

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

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<b>Operation Name</b>	Strengthening Fiscal Management and Promoting Better and More Inclusive Service Delivery
<b>Region</b>	LATIN AMERICA AND THE CARIBBEAN
<b>Country</b>	Brazil
<b>Sector</b>	Sub-national government administration (50%); Public administration- Other social services (20%); Public administration- Education (30%)
<b>Operation ID</b>	P147984
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	STATE OF BAHIA
<b>Implementing Agency</b>	State Secretariat of Planning Av. Luis Viana Filho, 2a avenida, no.250 Centro Administrativo da Bahia Salvador Bahia Brazil 41.745-003 Tel: (55-71) 3115-3455 Fax: (55-71) 3115-3945 luiza.mello@seplan.ba.gov.br
<b>Date PID Prepared</b>	June 2, 2014
<b>Estimated Date of Appraisal</b>	June 2, 2014
<b>Estimated Date of Board Approval</b>	July 21, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Country and Sector Background**

Bahia is the largest state in the Brazilian Northeast. The state's GDP is the largest among the nine states in the Northeast Region and the sixth among the 27 states in Brazil. In 2012, it reached US\$88 billion, representing 30 percent of the regional GDP and 4 percent of the national GDP. Bahia has also the largest populations in the Northeast and the fourth in the country. Its population is estimated to have reached 14.3 million inhabitants in 2012, corresponding to 27 percent of the Northeastern and 7.5 percent of Brazil's population.

In the last decade, Bahia has improved its economic performance and achieved a remarkable track record in reducing poverty and boosting shared prosperity. Between 2002 and 2012, average household per capita income in Bahia grew at an annual rate of 4.8 percent, well above the national average of 3.3 percent. As a result, moderate and extreme poverty declined sharply in the same period, dropping from 43.4 percent to 18 percent and 18.4 percent to 7.5 percent,

respectively.<sup>1</sup> Moreover, the income of the bottom 40 percent increased rapidly at 6.9 percent annually (1.9 percentage points higher than the growth rate of the average income), increasing their share in total income from 8 to 11 percent in 2012. Income inequality fell as well, with the Gini coefficient falling from 0.6 to 0.55 in this period.

Nonetheless, Bahia still lags behind national averages and continues to be the state with the largest absolute number of poor and extreme poor in the country. In 2011, Bahia registered a per capita GDP of US\$5,920, but well below the national GDP per capita of US\$11,235. Indeed, Bahia's per capita GDP nineteenth in the country. Bahia's poverty rate is almost twice the national moderate poverty rate (9.5 percent) and its extreme poverty rate is 75 percent higher than the national one (4.3 percent). Large population and relatively higher poverty rates make Bahia the state with the largest population below the moderate and extreme poverty lines in the country, 2.6 million and 1.1 million respectively, which in both cases, corresponds to around 14 percent of the poor and extreme poor in Brazil.

In Bahia, women, afro-descendants, indigenous people and rural population are in a substantially worse situation than other groups. The incidence of moderate and extreme poverty in households led by women is 10 percent higher than those led by men; poverty among afro-descendants is 35 percent higher than among whites; and poverty among indigenous population is 67 percent higher than the observed for the white population. Consequently, while Afro-descendants and indigenous population correspond to 76.5 percent of the state's population, they represent 79 percent of the Bahia poor, 84 percent of the extreme poor and 85 percent of the bottom 40 percent. The rural-urban comparison is particularly bad since poverty in rural areas is more than double urban poverty. Women, especially those living in rural areas are highly vulnerable to gender based violence, and afro-descendants, especially the youth are the main victims of crime and violence.

To speed up and ensure the sustainability of the progress in poverty reduction and shared prosperity achieved over the last decade, the GoBA has put economic and social inclusion at the top of its strategic objectives. To that end, the Participative Multi-Annual Plan (PPA-P) for 2012–15 articulates programs to expand the access and improve the quality of service delivery. The PPA-P puts a special emphasis on inclusion of disadvantaged populations and reduction of disparities across gender, race and territories.

## **II. Operation Objectives**

This proposed DPL seeks to assist the GoBA in strengthening its fiscal management and planning instruments and ensuring that key public services are more tailored to the needs of women, afro-descendants and minorities. The policy program supported by this operation consists of 2 pillars: (i) Fiscal Management and Planning and (ii) Service Delivery. The development objective of this operation is to improve fiscal management and territorial planning; and tailor key public services to the needs of women, afro-descendants and minorities. The first pillar supports improvements in the GoBA ability to collect taxes, enhance controls on pension expenses and to establish an institutional framework for territorial planning. The second pillar supports actions in education, health, public security and productive inclusion sectors aimed at ensuring equal access to public services by women, afro-descendants and minorities and tailoring

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<sup>1</sup> National unofficial moderate and extreme poverty lines are R\$140 per month and R\$70 per month.

them to serve their specific needs. The two pillars are complementary. Improved fiscal management and planning are expected to increase the fiscal space and improve resource allocation needed for better service delivery. Better service delivery is expected not only to reduce poverty but also to improve Bahia growth prospects in the medium run and reinforce fiscal sustainability.

### **III. Rationale for Bank Involvement**

The proposed operation is designed to support the implementation of the GoBA PPA-P. By contributing to improve fiscal management and managing and assist authorities to promote equal treatment in the access to public services and adapt them to the specific needs of vulnerable groups, this operation reflects the Bank’s support to the Democratic Management of the State and Social Inclusion and Affirmation of Rights pillars of the PPA-P 2012-15.

The proposed operation is fully consistent with the Country Partnership Strategy (CPS) for 2012–2015 objectives of faster, more inclusive and more environmentally sustainable growth under continued macroeconomic stability. More specifically, the proposed operation will contribute to macroeconomic stability by supporting enhancements in fiscal management and to more inclusive growth by assisting authorities to ensure and equal and tailored service delivery for afro-descendants, women and minorities.

As mentioned above, the proposed DPL builds on and complements other Bank investment operations. Amounting more than US\$1 billion, the Bank portfolio in Bahia is the largest in the Northeast Region and include projects focused on social and productive inclusion. In particular, this operation is closely related to three ongoing investment operations. The first is the Bahia Integrated Health and Water Management (SWAp), which is designed to assist the GoBA in addressing maternal and infant mortality through combined water, sanitation, and health sector interventions. The implementation of prior actions on the health component, will receive technical assistance from this project. In the other direction, the establishment of multi-sector cooperation to address issues related to teenage pregnancy has been identified as a necessary condition for the achievement of the development objectives of the SWAp on reduction of maternal and infant mortality.

The GoBA’s expenditure program and fiscal arrangements between the Federal Government and the GoBA are adequate for the purpose of this operation. The GoBA’s debt is low and sustainable, even under the most adverse conditions.

### **IV. Tentative financing**

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		400
Borrower/Recipient		
IBRD		0
Others (specify)		
	Total	400

## **V. Institutional and Implementation Arrangements**

The preparation of this operation is led by the State Secretariat of Planning (SEPLAN) in close cooperation with the Secretariat of Finance (SEFAZ) and the Secretariat of Public Administration (SAEB). SEPLAN is coordinating the implementation of the policy actions that need to be implemented by the line secretariats. In particular, the Secretariat of Health (SESAB), the Secretariat of Education (SEC), the Secretariat of Socio Economic Development (SEDES), Public Security (SSP), Promotion of Racial Equality (SEPROMI) and the Secretariat of Labor, Employment, Income and Sports (SETRE) have been participating actively in the definition and design of the prior actions included in the program and will be responsible for their implementation.

The results framework designed to assess progress in the different policy areas supported by this operation will rely heavily on the M&E system that supports the implementation of the PPA-P 2012–15. The programs included in the PAP-P have a logic and result framework that enables the monitoring of their implementation and results. Since 2012, Annual Reports on the PPA (RAPPA) are published and available on-line.

## **VI. Risks and Risk Mitigation**

This risk assessment suggests that this operation entails an overall moderate level of risks. The most relevant risks that can affect the achievement of the PDOs defined for this operation are: political and governance, macroeconomic, sector strategies, technical design, and institutional capacity for implementation.

The political and governance risks are moderate. These risks are related with the election process and the change in the state and federal administration in January 2015. Changes in high level officials may affect the way policies and programs are designed and implemented. However, the specific reforms supported by the proposed operation have been carefully selected from the government's own PPA-P and prepared through numerous consultations with stakeholders, internal governmental discussions and in some cases, they adhere to well-established national and state programs. Moreover, the proposed operation supports the legal consolidation of ongoing policy initiatives through legislation, which would impede their reversal. Therefore, it is likely that the new administration will maintain the policies included in the policy program and ensure its implementation going forward. Continued implementation is expected to gain traction as gradual improvements in service delivery are expected to translate into increasing support from beneficiaries, mitigating the risks of policy reversals.

Macroeconomic risks are considered moderate. Adverse shocks to the national economic activity have inevitable impacts on the state economy and the GoBA revenues. Declining revenues could negatively affect the implementation of the measures to improve service delivery. While the global scenario remains uncertain and Brazil's vulnerabilities have been exacerbated, the recovery of the global economy seems to be underway and the solid macroeconomic fundamentals of the Brazilian economy make it resilient to external shocks. In addition, the current and projected comfortable fiscal position enables the adoption of policies to mitigate the effects of probable adverse external shocks on Bahia's economy without putting under risk fiscal sustainability.

Risks associated with sector strategies, technical design, and institutional capacities are also moderate. The limited number and concentration of technical staff within core ministries poses

significant risks for the implementation of reforms at the line secretariats level. The adoption of cross-sectoral reforms is particularly challenging, as the required coordination processes that are not routine for the line secretariats and can potentially constrain the effectiveness of public service delivery in health, education, crime and violence, social and productive inclusion, and gender programs. However, the prior actions supported by the proposed DPL include measures that are technically feasible. Furthermore, the program reinforces the support to sector strategies backed by the previous DPL and other ongoing Bank's investment operations that will provide timely technical assistance, which are expected to substantially improve the policy implementation environment.

## **VII. Poverty and Social Impacts and Environment Aspects**

### *Poverty and Social Impacts*

The poor and most vulnerable social groups, such as rural population, women, afro-descendants and traditional communities are expected to receive direct and positive gains from the reforms supported by the operation. The main channels through which these impacts will occur are:

- a. Improvements in territorial planning are expected to increase the capacity of the state government and local governments to design more coherent public policies and to increase efficiency in public service delivery as well as in response to increased citizen engagement in public policy decision making, transparency and social accountability.
- b. Outcomes from social and productive inclusion policy changes are expected to benefit women and Afro-descendants overwhelming engaged in precarious informal labor markets. Preventive measures to address teenage pregnancy, which is intimately related to loss of opportunities by young women, are expected to have a positive impact on the welfare of poor women.
- c. A set of special policies will particularly benefit the poor Afro-descendants population as they will: (i) promote racial equality by increasing the availability and the quality of services and programs tailored to address specific needs faced by afro-descendants; (ii) improve the specialized schools for *quilombola* communities, by adopting educational curriculum that will contribute to promote their traditional values and worldview, and, (iii) enhance access and improve the quality of health services to Afro-descendants.
- d. Indigenous people will also gain creation of the indigenous teacher career and the recruitment of new teachers for indigenous schools, contributing to improve educational services provided to them.
- e. Policy reforms under Public Security that aim to deter violence and victimization affecting vulnerable groups will benefit women, youth (and particularly Afro-descendant young males) and other minorities (GLBT populations).

The overall conclusion of the PSIA is that the policies supported by this operation address some of the underlying causes of the socioeconomic inequalities that historically have hampered the sustainable development of the state of Bahia and will have pro-poor outcomes.

### *Environment Aspects*

The specific actions supported under the proposed operation are not likely to have significant positive or negative effects on the state or country's environment, forests, fisheries or other natural resources. The first pillar, Strengthening Public Sector Management, has a primarily administrative nature, therefore policy actions under the first pillar are unlikely to either exacerbate environmental problems or contribute to their remediation. The second pillar, Service Delivery, encompasses policy actions focused on social sectors that are expected to have very limited if any implications on environmental sustainability.

## **VIII. Contact point**

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