**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

 3/12/2014

Report No.: AB7567

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| **Operation Name** | DEVELOPMENT POLICIES FOR THE STATE OF SERGIPE II (*POLÍTICAS DE DESENVOLVIMENTO NO ESTADO DE SERGIPE II)* |
| **Region** | LATIN AMERICA AND CARIBBEAN |
| **Country** | Brazil |
| **Sector** | Health (25%); general education sector (25%); general agriculture, fishing and forestry sector (25%); sub-national government administration (25%) |
| **Operation ID** | P148145 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | STATE OF SERGIPE |
| **Implementing Agency** | State Secretariat of Finance |
| **Date PID Prepared** | April 23, 2014 |
| **Estimated Date of Appraisal** | April 4, 2014 |
| **Estimated Date of Board Approval** | June 10, 2014 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with appraisal and negotiations. |

1. **Key development issues and rationale for Bank involvement**

While Brazil has achieved impressive gains in poverty and inequality reduction, challenges remain. Using Brazil’s reference lines for the *Bolsa Família* program and the *Brasil Sem Miséria* Plan to track the evolution of poverty, between 1995 and 2012, extreme (R$70) and moderate poverty (R$140) have fallen from 10 percent to 4.3 and 24.6 to 9.4 percent respectively.[[1]](#footnote-1) In addition, starting in 2002, Brazil has seen a drastic drop in inequality, evident in the reduction in the Gini coefficient from 0.601 at the beginning of the millennium to 0.536 in 2011. However, Brazil maintains high levels of inequality, even by regional standards, with the richest 10 percent of the population earning 44.5 percent of total income compared to just 1.1 percent for the poorest 10 percent.

Sergipe’s poverty has declined more sharply than much of Brazil, maintaining its position as one of the states with the lowest incidence of poverty in the Northeast Region for over 15 years and becoming the state with the lowest rate of poverty in the Northeast for both 2011 and 2012. While the incidence of both moderate and extreme poverty in the Northeastern region of Brazil has historically been significantly higher than in Brazil as a whole, with a moderate poverty rate of 18.4 percent in 2012 compared to 9.4 percent nationally, Sergipe is well below the regional average with a rate of 14.0 percent for 2012. With regards to extreme poverty, Sergipe remains significantly below the regional average with an incidence of 5.1 percent compared to 7.8 percent for the Northeast. However, extreme poverty remains higher in Sergipe than in the nation as a whole (4.3 percent). Over the last decade, Sergipe has seen a more robust decline in poverty than the national average (a reduction of 22.4 and 9.7 percentage points in moderate and extreme poverty respectively from 2002 to 2012, compared to 14.6 and 5.1 nationally).

Though Sergipe performs relatively well on key development indicators compared to other states in the Northeast, it lags behind the national average. In recent years, education, health and income growth indicators have improved at a faster pace than other Northeast states, translating into the highest Human Development Index in the region. Despite progress, Sergipe still ranks below the national average on key development indicators. The Government of Sergipe (GoS) recognizes that closing the gap will require reaching the poorest segments of the population. To this end, the GoS has outlined an ambitious program to eradicate poverty in the State, which is aligned with the Federal Government’s *Brasil Sem Miséria* program. It has also defined, through a participatory planning process, a series of poverty alleviation strategies and has sought World Bank support in realizing these strategies.

The design of this operation was influenced by the supervision of the first DPL, as well as lessons learned from other operations. Although this operation was not envisaged at the time of preparation of the first DPL, it allowed for a continuous dialogue with the client not only to monitor and evaluate progress on the previously agreed policy reforms, but also to assess bottlenecks that prevented achievement of expected results. This was particularly important for actions in the education and health sectors. Also, given that this operation was designed in the last year of this administration and in close proximity to the previous operation, the policy options are bound by the same broader policy framework that applied to the first DPL. As per lessons learned from other operations, the importance of articulating well the analytical underpinnings has proven to be essential.

1. **Proposed Objective(s)**

The Development Policy Objective of the proposed operation is to improve public management and service delivery for the poor.

1. **Preliminary Description**

This multisectoral DPL will focus on three pillars that have been identified by the Government as posing challenges to achievement of its poverty reduction goals: (i) supporting more effective procurement and tax administration (Pillar A); (ii) enhancing the quality of maternal health and diabetes care, and education management (Pillar B); and (iii) reducing vulnerability of rural populations in the interior of the State (Pillar C). The operation will support the GoS in realizing its commitment to eradicate poverty in the State by promoting structural reforms and expanding provision of essential public services.

Through the participatory planning process, the State of Sergipe identified strategies aimed at achieving its goal of eradicating extreme poverty by 2016. The four strategic axes defined in the Multiyear Participatory Plan (*Plano Plurianual Participativo* – PPA-P) 2012-2015 are: (1) social development and affirmation of citizen rights; (2) excellence in public sector management; (3) productive infrastructure and logistics; and (4) inclusive economic development. The PPA-P also summarizes the principal challenges to achieving this goal and lays out priority policies and programs under each axis. The program supported by this operation builds upon the ongoing DPL with the State (Development Policies for the State of Sergipe, P129652) and is fully aligned with the Government program described in the PPA-P.

The prior actions are as follows:

| **Prior Actions** |
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| ***Pillar A – Supporting more effective procurement and tax administration*** |
| Prior action #1: Adoption of the procurement module of the i-Gesp management system by all public administration entities belonging to the State of Sergipe’s Executive Branch for the purchase of goods and services, as a mean to rationalize procurement processes and improve budget management. |
| Prior action #2: Adoption of the *Nota Fiscal Eletrônica para o Consumidor* (NFC-e) system for the issue of electronic invoices by retailers for business transactions with final consumers, providing tax administration with new capabilities to enhance tax compliance. |
| ***Pillar B – Enhancing the quality of maternal health and diabetes care, and education management*** |
| **Health** |
| Prior action #3: Adoption of the Maternal Route Guidelines (*Rota Materna)* that regulates the transport of pregnant women from the point of entry to the referral maternity in a timely manner and according to her risk classification, avoiding unnecessary cesarean section. |
| Prior action #4: Adherence by the State to the Federal program *Rede de Atenção à Saúde das Pessoas com Doenças Crônicas* and establishment of the Thematic Chamber that operationalizes clinical protocols and organization of diabetes care, including prevention, early detection and management of diabetic foot syndrome. |
| **Education** |
| Prior Action #5: Restructuring of the meritocratic accreditation and participatory selection process for the appointment of school directors, under the umbrella of the results-based management model, with the objective of improving the quality of school directors and governance by the Secretariat to create conditions to improve student learning. |
| Prior Action #6: Creation of a Monitoring and Evaluation Board and adoption of criteria to monitor implementation of the management contracts signed by selected school directors, with the objective of promoting accountability and a more effective and transparent use of public resources. |
| ***Pillar C – Reducing vulnerability of rural populations in the interior of the State*** |
| Prior action #7: Adoption of the Drought Management Strategy (*Estratégia de Convivência com a Seca e Mitigação de Seus Efeitos*), with the objective of providing coordinated and multisectoral support to the most vulnerable populations.  |
| Prior action #8: Establishment of the Intersectoral Food and Nutritional Security Chamber, with the objective of coordinating the execution of the State Policy of Food and Nutritional Security, including the commercialization of family farming and agroecological products through municipal fairs. |
| Prior action #9: Adoption of the Policy to Protect Women in Situations of Violence and Vulnerability in the Interior of the State, under the umbrella of the Federal Program *Mulher Viver sem Violência,* with the objective of increasing access to services in rural areas. |

1. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

The policy actions supported by this operation are expected to have a positive overall impact on poverty and social inequalities. They will continue to contribute to overcoming key constraints to socially inclusive growth, which are faced by different social groups, and to reducing multidimensional poverty. By improving quality of basic public services in health and, principally, in education, as well as by strengthening policies for preventing and deterring gender-based violence in rural areas, these policies may contribute – in a gender-sensitive way – to enhancing endowments among poor people and to increasing opportunities for their children. In this way, they will contribute to overcome the drivers of chronic poverty, as well as its intergenerational reproduction. These services mostly benefit poor women, children and the afro-descendant population who are overrepresented among the State’s poor. Additionally, by addressing the drivers of shrinking agricultural outputs and incomes, which are related cyclical droughts and desertification processes in semi-arid rural areas, the policies supported by this operation also contribute positively to improving the livelihood, the adaptive capacity and the social and economic resilience of poor rural communities who are heavily reliant on land and natural resources and, consequently, more vulnerable to natural hazards that are expected to become more frequent and severe due to climate change.

The potential pro-poor and distributive effects of these policies have been assessed through an analysis of secondary data, interviews and focus groups consultations with key stakeholders. This assessment has demonstrated that: (a) there is a strong and positive relationship between the State’s most rural, semiarid and drought prone areas and poverty (in particular extreme poverty); (b) race, gender, age and illiteracy are key determinants of poverty and extreme poverty in the State; (c) poor people attend and need most of public services in education and health; and, (d) poor women are overrepresented among the victims of gender-based violence and poor men among the perpetrators.

*Environment Aspects*

Sergipe’s legislative framework is firmly in place allowing it to comply with its environmental obligations. This legal structure has been strengthened over the last seven years with a special emphasis on licensing and environmental compliance. Since 2007, several strategies have been pursued that have improved the State’s performance in such critical areas as water resource management, environmental licensing and other control and supervision activities. The State environmental agenda has also expanded.

The environmental impact assessment of policy actions supported by this DPL shows that the program could result in both adverse and beneficial impacts on environmental quality. The main potential adverse impact originates in policies that support improving rural producer’s ability to resist drought by increasing water availability through reservoir/ponds that create greater storage capacity. These reservoirs/ponds (less than 20,000 m3) are small enough that they fall under the expedited environmental licensing process the State has implemented in concordance with the Federal program addressing small works. Another potential impact comes from an increase in the use of agro-chemicals such as fertilizers, herbicides and pesticides as a result of improved water availability. In response to this, the Government is pursuing a policy of supporting agro-ecological practices that eliminate or minimize the use of these products. The State has institutional capacity for environmental management and protection. The weakest aspects of available capacity and resources relate to operational limitations and inconsistent staffing. The overall environmental impact of the DPL can be positive, if the potential beneficial actions are expanded and strategies to neutralize the likely adverse impacts are adopted. These strategies should have two foci, namely, an increase in the operational capacity of the environmental governance system and continued regularization of pending institutional issues.

The strategic vision and plans of the State favor policy decentralization and deconcentration, with active participation of municipalities in accordance with the cooperative characteristics of Brazilian federalism. Within the context of the DPL, health care is promoted under cooperative and decentralized actions. However, the current state of environmental capacities at the municipal level indicates that, even as State efforts to promote institutional strengthening of municipalities continue to intensify, the concentration of responsibilities at the state level will be a decisive trait of environmental institutions in Sergipe in the short to medium term.

1. **Tentative financing**

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| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 150 |
| Borrower/Recipient |  |
| IBRD |  |
|  Total | 150 |

1. **Contact point**

**World Bank**

Contact: Tania Dmytraczenko

Title: Senior Economist

Tel: +1 (202) 473-8646

Fax: +1 (202) 522-0050

Email: tdmytraczenko@worldbank.org

**Borrower**

Contact: Mr. Jeferson Passos

Title: State Secretary of Finance

Tel: +55 (79) 3216-7261, (79) 3216-7235

Fax: +55 (79) 3216-7370

Email: gabinsef@sefaz.se.gov.br

1. **For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500 Web: <http://www.worldbank.org/infoshop>

1. While Brazil does not have official poverty lines, the lines used for *Bolsa Família* and *Brasil Sem Miséria*, are frequently referred to in government documents and often serve as a *de facto* official poverty rate. Due to slight differences in poverty lines and calculation methodologies, poverty rates may differ from official numbers. [↑](#footnote-ref-1)