceed US\$100,000. Consultant services including foreign and local ad hoc expertise and contractual services – for which individual qualification and experience are the paramount requirement for the assignment – will be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultants Guidelines.
7. *Procurement Review* - details of the Bank prior review for ICB and NCB process are shown in Table B.

Documents

8. The following documents will guide the procurement activities:
- For ICB : World Bank Standard Bidding Documents.
 - For NCB : Standard bidding documents based on Bank's SBD.
 - For Consultants: Bank's standards forms of contracts; standard requests for proposals.
 - Other documents include: Bank's standard bid evaluation form and standard general and specific procurement notices.

Measures to improve MEC's procurement capacity

9. The Central Project Coordination Unit - DGP has experience in procurement management and Bank procurement procedures. Procurement specialists have been recruited to provide technical assistance to the DGP in handling all procurement matters related to works, goods, and services, and will be assisted as needed by specified consultants for the preparation of bidding documents and bid evaluation. Training of MEC procurement staff, DGP staff and State Education Secretariat staff in Bank procurement procedures and documents will be carried out. Standard procurement processing timetables will be finalized at negotiations. Procurement processing will be carried out according to agreed standard processing times.

Annex 6, Table A: Consultant Selection Arrangements
(in US\$ million equivalent)

Contract Category	Selection Method			Total Cost (including Contingencies)
	QCBS	CQ	OTHER	
A. Firms	10,176.0 (10,176.0)	1,020.0 (1,020.0)		11,196.0 (11,196.0)
B. Individual			9,063.0 (9,063.0)	9,063.0 (9,063.0)
Total	10,176.0 (10,176.0)	1,020.0 (1,020.0)	9,063.0 (9,063.0)	20,259.0 (20,259.0)

Note: QCBS - Quality and Cost Based Selection
CQ - Selection Based on Consultants Qualification
Figures in parenthesis are the amounts to be financed by the Bank Loan

Annex 6, Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold) US \$ thousands	Procurement Method	Contracts Subject to Prior Review US \$ thousands
1. <u>Works</u>	>350 and < 5.000 < 350	NCB Three Quotations	First two contracts None
2. <u>Goods</u>	> 350 >100 and < 350 < 100	ICB NCB Shopping	All** First two contracts None
3. <u>Services</u>			
3.1 <u>Firms</u>	>200	QCBS	All *** (including technical evaluation)
	>100 and < 200	QCBS	All *** (except for technical evaluation)
	<100	CQ	Review of TORs only
3.2 <u>Individual</u>	> 50 < 50	I I	All***
4. <u>Miscellaneous</u>	< 100	Shopping	None

Note: * Civil works contract will use NCB Standard Bidding Documents. The standardization of architectural models will facilitate prior review by the Bank.

** The standardization of: (a) technical specification for goods; (b) place of delivery; and (c) bidding documents will facilitate prior review by the Bank.

*** The standardization of global TORs and model contract forms will facilitate the prior review by the Bank.

Disbursement

10. The applications for Withdrawal must be expressed in the currency of expenditures with the exception of the requests for payments made out of Special Account, established in US Dollars equivalent.
11. In the case of direct school transfers, certification of expenditures will be completed immediately upon transfer of funds, and disbursements presented on the basis of Statement of Expenditures (SOEs). Supervision will be conducted by municipal and state secretaries, COEP, and the Project Coordination Unit^b.
12. Each Application for Withdrawal will be numbered consecutively regardless of the procedure to be used.
13. Applications for Withdrawal will be used to request the IBRD for: (i) reimbursement from the Loan Account; (ii) requests for direct payment to third parties; or (iii) to request replenishment for expenditures paid with funds from the Special Account for amounts equivalent to 20% of the Authorized Allocation of the Special Account.
 - (i) The Borrower should submit an Application for Withdrawal together with Statement of Expenditures (SOE) and/or Summary Sheets (SS). When submitting SS, full supporting documentation is required. The application should be expressed in the currency of the expenditure.
 - (ii) The Borrower should submit form 1903 with supporting documentation as follows: invoices, receipts, formal bill of sale, copy of checks, or bank orders.
 - (iii) The Borrower should submit form 1903 with SOE and/or SS, the Special Account Reconciliation and bank statement.

Use of Statement of Expenditures (SOEs):

14. SOEs will be used for payments pertaining to:
 - Contracts of less than US\$5,000,000 equivalent for civil works and less than US\$750,000 for goods;
 - Consultant contracts of less than US\$ 100,000 and US\$ 50,000 for firms and individuals, respectively; and
 - All other expenditures will be disbursed on the basis of SOEs.

Special Account:

15. The Special Account will be denominated in US Dollars.
 - Authorized allocation is US\$ 12.5 million. The implementation process of the project requires the simultaneous transfer of financial resources to the schools, which are the final executors of the project. These resources are associated with the various components. The

^b The SPA – Planning and Monitoring System will consolidate the physical and financial actions in each school, municipality and state.

amount of funds in the Special Account will be based upon the value of this transfer, and will be at least 20% of the loan. The timeframe for certification of these resources will guarantee the continuity of the subsequent transfers.

- There will be an initial deposit in a commercial bank of US\$ 7.5 million upon effectiveness, which will increase to US\$ 12.5 million once disbursement and commitments reach US\$ 16.0 million.
16. Direct payment: minimum application amount above 20% of Special Account deposit.
17. Disbursement categories and percentages financed are shown in Table C below:

Annex 6, Table C: Allocation of Loan Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Goods		
(a) Equipment	5.5	100% of foreign expenditures and 80% of local expenditures
(b) Furniture	12.2	100% of foreign expenditures and 50% of local expenditures
2. Civil Works	0.2	80% of local expenditures
3. School Grants	15.3	25% of the amounts disbursed by the Borrower
4. Training and Consultants' Services	20.3	100% of all expenditures
5. Administrative Expenses	3.0	100% of foreign expenditures and 80% of local expenditures
6. Unallocated	6.0	
TOTAL	62.5	

Accounting, Financial Reporting and Auditing

18. The Project will maintain project accounts in accordance with sound accounting practices acceptable to the IBRD, as required by “Financial Account Reporting and Auditing Handbook”.
19. An annual audit report of project accounts, and a separate opinion with respect to the Statements of Expenditures and the Special Account prepared by independent auditors acceptable to the IBRD, and in accordance with the Bank document, “Financial Account Reporting and Auditing Handbook”, of January 1995, will be submitted to IBRD no more than six months after completion for each fiscal year.
20. Project expenditures will be recorded in such a way that all related sources of funds and types of expenditures are clearly identified. Each implementing agency and the financial agent will supply financial information on project execution on a quarterly basis to the DGP for consolidation into annual reports due to the Bank. DGP has established a uniform and consistent financial accounting and reporting system for the project. COEP will maintain all required information and supporting documentation for the preparation of the Statements of Expenditures (SOEs). DGP will be responsible for receiving disbursement information and documents from the implementing agencies; it will aggregate the data and prepare, sign, and submit to the Bank all withdraw applications regarding expenditures to be financed with the loan proceeds.

Annex 7
FUNDESCOLA I
Microregions and Project Phasing

FUNDESCOLA and the context of Municipalization

Proponents of decentralization typically cite a number of benefits for passing responsibilities from higher to lower levels of government, including greater efficiency, greater ownership and accountability by beneficiaries and stakeholders, and development of the capacity of local leaders. However the breath and depth of this process of power transfer is greatly dependent upon the capacity at the local level. What decentralization is not, and cannot be, is the direct and immediate transfer of all fiscal and political responsibility to the local level without regard for the capacity (or will) of the local authorities and beneficiaries to undertake the responsibilities that have previously pertained to higher levels of government.

In Brazil decentralization in education raises some issues of its own. The existing dual system, in which both the state and municipal governments are responsible for providing basic education (grades 1-8), engenders inefficient use of resources (including additional system managers), inequity in the distribution of school places and school quality, and provides little incentive for coordination between the systems. Add to these parallel and uncoordinated systems the federal government, with its supplementary and re-distributive role, and it is no great surprise to find a jumble of overlapping responsibilities and information.

With the creation of the Fund for the Development and Maintenance of Education and Teacher Valorization (FVM) the municipal education secretary will be assured at least R\$315 (in R\$1997) per student, adjusted annually and starting in 1998, with shortfalls provided on a targeted regional basis by federal funds. The greatest benefit of the FVM, in addition to its re-distributive nature, is the creation of a council at the municipal level to monitor the transparent and effective disbursement of educational expenditures.

Municipalities and Project Coordination

Given these sector changes, as well as the particular requirements of the dual system, a number of alternatives for project coordination were considered. The broad organizational options included direct (where the project management has a direct relationship with each municipality), indirect (where the project management interacts only with the state secretariat which in turn coordinate activities with municipalities) and integrated (where the project management interacts with the school and system managers responsible for schools within a given geographical area).

In assessing the possibilities for direct coordination with the municipalities, a number of human resource, technical, and operational characteristics of the municipalities were considered. In a pre-investment study of the existing human resource capacity of municipal management in the North and Center-West capital city municipalities (80 in total), 30% of

mayors had not completed secondary education. The education of the municipal secretaries is significantly higher: nearly two thirds had completed tertiary education. In terms of technical resources, only 40% of municipal secretariats operated out of their own building, and less than 25% possessed a fax machine. Procurement and contracting, as well as other operational requirements in the education sector, are similarly complicated: many municipal secretaries are unfamiliar with current legislation and requirements for primary education, as well as the most basic tools involved in the preparation of a teacher career plan. Finally, working individually with each municipality would engender greater bureaucracy at the federal level and would be nearly impossible to attend to the diverse needs of the 2,682 municipalities in the North, Northeast, and Center-West Regions.

Project coordination at the state level, with municipal interventions managed by the state secretariat was also analyzed. While this indirect coordination would facilitate project implementation, state cooperation with the municipal level would depend upon the political party or personal relationship between the state and municipal secretariats. Deriving lessons from the experience of the Northeast Basic Education Project, where municipalities were largely excluded as funds were controlled almost exclusively at the state level, project planners noted that there is little incentive for the state secretariat to look beyond their own system for capital and pedagogical improvements.

Based on this analysis, as well as the need to accompany the municipalization process in a balanced, supportive combination of top-down and bottom-up policies, the project's designers and the Bank looked to an integrated system of project coordination, which would attend to the needs of a group of schools within a defined grouping of municipalities. There are at least three existing means of grouping municipalities, including groups based on: regional divisions of the state secretariat, regional divisions of UNDIME, and IBGE microregions.

Organization of the micro-regions based on the state secretariat's directorates was rejected by FUNDESCOLA's designers as the regional groups are: largely dependent upon the location of the state system schools, politically motivated, and, in the case of the Northeast Basic Education Project, have not proved effective in the distribution of resources to the municipal system. However the implementation of an entirely new system that completely bypasses the state may be politically as well as institutionally difficult. Cooperation at some level (i.e. coordination of teacher certification programs, technical support of the microregional forum, and so on) should be sought as the existing regional offices are often better equipped than municipal offices (both in human and technical resources) and could be used in implementing FUNDESCOLA.

A second possibility, organization based on the divisions of UNDIME, varies greatly by state. Experience with the Northeast Basic Education Project has shown, for example that in Bahia UNDIME regions have been designed in opposition to the state secretariat's DIRECs, in order to give greater voice to municipal secretaries. In Ceará, the president of UNDIME works closely with the state secretary and UNDIME divisions match those of the state secretariat. The status of UNDIME in the North is precarious at best, and will be strengthened

as FUNDESCOLA is implemented.

The project's designers, through collaboration with UNDIME and in consultation with stakeholders, ultimately decided on divisions laid out by the Brazilian Census Bureau (IBGE). These microregions are within state lines, respect municipal divisions, and group together a number of municipalities, usually around a leading municipality such as the capital or other city. The IBGE microregions were selected as a means of grouping municipalities for project implementation as they are transparent (see Figure 7.4 or the IBGE website at <http://www.ibge.gov.br>), include both political-administrative and socio-economic divisions, and facilitate data collection as the Household Surveys and other national census instruments use the microregions.

The microregion model permits a more rational and effective managerial option than the traditional dispersion of resources among the individual municipalities or the concentration of resources to state governments chronically biased toward the state-run school system. Intervention in a microregion will cover all of the municipalities in the microregion, and all municipalities will participate. The microregion does not constitute an additional administrative division, but provides a basis for planning, negotiation, and dialogue among the municipal governments and the state government. For these reasons FUNDESCOLA has chosen the IBGE microregion as its key level of project execution.

Initial evidence in support of the Microregion Model

The microregion concept has already undergone significant testing in the preliminary preparation of FUNDESCOLA. In each of the capital city microregions of the North and Center West municipal education secretaries and representatives of the state secretariat have collaborated in a number of project instruments including a Project Logframe, School Assessment Survey, and Microregion Action Plan. Cooperation in the completion of these requirements for project participation is independent of party divisions and is based on both financial and operational incentives. For many municipalities, and often the state system, the FVM will result in fewer resources. These jurisdictions are therefore further motivated by these losses to participate in FUNDESCOLA resources as a significant contribution to their overall education budget (See Table 7.1 for estimated losses and gains from the FVM by Microregion). Municipal and state secretaries have also come to appreciate the advantages of cooperating in a collective planning exercise. Many net "winners" are municipalities with low institutional capacity and welcome the additional assistance for meeting their legal responsibility to provide basic education to the young population of their municipalities, as well as navigate an increasingly complex system. In sum, those facing fewer resources as well as those with greater technical need are equally attracted to project participation.

A positive spin-off of this collaboration, in addition to project instruments that include the input of all participating municipalities, has been the trading of teachers, student slots, and school and building facilities among the historically disparate state and municipal systems. The design of the microregion model strongly encourages greater rationalization and economies of scale among the municipal and state systems.

Table 7.1 Estimated Losses and Gains from the FVM by Microregion (R\$)

State	Microregion (MR)	Municipalities ¹	State ²	Adjustment in MR	Δ Municipal Budget Municipal Budget
AC	Rio Branco	3,480,409	-6,432,867	-2,952,458	8%
AM	Manaus	6,863,386	-11,508,664	-4,645,278	3%
AP	Macapa	315,810	-172,465	-856,656	1%
PA	Belem	-4,294,823	19,921,759	15,626,963	-3%
RO	Porto Velho	-1,370,881	-2746,855	-4,117,735	-3%
RR	Boa Vista	-2,947,193	2,748,015	-199,178	-11%
TO	Porto Nacional	-2,655,226	-777,581	-3,432,808	-5%
GO	Goiania	1,407,995	2,435,428	3,843,423	1%
MS	Campo Grande	7,535,907	-2,295,040	5,240,866	12%
MT	Cuiaba	3,672,367	-1,148,956	2,523,411	4%

Source: FNDE, 1997.

Phasing of the FUNDESCOLA program

Each microregion will participate in FUNDESCOLA in two phases. Phase 1 would focus on the implementation, by the participating states and municipalities of that microregion, of Components 1 and 4 and institutional development under Components 2 and 3 (see text of PAD). Consequently, it would raise the schools up to *minimum operational standards*, and would include institutional development, systems development, and management training for managers and technical staff in state and municipal secretariats of education to be capable of establishing a school-based development process and carrying out programs to increase school access. It is not expected that school construction or school project financing would be addressed in any significant way during this phase. Phase 2 would finance Components 2 and 3, and provide follow-up support for Components 1 and 4.

Project 1

FUNDESCOLA I will finance Phase 1 of the FUNDESCOLA program for the 10 capital city microregions in the North and Center West states. These include the microregions surrounding the cities of Belém, Boa Vista, Campo Grande, Cuiabá, Goiânia, Macapá, Manaus, Palmas, Porto Velho, Rio Branco. This first project will complete the development and testing of materials, processes, implementation strategies, and training for the other components. It will also include the finalization of instruments, mechanisms, and guides for these processes, the development, training, and trial testing of at least one complete cycle of the implementation strategy to be carried out under Phase 2, and the pilot testing in a specified number of municipalities and states of these processes. Finally, it will include mechanisms to assure the sustainability of the processes initiated in this program.

¹ Sum of FVM changes in municipalities within the capital city microregions.

² Calculated by proportion of expenditures allocated to microregion based on total enrollments in state schools within the microregion.

Projects 2 and 3

It is expected that the second Project to be prepared under the FUNDESCOLA Program will provide financing for Phase 2 for the same municipal and state schools and school systems supported under the first Project as well as Phase 1 and 2 for additional microregions. This loan could proceed if at least 50% of the loan funds of the first Project are disbursed. The third and final Project would finance Phase 2 for the second group of microregions, and Phases 1 and 2 of a final set of microregions.

Capital City Microregions

The capital city microregions, due to a process of rapid urbanization, possess the highest concentration of population in each state. This is especially true in the North and Center West Regions as outside of the capital, few medium to large cities exist. In the case of five states, the population of the capital city is larger than the remainder of the state. These numbers also hold true for the number of poor within the capital microregions. The largest number of poor families and poor children reside in the capital and the surrounding urban periphery.

FUNDESCOLA I will initiate implementation of Phase 1 within the Capital City Microregions of the North and Center-West states, a decision based on a number of operational and equity criteria, including: 1) the desire to attend to the highest concentration of students within each state, 2) the most effective means of initiating dialogue between the state and municipal systems, for replication within the interior in subsequent projects, and 3) the need to test the Program's instruments and operations within an environment that can be more easily monitored. Initial implementation within each state capital will allow for training of the state secretariat staff and technicians to work directly with municipalities in their close proximity, and secondly, initiate cooperation among the state and municipal secretariats for future project experience.

Criteria for Subsequent Projects

Preliminary criteria for additional microregions has been established as the following:

In the North and Center West, those microregions whose leading municipality is larger (in terms of population) than 50,000 will enter into the project. For those microregions which border on entering (within a 5% margin) a secondary criteria using the percentage of poor families, will be used. If the percentage of poor families is greater than or equal to that of the last microregion to enter the project, then the microregion will enter.

In the Northeast, those microregions whose leading municipality is larger than 100,000 inhabitants will enter into the project. For those microregions which border on entering (within a 5% margin) a secondary criteria using the percentage of poor families, will be used. If the percentage of poor families is greater than or equal to that of the last microregion to enter the project, then the microregion will enter. Table 7.2 shows the distribution of population within the capital city microregions.

7.2 Distribution of Population by Microregion

State	Microregion (MR)	No. of Municip.	Pop. Of Leading Municipality	Pop. Of MR	MR % of State Population
AC	Rio Branco	7	228990	270701	57%
AM	Manaus	7	1157357	1328995	56%
AP	Macapa	8	220962	309970	82%
PA	Belem	6	1144321	1628746	30%
RO	Porto Velho	7	294334	339340	28%
RR	Boa Vista	4	165518	179289	73%
TO	Porto Nacional ³	11	86116	163760	16%
GO	Goiania	17	1004098	1493709	33%
MS	Campo Grande	8	600069	651910	34%
MT	Cuiaba	5	433355	667567	30%

Source: IBGE 1996, Calculated

Additional criteria that can be considered for selection of microregions include: criteria considering only poverty indicators, preference to those microregions that are farthest from the capital (in order to strengthen interior poles), and location of regional state directorate (to best use available technical and human resources). Table 7.3 shows the distribution of poor families within the capital city microregions.

Table 7.3 - Distribution of Poor Families by Microregion

State	Microregion (MR)	Total Families in MR	Poor Families in MR	MR % of Poor Families in State
AC	Rio Branco	50782	8434	47%
AM	Manaus	224956	13473	40%
AP	Macapa	41000	3360	71%
PA	Belem	289517	29027	17%
RR	Boa Vista	29051	250	58%
TO	Porto Nacional ⁴	20263	2663	9%
GO	Goiania	314997	23542	22%
MS	Campo Grande	138594	9272	22%
MT	Cuiaba	133164	9909	23%

Source: IBGE 1996, Calculated

³ Porto Nacional, the microregion which includes Palmas, the capital of Tocantins is not the largest microregion in the state. This is due to the particular demographic and political history of the state, which was created in 1985.

Poverty Targeting and Variation within and among Microregions

Due to the well documented income inequalities in Brazil, poverty targeting is a key priority of Bank social investments. This focus was supported by the most recent CAS, which emphasized the importance of equalizing educational opportunities as a strategy for reducing regional disparities (June 12, 1997). In determining an appropriate criteria to effectively target poor communities in Brazil, it must be considered that poverty in Brazil is widespread and not limited to any single municipality or region. This is to say that although it is true that the North and Northeastern regions of Brazil have by far the lowest average per capita income, extreme levels of poverty can be found in many areas of southern states such as São Paulo and Rio de Janeiro. Regional aggregate indicators of poverty often are misleading as they can hide the situation at the state and microregional level.

In the same way that comparison between regions sometimes hides the extreme inequalities within them, variation among municipalities within the IBGE microregions can be just as misleading. There is less variation *between* microregions than *within* microregions, that is, the “poorest” municipality within a “rich” microregion is just as poor, and sometimes more poor than the poorest municipality in a “poor” microregion. This comparison within microregions holds true for the distribution of income using the example of the state of Goiás (Figure 7.1) as well as using promotion rates for the microregions within the same state (see Figure 7.2). In Figure 7.1 it is clear that even though there is a large variation in average income within each microregion, all microregions include very poor municipalities (as measured by average income). The same can be concluded by analyzing Figure 7.2: while there is a significant variation in the average promotion rates between microregions, there are municipalities in each and every microregion that have very low promotion rates.

As stated above, the capital city microregions consist of the capital municipality (in nearly every case the municipality with the largest population) and its neighboring municipalities. Due to a historical process of urbanization these capitals have attracted significant migration in search of economic, social, and educational opportunities. Frequently, the recent migrants to the cities are among the poorest. As a result, the highest level of inequality in any given state occurs in the capital city microregion, whereby the poorest families are just as poor as the poorest in other microregions (in Figure 7.1, this is shown by Goiania, the longest of all vertical lines in the graph).

A comparison of average income in the capital city microregions in the North and Center West (Figure 7.3) reveals that variation of income in all microregions is very large and that all capital city microregions include municipalities with very low average income. As such, by choosing the capital city microregions as beneficiaries, FUNDESCOLA I will target geographical areas with high levels of inequality that contain very poor municipalities.

The poor in Brazil are not limited to any one geographical area. As a result, choosing a single geographical area to target the poor is not the best way to approach project selection as high levels of poverty exist in every microregion. However, by choosing to work with the capital city microregions the project has selected those regions with: 1) the highest concentration of poor families; 2) the greatest level of inequality within any single

microregion in each state; and 3) levels of extreme poverty comparable to those of any other microregion.

Figure 7.1 Average Income: Variation Within Microregions in Goiás

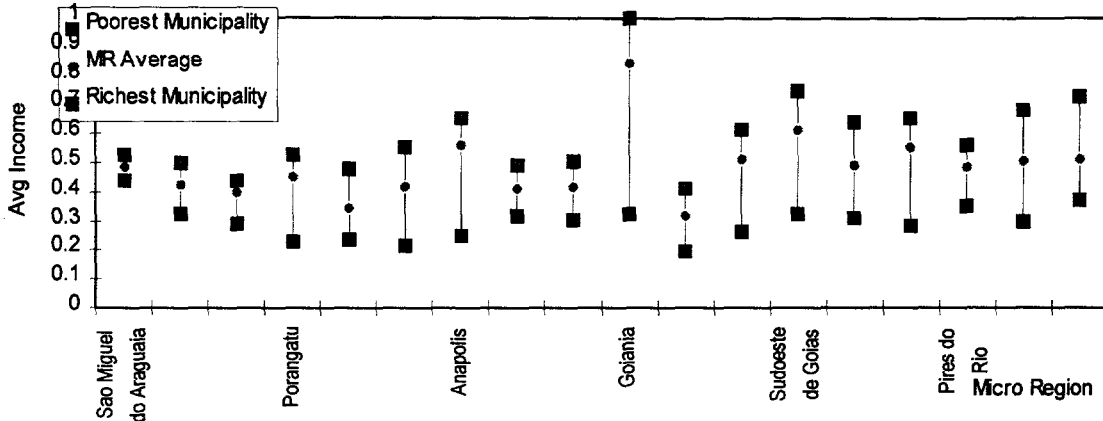


Figure 7.2 Promotion Rates: Variation Within Microregions in Goiás

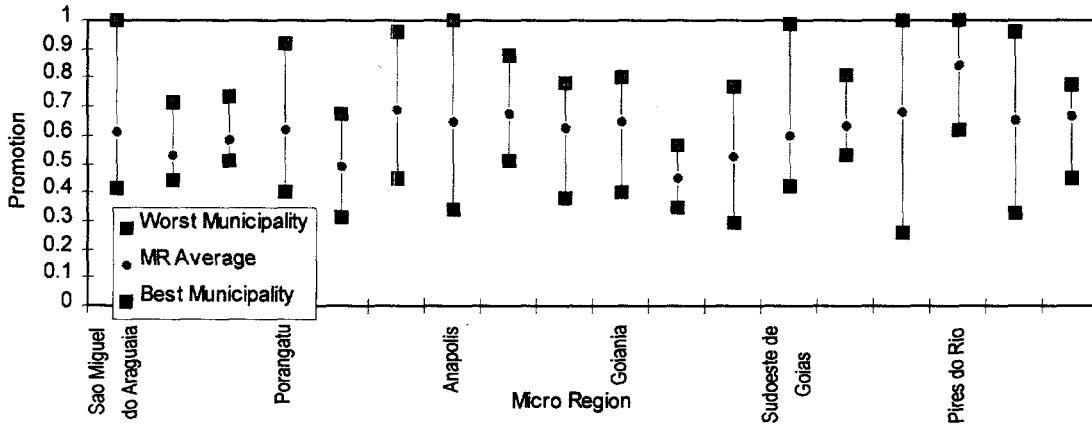


Figure 7.3 Average Income: Variation Within Microregions in N and CW

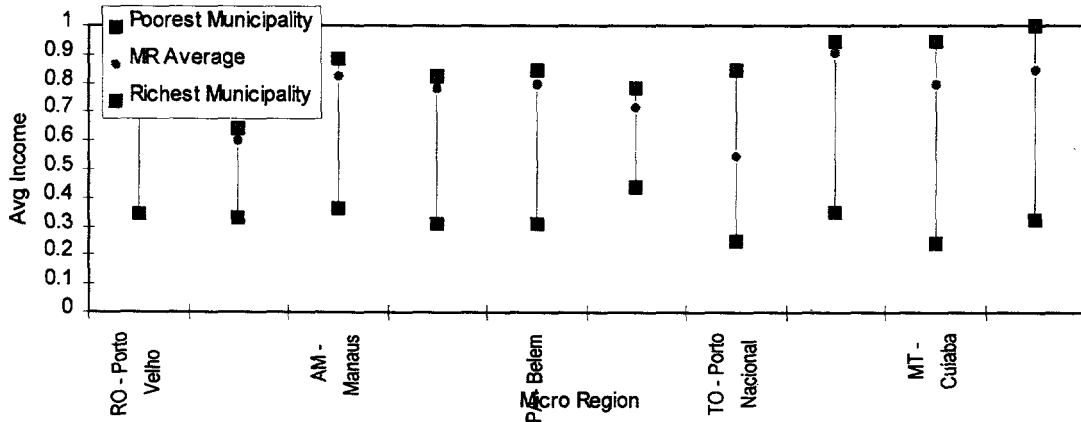
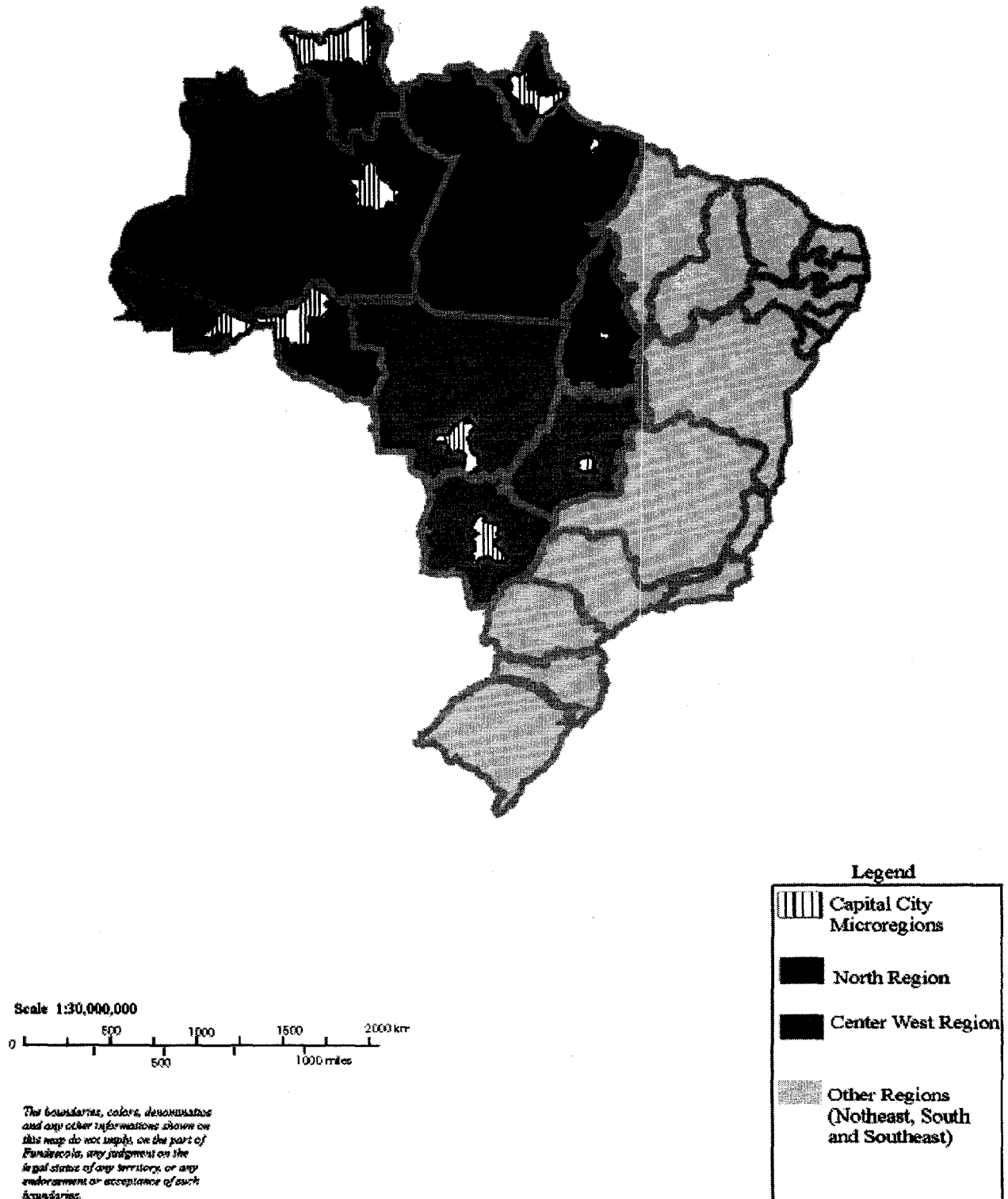


Figure 7.4 FUNDESCOLA I Capital City Microregions and Regions



Annex 8

FUNDESCOLA I

Social Assessment

1. Capital City Microregions: Social Context and Needs

Each FUNDESCOLA I microregion includes the capital city and a cluster (from five to seventeen, an average eight) of neighboring municipalities, totaling 80. Each one of these capital microregions represents a microcosm of its state in terms of geographic and demographic differences. The population of the capital microregions vary from 163,760 (Palmas, Tocantins) to 1,628,746 (Belém, Pará), with an average 703,000. The proportion of the state's population in the microregion ranges from 16 percent in Tocantins (Palmas) to 82 percent in Amapá (Macapá).

Poverty affects significant segments of the capital microregion populations. Seventy-one percent of all families classified as poor in the state of Amapá live in Macapá, the capital. This figure is 58 percent in Boa Vista (Roraima), 47 percent in Rio Branco (Acre); 40 percent in Manaus (Amazonas), and between 17 and 9 percent in Tocantins, Pará, and Rondônia. In the Center-West states, an average 23 percent of all families classified as poor live in the capital microregions. Of a total of approximately 1,350,000 children in the 7-14 age group in the ten capital microregions, 98,000 (or 7.7 percent) are out of school.

2. Education and Social Development

Social development means to a large extent economic development. A diverse body of literature shows that a country's development requires educated adults, higher individual earnings, and greater agricultural productivity, but also a set of behaviors and attitudes of a distinctive "social" character. According to a study by IBGE, there is a strong relationship between unemployment and education: of the 4.2 million unemployed in Brazil, 51 percent have less than four years of schooling.

Designed to support social development, FUNDESCOLA I assumes that basic education: (a) forges national unity and social cohesiveness by conveying common values (i.e., the school staff and its community are responsible for educational improvement); (b) is a proven mechanism for social mobility and distribution of collective resources; (c) leads to the adoption of "modern" attitudes--meaning rational and egalitarian beliefs, conducive to pluralism and productivity; (d) promotes adaptability of the population to technological change; (e) enhances community development and participation; (f) upgrades the status of women as mothers, labor force members and community leaders; (g) helps reduce women's fertility, which makes raising the standard of living less difficult; (g) improves domestic hygiene and nutritional practices, thus increasing children's survival, psycho-social development and school readiness; and (h) encourages parents to send their children to school, thus reinforcing a "virtuous circle."

3. Preliminary Conclusions and Social Expectations

A review of local studies and the preliminary beneficiary assessment conducted in the North,¹ mainly in two of the capital microregions (Belém and Manaus), yield the following conclusions:

- State and municipal education systems are at best not coordinated, and at worst, in conflict with one another;
- Parents and the community hold high, almost idealized, expectations about schooling and the possibility that schools can produce outstanding educational results despite their social and physical context;
- Poor families look to the school and the education process as their last chance to seek to achieve better living conditions in the future. They are aware that society does not normally give the poor a second chance other than school.
- Parents expect that their children will attain higher levels of schooling than they had.
- Teachers expect children to begin first grade already having mastered basics of reading. As a consequence, they do not concentrate on initial literacy acquisition.
- Parents hope that their children's persistence in school despite high levels of age-grade distortion, learning failures and repetition, may nevertheless compensate for school deficiencies.
- Classroom strategies and methodologies are often limited to repetitive activities such as copying from the blackboard and didactic, non-interactive methodologies.
- Schools in which priority is given to educational achievement contribute to significantly raise academic performance, but schools do not often plan for these objectives.
- In many communities the school is the most visible social agency. Schools are seen by the students and parents as a place for social communication and exchange. Nevertheless, socialization is not an issue valued by school teachers and other school leaders.
- Two major reasons are frequently reported by adolescents for dropping out of school: the need to work, and poor school quality. Both factors combine to cause a high dropout rates; higher in the North than in the Center-West.
- A great sociological distance exists between the school and the community. This has to do with unmet expectations on both sides. The school does not promote community involvement in order that parents can participate in school life and their children's education.

As a pilot project, FUNDESCOLA I will develop a full-fledged beneficiary assessment for the North and Center-West regions. The methodology has been established and the consultants

¹ Portela, Adélia Luíza. Avaliação do Beneficiário: Estudo Preliminar Realizado nas Regiões do Norte e Nordeste do Brasil, FUNDESCOLA (Unpublished, 1997).

selected, so that work can be started immediately following the implementation of the project. The results will be applied to FUNDESCOLA I and the subsequent FUNDESCOLA projects. Preliminary data seem to indicate that the North and Center-West needs and expectations do not differ markedly from those identified in the Northeast and described in the “A Call to Action” report.²

Beneficiaries and Expected Benefits

The ultimate beneficiary of FUNDESCOLA I will be the North and Center-West society and economy which will reap the advantages of having better equipped and result-oriented schools, and as a consequence, more learned and skilled students who will, in turn, become participatory and contributing citizens of a democratic society and productive builders of a knowledge-based economy. The immediate beneficiaries are:

Students will benefit most from the following project inputs: (a) the assurance of Minimum Operational Standards in overall school operation; (b) school-selected classroom materials; (c) more motivated teachers to help the students benefit from the learning process; (d) the organization and innovation implied by the school development plan and the school subprojects; and (e) school principals with higher levels of managerial skills to make school a more pleasant and efficient place.

Teachers will benefit substantively from: (a) availability of didactic materials to improve their work environment and raise the probability of successful results; (b) the specialized teaching improvement programs; (c) the institution of school subprojects as quality-oriented instruments; and (d) availability of quality feedback/evaluation information provided by SAEB.

School Principals will benefit from: (a) continuing professional development programs and acquisition of modern managerial skills; (b) the School Development Plan as a key participatory and team-building instrument; (c) the provision of closer technical assistance by the Municipal Education Secretariat and the School Development Group; (d) the cooperation provided by more motivated and efficient teachers; and (e) closer and meaningful cooperation provided by more informed parents.

Parents will benefit considerably from: (a) the operation of a more efficient, and accountable learning environment for their children; (b) cooperative participation in the design of the School Development Plan; (c) more skillful and qualified school managers to interact with; (d) more motivated, professionally developed and community-oriented teachers; and (e) additional information on the social and economic value of schooling prompting them to retain their children at school and defer immediate economic gratification.

² Call to Action : Combating School Failure in the Northeast of Brazil. Brasilia: Ministry of Education/Northeast Basic Education Project, The World Bank, UNICEF, 1997.

Annex 9
FUNDESCOLA I
Project Processing Budget and Schedule

A. Project Budget (US\$000)	<u>Planned</u> (At final PCD stage) 200,000	<u>Actual</u> 140,000
B. Project Schedule	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
Time taken to prepare the project (months)	14 months	8 months
First Bank mission (identification)	07/01/97	07/01/97
Project Concept Paper review meeting	11/15/97	10/23/97
Appraisal mission departure	01/16/98	12/01/97
Negotiations	04/15/98	02/18/98
Board Presentation	06/15/98	
Signing	08/15/98	
Planned Date of Effectiveness	08/30/98	
Prepared by: Ministry of Education		
Preparation assistance: Government of Brazil		
C. Bank staff who worked on the project included:		
<u>Name</u>	<u>Specialty</u>	
Robin Horn	Task Management/Education Economics	
Ward Heneveld	Education/School	
Alberto Rodriguez	Education	
Alcyone Saliba	Education	
Barbara Nunberg	Public Management	
Chris Parel	Economist/Country Officer	
Juliana Weissman	Social Fund Specialist	
Madalena dos Santos	Education	
Sergei Suarez	Education Economics	

Annex 10
FUNDESCOLA I
Documents in the Project File

A. Project Operations and Implementation Manual (MOIP)

Will be available on project effectiveness.

B. Other

1. Subsídios para a elaboração do Plano Nacional de Educação: educação infantil e ensino fundamental. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
2. Evolução da Educação Básica no Brasil: 1991-1997. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
3. Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magistério: guia para sua operacionalização. Ministério da Educação e do Desporto –MEC, Fundo Nacional de Desenvolvimento da Educação – FNDE, São Paulo 1997.
4. Carta Lei Darcy Ribeiro no. 9.394, de 1996: emendas à constituição nos. 11 e 14, de 1996 e Lei 9.424, de 1996, Diretrizes e Bases da Educação Nacional. Gabinete do Senador Darcy Ribeiro, Brasília, 1997.
5. Sistemática de Financiamento do Ensino Fundamental. Fundo Nacional de Desenvolvimento da Educação – FNDE, Ministério da Educação e do Desporto -MEC, Brasília, 1997.
6. Dinheiro na Escola: procedimentos operacionais. Ministério da Educação e do Desporto – MEC, Brasília. 1997.
7. Manual de Orientação para Constituição de Unidades Executoras. MEC - Secretaria de Educação Fundamental, Brasília, 1997.
8. Informe Estatístico 1, 1996: Brasil, Norte, Nordeste, Sudeste, Sul, Centro-Oeste. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
9. Informe Estatístico 2, 1996: Rondônia, Acre, Amazonas, Roraima, Amapá, Pará, Tocantins. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
10. Informe Estatístico 3, 1996: Maranhão, Piauí, Ceará, Rio Grande do Norte, Pernambuco, Alagoas, Sergipe, Bahia. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
11. Informe Estatístico 4, 1996: Minas Gerais, Espírito Santo, Rio de Janeiro, São Paulo. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
12. Informe Estatístico 5, 1996: Paraná, Santa Catarina, Rio Grande do Sul. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
13. Informe Estatístico 6, 1996: Mato Grosso do Sul, Mato Grosso, Goiás, Distrito Federal. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
14. Sistema Nacional de Avaliação da Educação Básica, SAEB/95: resultados estaduais. Instituto Nacional de Estudos e Pesquisas Educacionais - INEP, Brasília, 1997.
15. Ditos sobre a Evasão Escolar: estudos de casos no estado da Bahia. Paulo Roberto Holanda Gurgel. Ministério da Educação e do Desporto - MEC, Projeto de Educação Básica para o Nordeste, Brasília, 1997.
16. Educação, Escola e Comunidade: estudo piloto no estado da Bahia. Adélia Lúiza Portela and Eni Santana Barretto Bastos. Ministério da Educação e do Desporto - MEC, Projeto de Educação Básica para o Nordeste, Brasília, 1997.
17. Chamada à Ação: combatendo o fracasso escolar no Nordeste. Projeto Nordeste, Banco Mundial, UNICEF, Brasília 1997.
18. Lições e Práticas 1-13. Varias Autores, Projeto Nordeste, Banco Mundial, UNICEF, Brasília 1997.
19. Guia de Consulta, Programa de Apoio aos Secretários Municipais de Educação (PRASEM). Projeto Nordeste, Banco Mundial, UNICEF, Brasília 1997.

Status of Bank Group Operations in Brazil
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/		Last ARPP Supervision Rating b/	
					IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd	Dev Obj	Imp Prog
Number of Closed Loans/credits: 201												
<u>Active Loans</u>												
BR-PE-6414	IBRD 30430	1989	COMGAS, SAO PAULO	NTRL GAS DIST	94.00	0.00	0.00	5.09	5.07	0.00	S	S
BR-PE-6370	IBRD 30130	1989	FEDERATIVE REPUBLIC OF BR	NE IRRI JAIBA	71.00	0.00	0.00	5.58	5.59	0.00	HS	S
BR-PE-6446	IBRD 31730	1990	FEDERATIVE REPUBLIC OF BR	NAT ENVIRONMT	117.00	0.00	0.00	26.59	26.61	0.00	S	S
BR-PE-6453	IBRD 31700	1990	FEDERATIVE REPUBLIC OF BR	NE IRRIG I	210.00	0.00	69.00	31.94	100.96	31.96	S	S
BR-PE-6473	IBRD 31600	1990	STATE OF SANTA CATARINA	LND MGMT II-S. CATAR	33.00	0.00	0.00	5.33	5.38	0.00	S	S
BR-PE-6492	IBRD 33760	1991	PETROBRAS BRAZI	HYDROCARBN TRNSP/PRO	260.00	0.00	0.00	8.81	8.80	0.00	S	S
BR-PE-6364	IBRD 33750	1991	STATE OF SAO PAULO	INNOV BASIC ED	245.00	0.00	0.00	44.24	44.24	0.00	S	S
BR-PE-6505	IBRD 34920	1992	GOVERNMENT OF BRAZIL	MATO GROSSO NAT RES	205.00	0.00	0.00	88.77	88.77	0.00	S	S
BR-PE-6368	IBRD 3442A	1992	GOVERNMENT	WATER SECTOR MODERNI	69.62	0.00	0.00	57.93	225.80	0.00	S	S
BR-PE-6547	IBRD 36330	1993	FED.REP.OF BRAZIL	METRO TRANSP. RIO	81.02	0.00	0.00	.34	37.57	0.00	S	S
BR-PE-6427	IBRD 36040	1993	MIN. OF EDUCATION N	NE BASIC EDUC II	212.00	0.00	0.00	57.96	39.02	0.00	S	S
BR-PE-6540	IBRD 35540	1993	MINAS GERAIS ST.	WTR Q/PLN(MINAS GERA	145.00	0.00	5.00	25.68	30.67	-12.53	S	S
BR-PE-6378	IBRD 35480	1993	STATE GOVERNMENTS	STATE HWY MGMT	38.00	0.00	18.00	6.53	26.76	-1.38	U	U
BR-PE-6378	IBRD 35470	1993	STATE GOVERNMENTS	STATE HWY MGMT	50.00	0.00	0.00	5.58	26.76	-1.38	U	U
BR-PE-6541	IBRD 35050	1993	S.PAULO/PARANA STS.	WTR Q/PLN(SP/PARANA)	117.00	0.00	0.00	49.05	93.17	0.00	S	S
BR-PE-6541	IBRD 35040	1993	S.PAULO/PARANA STS.	WTR Q/PLN(SP/PARANA)	119.00	0.00	0.00	38.54	93.17	0.00	S	S
BR-PE-6541	IBRD 35030	1993	S.PAULO/PARANA STS.	WTR Q/PLN(SP/PARANA)	9.00	0.00	0.00	5.60	93.17	0.00	S	S
BR-PE-6522	IBRD 37670	1994	ST.OF ESPIRITO SANTO	ESP.SANTO WATER	154.00	0.00	0.00	90.30	59.06	0.00	S	U
BR-PE-6558	IBRD 37660	1994	REPUBLIC OF BRAZIL	PARANA BASIC EDUC	96.00	0.00	0.00	29.01	-3.67	0.00	S	S
BR-PE-6543	IBRD 37330	1994	GOVERNMENT	M. GERAIS BASIC EDUC	150.00	0.00	0.00	56.60	13.93	0.00	S	S
BR-PE-6555	IBRD 37150	1994	STATE GOVTS	STE HWY MGT II	79.00	0.00	18.00	7.52	3.67	-21.52	S	S
BR-PE-6555	IBRD 37130	1994	STATE GOVTS	STE HWY MGT II	54.00	0.00	18.00	18.48	3.67	-21.52	S	S
BR-PE-6452	IBRD 36630	1994	MINISTRY OF EDUCATION	NE BASIC EDUC III	206.60	0.00	0.00	88.21	60.34	0.00	S	S
BR-PE-6546	IBRD 36590	1994	GOVERNMENT	AIDS CONTROL	160.00	0.00	0.00	16.40	1.58	0.00	S	HS
BR-PE-6524	IBRD 36390	1994	ST.OF MINAS GERAIS	MINAS MNC.DEVELOPMT	150.00	0.00	5.00	40.23	33.88	0.00	S	S
BR-PE-38885	IBRD 39190	1995	GOVT OF BRAZIL	RURAL POV.-SERGIPE	36.00	0.00	0.00	21.27	1.26	0.00	S	S
BR-PE-38884	IBRD 39180	1995	GOVT OF BRAZIL	RURAL POV.- CEARA	70.00	0.00	0.00	49.77	8.17	0.00	S	S
BR-PE-35717	IBRD 39170	1995	GOVT OF BRAZIL	RURAL POV. (BAHIA)	105.00	0.00	0.00	65.51	8.20	0.00	S	S
BR-PE-6564	IBRD 39160	1995	FED REPUBLIC/BRAZIL	BELO H M.TSP	15.68	0.00	0.00	.36	42.78	0.00	S	S
BR-PE-6564	IBRD 3916A	1995	FED REPUBLIC/BRAZIL	BELO H M.TSP	83.32	0.00	0.00	83.32	42.78	0.00	S	S
BR-PE-38882	IBRD 3915A	1995	FED REPUBLIC OF BRAZIL	RECIFE M.TSP	98.72	0.00	0.00	98.72	42.80	0.00	S	S
BR-PE-6436	IBRD 37890	1995	STATE OF CEARA ZIL	CEARA UR.DV/WATER CO	140.00	0.00	0.00	111.59	68.92	-2.16	S	S
BR-PE-37828	IBRD 40600	1996	STATE OF PARANA	(PR)R.POVERTY	175.00	0.00	0.00	175.00	67.93	0.00	S	S
BR-PE-6554	IBRD 40470	1996	FED. REP. OF BRAZIL	HLTH SCTR REFORM	300.00	0.00	0.00	261.09	64.41	0.00	S	S
BR-PE-40028	IBRD 4046A	1996	FEDERATIVE REPUBLIC OF BR	RAILWAYS RESTRUCTURG	151.48	0.00	0.00	142.62	.95	0.00	S	S
BR-PE-6512	IBRD 39240	1996	CVRD	ENV/CONS(CVRD)	50.00	0.00	0.00	31.07	4.93	0.00	S	S
BR-PE-6547	IBRD 3633A	1996	FED.REP.OF BRAZIL	METRO TRANSP. RIO	47.48	0.00	0.00	37.22	37.57	0.00	S	S
BR-PE-46052	IBRD 41900	1997		CEARA WTR PILOT	9.60	0.00	0.00	9.60	0.00	0.00		
BR-PE-48870	IBRD 41890	1997	THE STATE OF MATO GROSSO	MT STATE PRIV.	45.00	0.00	0.00	45.00	4.17	0.00	S	S
BR-PE-6532	IBRD 41880	1997	FEDERAL GOVERNMENT	FED HWY DECENTR	300.00	0.00	0.00	300.00	13.34	0.00	HS	S
BR-PE-43873	IBRD 41690	1997	FED.REP.OF BRAZIL	AG TECH DEV.	60.00	0.00	0.00	56.01	6.96	0.00	S	S
BR-PE-34578	IBRD 41650	1997	RIO GRANDE DO SUL	RGS HWY MGT	70.00	0.00	0.00	70.00	4.67	0.00	S	S
BR-PE-43868	IBRD 41480	1997	STATE OF RGS	RGS LAND MGT/POVERTY	100.00	0.00	0.00	97.00	6.87	0.00	S	S
BR-PE-6475	IBRD 41470	1997	FED. REP. OF BRAZIL	LAND RFM PILOT	90.00	0.00	0.00	75.05	-3.85	0.00	S	S
BR-PE-6562	IBRD 41400	1997	STATE OF BAHIA	BAHIA MUN.DV	100.00	0.00	0.00	98.98	5.65	0.00	S	S
BR-PE-39196	IBRD 41390	1997	STATE OF RIO GRANDE DO SU	RGS ST.REFORM	125.00	0.00	0.00	75.00	30.00	0.00	S	S
BR-PE-42566	IBRD 41220	1997	STATE OF PERNAMBUCO	R.POVERTY (PE)	39.00	0.00	0.00	33.61	5.56	0.00	S	S

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/			Last ARPP Supervision Rating b/	
					IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd	Dev Obj	Imp Prog	
BR-PE-43871	IBRD 41210	1997	STATE OF PIAUI	(PIAUI)R.POVERTY	30.00	0.00	0.00	26.67	4.17	0.00	S	S	
BR-PE-38896	IBRD 41200	1997	STATE OF RGN	R.POVERTY(RGN)	24.00	0.00	0.00	21.24	2.71	0.00	S	S	
BR-PE-38947	IBRD 42660	1998	GOVERNMENT OF BRAZIL	SC. & TECH 3	155.00	0.00	0.00	155.00	0.00	0.00			
BR-PE-6549	IBRD 42650	1998	PETROBRAS	GAS SCTR DEV PROJECT	130.00	0.00	0.00	130.00	0.00	0.00			
BR-PE-51701	IBRD 42520	1998	STATE OF MARANHAO	MARANHAO R.POVERTY	80.00	0.00	0.00	80.00	0.00	0.00			
BR-PE-42565	IBRD 42510	1998	STATE OF PARAIBA	PARAIBA R.POVERTY	60.00	0.00	0.00	60.00	0.00	0.00			
BR-PE-48357	IBRD 42450	1998	REPUBLIC OF BRAZIL	CEN.BANK TAL	20.00	0.00	0.00	20.00	0.00	0.00			
BR-PE-6474	IBRD 42380	1998	STATE OF SAO PAULO	LAND MGT 3(SP)	55.00	0.00	0.00	55.00	0.00	0.00			
BR-PE-35728	IBRD 42320	1998	STATE OF BAHIA	BAHIA WTR RESOURCES	51.00	0.00	0.00	51.00	0.00	0.00			
BR-PE-39197	IBRD 42110	1998	STATE OF RIO DE JANEIRO	RJ ST.PRIV.	250.00	0.00	0.00	250.00	137.50	0.00	S	S	
Total					6,191.52	0.00	133.00	3,597.01	1,732.42	-28.53			

	Active Loans	Closed Loans	Total
Total Disbursed (IBRD and IDA):	2,461.49	14,924.18	17,385.67
of which has been repaid:	203.09	12,311.36	12,514.45
Total now held by IBRD and IDA:	5,855.42	2,663.84	8,519.26
Amount sold:	0.00	45.83	45.83
Of which repaid:	0.00	45.83	45.83
Total Undisbursed:	3,597.01	51.05	3,648.06

- a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
- b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:
Disbursement data is updated at the end of the first week of the month.

Brazil at a glance

8/28/97

POVERTY and SOCIAL

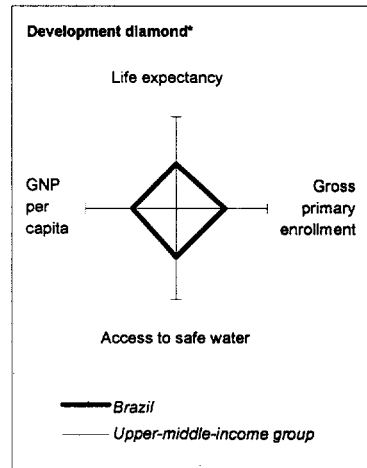
	Brazil	Latin America & Carib.	Upper-middle-income
Population mid-1996 (millions)	161.2	485	479
GNP per capita 1996 (US\$)	4,360	3,710	4,540
GNP 1996 (billions US\$)	702.9	1,799	2,173

Average annual growth, 1990-96

	Brazil	Latin America & Carib.	Upper-middle-income
Population (%)	1.4	1.7	1.5
Labor force (%)	1.6	2.3	1.8

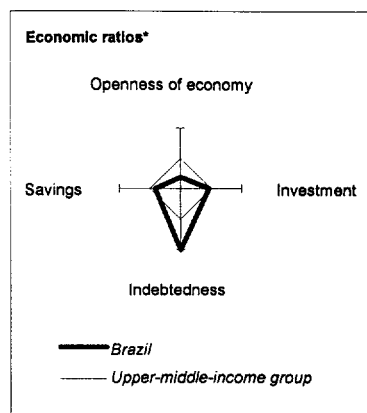
Most recent estimate (latest year available since 1989)

	Brazil	Latin America & Carib.	Upper-middle-income
Poverty: headcount index (% of population)	17	..	..
Urban population (% of total population)	78	74	73
Life expectancy at birth (years)	67	69	69
Infant mortality (per 1,000 live births)	44	37	35
Child malnutrition (% of children under 5)	18	..	..
Access to safe water (% of population)	92	80	86
Illiteracy (% of population age 15+)	17	13	13
Gross primary enrollment (% of school-age population)	114	110	107
Male	..	..	..
Female	..	..	..



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

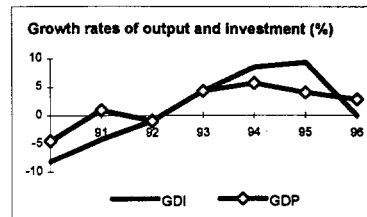
	1975	1985	1995	1996
GDP (billions US\$)	121.8	222.9	716.9	748.7
Gross domestic investment/GDP	26.8	19.2	20.1	19.5
Exports of goods and services/GDP	7.5	12.2	6.7	6.6
Gross domestic savings/GDP	22.9	24.4	19.2	18.2
Gross national savings/GDP	21.1	19.3	17.6	16.3
Current account balance/GDP	-5.8	-0.2	-2.5	-3.2
Interest payments/GDP	1.7	3.3	1.2	1.7
Total debt/GDP	22.4	46.5	22.2	23.8
Total debt service/exports	43.5	39.1	43.1	46.7
Present value of debt/GDP	..	..	22.1	..
Present value of debt/exports	..	..	270.7	..



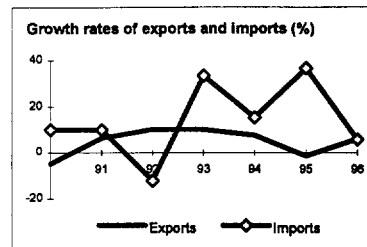
	1975-85	1986-96	1995	1996	1997-05
(average annual growth)					
GDP	3.1	1.2	4.1	2.9	4.8
GNP per capita	0.2	-0.4	2.8	1.6	4.0
Exports of goods and services	10.5	6.5	-1.4	6.1	7.0

STRUCTURE of the ECONOMY

(% of GDP)	1975	1985	1995	1996
Agriculture	12.1	11.5	14.4	14.4
Industry	40.2	45.3	36.5	36.4
Manufacturing	30.3	33.7	23.8	..
Services	47.7	43.1	49.1	49.2
Private consumption	66.5	65.8	64.9	65.7
General government consumption	10.6	9.9	15.9	16.1
Imports of goods and services	11.5	7.1	7.6	7.9



(average annual growth)	1975-85	1986-96	1995	1996
Agriculture	4.3	2.6	4.9	3.1
Industry	3.0	-1.1	2.1	2.3
Manufacturing	2.6	-1.5	2.1	..
Services	2.9	2.8	5.3	3.3
Private consumption	3.0	1.8	11.0	4.1
General government consumption	1.2	0.7	2.4	0.8
Gross domestic investment	-2.9	-0.6	9.4	0.0
Imports of goods and services	-4.0	8.9	36.8	5.9
Gross national product	2.5	1.1	4.2	2.9



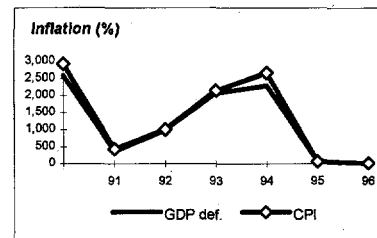
Note: 1996 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Brazil

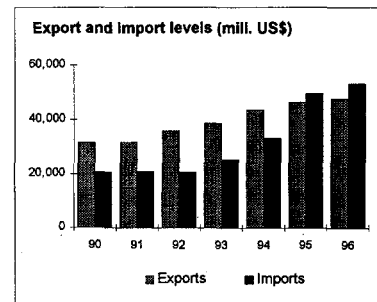
PRICES and GOVERNMENT FINANCE

	1975	1985	1995	1996
Domestic prices				
(% change)				
Consumer prices	25.0	226.9	67.0	15.5
Implicit GDP deflator	33.9	231.7	74.9	11.1
Government finance				
(% of GDP)				
Current revenue	..	..	31.5	32.4
Primary surplus/deficit	..	..	0.4	-0.1
Operational surplus/deficit	..	..	-4.8	-3.9



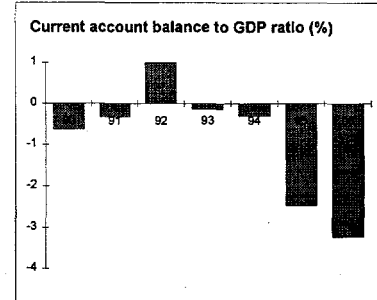
TRADE

	1975	1985	1995	1996
(millions US\$)				
Total exports (fob)	..	25,638	46,508	47,746
Coffee	..	2,607	1,970	2,059
Other food	..	2,545	3,896	4,665
Manufactures	..	13,356	25,568	26,247
Total imports (cif)	..	13,153	49,663	53,286
Food	3,535	6,044
Fuel and energy	..	6,176	4,649	5,752
Capital goods	..	2,480	19,688	19,804
Export price index (1987=100)	..	97	128	126
Import price index (1987=100)	..	79	124	125
Terms of trade (1987=100)	..	123	103	101



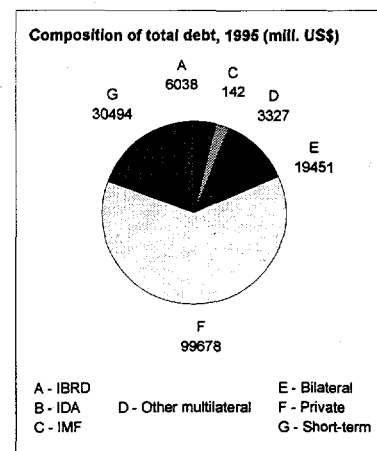
BALANCE of PAYMENTS

	1975	1985	1995	1996
(millions US\$)				
Exports of goods and services	9,418	27,713	47,960	49,558
Imports of goods and services	14,323	16,928	54,306	59,355
Resource balance	-4,905	10,785	-6,346	-9,797
Net income	-2,106	-11,213	-15,419	-17,402
Net current transfers	-10	16	3,973	2,899
Current account balance, before official capital transfers	-7,021	-412	-17,792	-24,300
Financing items (net)	5,956	1,826	30,779	32,935
Changes in net reserves	1,065	-1,414	-12,987	-8,635
Memo:				
Reserves including gold (mill. US\$)	4,166	11,613	51,469	59,663
Conversion rate (local/US\$)	3.0E-12	2.3E-09	0.9	1.0











EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1995	1996
(millions US\$)				
Total debt outstanding and disbursed	27,329	103,601	159,130	178,131
IBRD	1,045	5,274	8,038	5,876
IDA	0	0	0	0
Total debt service	4,320	11,470	22,328	..
IBRD	98	796	1,868	1,638
IDA	0	0	0	0
Composition of net resource flows				
Official grants	9	34	64	..
Official creditors	1,059	935	-1,378	..
Private creditors	4,213	149	9,827	..
Foreign direct investment	1,302	1,348	4,859	..
Portfolio equity	0	0	4,411	..
World Bank program				
Commitments	538	1,525	404	858
Disbursements	249	765	838	1,500
Principal repayments	26	406	1,377	1,222
Net flows	224	359	-539	278
Interest payments	72	391	491	416
Net transfers	152	-32	-1,031	-138



BRAZIL

FUNDESCOLA I PROJECT STATES:

-  NORTH REGION
-  CENTER WEST REGION
-  RIVERS
-  STATE CAPITALS
-  NATIONAL CAPITAL
-  STATE BOUNDARIES
-  REGION BOUNDARIES
-  INTERNATIONAL BOUNDARIES

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