

Document of
The World Bank

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Report No: 28544-BR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED ADAPTABLE PROGRAM LOAN

IN THE AMOUNT OF US\$572.2 MILLION

TO THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR A

BOLSA FAMÍLIA PROJECT

IN SUPPORT OF THE FIRST PHASE OF THE BOLSA FAMÍLIA PROGRAM

May 25, 2004

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CURRENCY EQUIVALENTS
(Exchange Rate Effective March 23, 2004)

Currency Unit = Real
Real 2,95 = US\$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Lending
CCT	Conditional Cash Transfer
CEF	Caixa Econômica Federal
CFAA	Country Financial Accountability Assessment
CMC	Core Management Committee
CPAR	Country Procurement Assessment Report
DFID	Department For International Development
EBC	Electronic Benefit Card
FMRs	Financial Monitoring Reports
FMS	Financial Management System
FUNAI	Fundação Nacional do Índio
GPN	General Procurement Notice
IBGE	Instituto Brasileiro de Geografia e Estatística
ICB	International Competitive Bidding
ICCN	Incentivo ao Combate às Carências Nutricionais
IFPRI	International Food Policy Research Institute
INSS	Instituto Social do Serviço Social
IPDP	Indigenous People's Development Plan
IPEA	Instituto de Pesquisa Econômica Aplicada
LCS	Least-Cost Selection
MAS	Ministry of Social Assistance
MDG	Millennium Development Goals
MDS	Ministério do Desenvolvimento Social e Combate à Fome
MEC	Ministério da Educação e Cultura
MESA	Extraordinary Ministry for Food Security
MS	Ministério da Saúde (Health)
NCB	National Competitive Bidding
NIS	Número de Identificação Social – <i>Social Identification Number</i>
PNAD	Pesquisa Nacional por Amostra de Domicílios
POF	Pesquisa de Orçamentos Familiares
PPA	Programa Plurianual
PSRL	Public Sector Reform Loan
QCBS	Quality and Cost-Based Selection
SEAIN	Secretaria de Assuntos Internacionais
SEPPIR	Ministry of Policies to Promote Racial Equality
SFC	Secretaria Federal de Controle
SIAFI	Sistema Integrado de Administração Financeira
SOE	Statements of Expenditure
SOF	Source of Funds
SOT	Statements of Transfers
SENARC	Secretaria Nacional de Renda da Cidadania - <i>Secretariat for Citizen Income</i>
STN	Secretaria do Tesouro Nacional
SWAp	Sector-wide Approach
TCU	Tribunal de Contas da União
VIGISUS	Disease Surveillance and Control Project

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**BRAZIL
First Bolsa Família Project**

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BRAZIL

BR BOLSA FAMILIA 1ST APL

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSHS-DPT

Date: May 25, 2004 Country Director: Vinod Thomas Sector Manger/Director: Helena G. Ribe Project ID: P087713 Lending Instrument: Adaptable Program Loan	Team Leader: Kathy A. Lindert Sectors: Other social services (60%); Health (20%); Primary education (20%) Themes: Other social protection and risk management (P); Other human development (P) Environmental screening category: C Safeguard screening category: Limited impact							
Project Financing Data								
[X] Loan [] Credit [] Grant [] Guarantee [] Other: For Loans/Credits/Others: Total Bank Loan Amount (US\$m.): ¹ 572.2 Proposed terms: Fixed-Spread Loan (FSL)								
Financing Plan (US\$m)								
Source	Local	Foreign	Total					
FEDERATIVE REPUBLIC OF BRAZIL & INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ¹	6187.4 (of which the IBRD loan will reimburse 551.5 in expenditures for conditional cash transfers under the BFP and provide 13.4 for technical assistance and project management)	7.5 (all of which comprises part of the IBRD loan providing 1.8 for technical assistance and project management and 5.7 as capitalization of the front-end fee)	6194.9					
Borrower: Federative Republic of Brazil Responsible Agency: Ministry of Social Development and Eradication of Hunger Address: Ministério de Desenvolvimento Social e Combate à Fome Esplanada dos Ministérios, Bloco C. Brasília, DF, Brazil, CEP. 70.058-900 Tel: (55-61) 313-1630								
Estimated disbursements (Bank FY/US\$m)								
IBRD Fiscal Year	2005	2006	2007					
Annual	168	227.8	176.4					
Cumulative	168	395.8	572.2					
Project implementation period: 2.5 years Expected effectiveness date: 08/2004 Expected closing date: 12/31/2006								

¹The total IBRD loan is US\$572.2 million. The BFP conditional cash transfers to beneficiaries (grants) to be reimbursed by the loan are funded with government resources that are largely earmarked for that purpose.

Does the project depart from the CAS in content or other significant respects? Ref. PAD A.3	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies? Ref. PAD D.7	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Does the project include any critical risks rated “substantial” or “high”? Ref. PAD C.5	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation? Ref. PAD D.7	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Project development objective Ref. PAD B.2, Technical Annex 3</p> <p>The broad objectives of the BFP are to reduce poverty and inequality and promote human capital investments among poor families through the provision of direct monetary transfers to poor families and incentives for investing in human capital. As a Sector-Wide Approach, World Bank assistance would broadly support these same objectives. As the World Bank’s financial contribution is relatively small (US\$572.2 million, or 9.3% of total conditional cash transfers under the BFP), it would be most accurate to state that overall reduction of poverty and inequality is the <i>ultimate</i> objective of the Bank’s assistance under the proposed project. The proposed project would seek to strengthen the BFP’s ability to achieve these broader objectives of reducing poverty and inequality and promoting human capital development by supporting: (a) a consolidation of conditional cash transfer programs and reductions in gaps and duplications in coverage; (b) a strengthening of the system for identifying the target population; (c) the development of a monitoring and evaluation system for the BFP; and (d) a strengthening of the basic institutional functioning of the program.</p>	
<p>Project description <i>[one-sentence summary of each component]</i> Ref. PAD B.3.a, Technical Annex 4</p> <p>The proposed project will include 5 components: (a) conditional cash transfers (grants to beneficiaries); (b) strengthening the system for identifying the target population; (c) the development of a monitoring and evaluation system; (d) institutional strengthening; and (e) project management.</p>	
<p>Which safeguard policies are triggered, if any? Ref. PAD D.6, Technical Annex 10</p> <p>Indigenous Peoples (OD 4.20).</p>	
<p>Significant, non-standard conditions, if any, for: Ref. PAD C.7</p> <p>Board presentation: None</p> <p>Loan effectiveness:</p> <ol style="list-style-type: none"> Effectiveness Conditions: <ul style="list-style-type: none"> Adoption of an Operational Manual for the Project satisfactory to the World Bank, including: institutional arrangements; operational procedures (including a system for monitoring and verification of conditionalities, eligibility procedures); procurement and contracting procedures, sample standard bidding documents and filing instructions (including for QCBS and NCB); disbursement and financial management procedures, including template FMRs; auditing 	

procedures; and supervision, project administration, monitoring and progress reports, evaluation plans; and Performance Indicators.

- MDS will appoint for the PIU two procurement specialists, a financial manager and two accountants with qualifications and experience satisfactory to the World Bank.
- Draft Terms of Reference for audits approved by the World Bank.

Covenants applicable to project implementation:

1. Milestones for moving from 8% to 9% disbursement percentage for Component 1 (reimbursing against SOTs) (“Stage 2 milestones” from Table 2):

- New Cadastro Único questionnaires developed
- The instruments for implementation of eligibility criteria for BF beneficiaries revised
- Normative acts and operational guidelines for the Cadastro Único published on MDS webpage
- Terms of reference for design of MIS for BFP prepared
- Inventory of existing inter-governmental partnerships for BFP completed
- Terms of reference for Quality Control Reviews developed
- Terms of reference for baseline beneficiary survey prepared
- Matrix of key functional and institutional responsibilities for BFP published
- Beneficiary information booklets (*cadernetas*) designed

2. Milestones for moving from 9% to 11% disbursement percentage for Component 1 (reimbursing against SOTs) (“Stage 3 milestones”):

- Data collection strategy designed and piloted
- All detectable duplications in the Cadastro Único database eliminated
- Cadastro Único users (MDS and 30% of municipalities) with access to Cadastro Único data
- Adequate Management Information System (MIS) for BFP developed and operational
- Quality Control Reviews for Bolsa Família processes developed and piloted in at least 10 municipalities
- Baseline beneficiary survey developed and piloted in at least 10 municipalities
- System for verifying human capital conditionalities developed, piloted in at least 5 municipalities
- Beneficiary information booklets (*cadernetas*) distributed

3. Covenant:

- The Borrower shall carry out the IPDP.

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Brazil's Government is committed to realizing the country's large potential for welfare improvements through simultaneous actions on the economic and social fronts. Deeper social progress is essential to improve the quality of life of the least advantaged groups. The importance of achieving visible and rapid social gains while maintaining economic stability is further highlighted by the ambitions, high expectations, and hopes that rest on this particular administration. Rapid achievements on the social side would consolidate broader support for economic responsibility and difficult reforms, thus strengthening the foundations for growth and for even faster social progress in the future.

Despite impressive progress over the past decade, challenges remain. Education indicators still lag due to Brazil's low starting point, particularly among the poor. Disparities remain in health care funding across regions, and in utilization rates across socio-economic groups. Poverty has remained fairly constant since the mid-1990s even if the poverty profile has changed, with the effects of the recent economic slowdown being felt primarily in metropolitan areas in the Southeast. In fact, poverty levels in metropolitan areas increased sharply, with the Southeast share of poverty increasing from 17-26% from 1998-2001. Poverty incidence among youth also increased, and poverty rates continue to be especially high for those with low levels of education, as well as for indigenous and afro-descendent (Quilombola) populations. Related to these disparities, Brazil is still one of the world's most unequal societies: with a Gini coefficient of 0.59 for incomes, the richest 1% of the population receives 10% of total monetary income—the same share as the poorest 50%. Analysis shows that income inequality in Brazil stems primarily from unequal access to education and a high skill premium for labor, along with a highly regressive pension system.

Higher quality and more equitable access to education (including secondary and tertiary education) are key to reducing poverty and inequality in the long run. However, the positive impacts of education reform take time to materialize. Reforms to social assistance programs and a more equitable pension system can achieve complementary results sooner and substantially reduce inequality and alleviate poverty.

Reform Agenda: Integrating Social Assistance Programs. As part of its dual focus of maintaining macro stability while achieving more equitable growth and rapid social progress, the Government recently initiated sweeping reforms to improve its social safety net. These reforms seek to integrate several federal programs, including Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio-Gás. Although each of these programs maintained its own emphasis (promoting schooling, health care, food consumption, or compensating for adjustment), they all provided cash transfers to roughly the same target group of poor families. Each program was managed with separate administrative structures, beneficiary selection processes, and banking-sector contracts for payments issuance. These separate structures created inefficiencies and administrative duplications, resulted in considerable gaps and duplications in coverage, and missed important synergies from jointly promoting education, health and nutrition.

Given these inefficiencies, the reforms seek to integrate these programs into a single, improved conditional cash transfer (CCT) program called the “Bolsa Família Program (BFP).” The objectives of this safety net integration reform include: (a) consolidating and rationalizing existing federal conditional cash transfer programs; (b) promoting efficiency in the use of public resources; (c) improving the system for identifying the target population; (d) leveraging synergies from jointly promoting education, health and nutrition incentives; (e) strengthening monitoring and evaluation; and (f) leveraging opportunities to promote vertical integration in the social safety net between federal and sub-national programs.

These reforms, and the design of the new Bolsa Família program, were supported by the First Integrated Human Development Policy Sector Reform Loan (PSRL) and technically by the programmatic Brazil Social Assistance (BRASA) ESW program (see below).

The Bolsa Família Program. With this platform, the objectives of the new BFP itself include: (a) reducing poverty and inequality today, through the provision of direct monetary transfers to poor families; and (b) reducing poverty and inequality tomorrow, by providing incentives and conditions for investments in human capital on behalf of beneficiary families, and by linking beneficiary families to complementary services that could help them invest and grow out of poverty in the future.

The BFP defines two target groups. The priority target group is those “extreme poor” families with per capita monthly incomes below R\$50 (US\$17). The program also targets those “moderately poor” families with per capita monthly incomes below R\$100 (US\$34)¹ but higher than R\$50 (US\$17). Payments are preferably made to the mothers, as per the Bolsa Família law.

The program will provide cash transfers ranging from R\$15-95 (US\$5-33)² to target families. The exact transfer amount will depend on income levels and household composition (see Annex 1). These amounts were set with the goal of minimizing the number of people benefiting from the previous programs that could either be excluded or face reduced benefits under the integrated program. Monthly transfers are expected to average about R\$71 (US\$24) per beneficiary family, significantly higher than average benefits of about R\$24 (US\$8) in total for the previous programs.³ On a per capita basis, this represents about 19% of the poverty line used by the World Bank, 12% of IPEA’s poverty line, and 6% of the minimum wage. While these transfers could create adverse incentives to work (causing, for example, a reduction in total adult hours worked), available evidence suggests they do not (see Annex 1).

The transfers would be conditional on all relevant family members complying with key human development conditionalities (see Annex 1) as part of an important policy shift towards focusing assistance on the family (rather than on individuals). Previous programs provided support and conditionalities only for some individuals within the family. For example, under Bolsa Escola, school attendance was only required for up to three school-aged kids, but not for any more than three children. The same was true for Bolsa Alimentação. In addition, synergies are expected from the simultaneous promotion of investments in health and education within a family. In some areas, the supply of adequate or the availability of culturally appropriate health and education services may be lacking. The BFP is developing a policy to establish co-responsibility requirements for beneficiary families in these cases.

The interaction between targeted CCT programs and the provision of more universal “supply-side” services for health and education is mutually complementary: (a) on the one hand, the provision of quality health and education services is clearly a crucial requirement for conditional transfers to work; as such, efforts are being made to simultaneously invest in such services; (b) on the other hand, even if health and education services were universally available, CCTs would be needed to help alleviate common demand-side constraints (direct and indirect costs) that prevent poor households from taking up these services. Investments in both the BFP, and in the supply and quality of health and education services, are thus crucial elements of a balanced human capital development strategy. An inter-ministerial social committee has been established to help ensure coordination among the social sector ministries (and the Ministry of Education,

¹ Brazil does not have an official poverty line and research institutions use different poverty lines that lead to different poverty numbers. The poverty line used in the World Bank’s Poverty Assessment is set at around R\$80 per month (US\$27) and is adjusted for each region using a regional price index. This results in a national poverty rate of 28.7%. IPEA’s extreme poverty line was established at R\$62, yielding an extreme poverty rate of 14.6%. IPEA calculates the full poverty line as twice the extreme poverty line, or R\$124, resulting in a poverty rate of 33.6%. This value is close to that being used by the Government in their documents.

² US dollar amounts are provided for reference only, using an exchange rate of 2.9.

³ d’Ávila Viana, Ana Luiza (February 2004). “Programa Bolsa Família.” Prepared for the World Bank in preparation for the Shang’hai Scaling Up events.

for example, has also established a special secretariat to focus on the issues of inclusion and diversity in education, including coordinating links with the BFP).

In addition, an important policy emphasis for the BFP is to foster bridges between Bolsa Família beneficiaries and other complementary services so as to help promote their “*emancipação*” (development) and to help them escape from poverty (*porta de saída*). Indeed, Bolsa Família has opted not to establish rigid time limits for beneficiaries, but rather to help reduce their dependency on social assistance by fostering their development through these links (as discussed in Annex 1).

Bolsa Família is rapidly becoming one of the Government’s major social initiatives. It surpassed its target of 3.6 million families in its first three months of operation in 2003 (reaching 3.615). The program targets coverage of 11.2 million families (or about 44 million people) by 2006, which will represent a significant scaling up of social assistance as compared with the (overlapping) coverage of its predecessors.

Meeting these targets will require a significant but managed increase in financing, reaching a total of R\$31 billion (US\$11.5 billion) over the PPA (multi-year plan) period from 2004-07. The planned budget is R\$5.8 billion (about US\$2 billion) for 2004, which is already over R\$1.5 billion higher than spending on the separate programs in 2003, mainly due to the higher average benefits paid to Bolsa Família beneficiaries as compared to those on the previous programs. In terms of shares of total federal primary expenditures and GDP, the program will rise from 1.1% of primary expenditures in 2003 to 2.5% by 2006 and from 0.2% of GDP in 2003 to 0.5% by 2006. This rise in spending needs will likely be offset by expected savings from the recently-approved pension reforms, estimated at 0.4% of GDP (or about R\$8 billion) per year during that period. The shift in resources from regressive pensions to progressive conditional cash transfers under the BFP is an important part of the Government’s strategy to reduce poverty and inequality in Brazil. Efficiency gains will arise from merging the programs, and will also partially offset these higher costs (thus allowing for greater coverage).

The program is also seeking better complementarity and a pooling of resources with state and local programs for expanded coverage to further expand the pool of available resources. This includes various types of partnerships, including: (a) some that seek vertical integration with existing local *bolsa*-type programs (that would allow for a pooling of federal and local resources to either expand the number of beneficiaries covered or increase the benefit levels); and/or (b) some that seek to link beneficiaries of the BFP with complementary services (as discussed in Annex 1).

2. Rationale for World Bank involvement

The proposed Project will support one of the Government’s flagship social initiatives: the Bolsa Família Program. **First**, it would help the Brazilian authorities to carry out and improve the effectiveness and efficiency of the BFP over the course of the project period, reducing overlaps and filling gaps in coverage. **Second**, the World Bank loan would also help to ensure that the program receives priority and is protected from possible budget cuts during the project period. **Third**, the proposed project would, at the same time, contribute to the financing of Brazil’s critical development priorities overall. **Fourth**, the loan would provide critical additionality in technical design and implementation. The activities supported by the loan to strengthen the system for identifying the target population, monitoring, evaluation, and institutional arrangements seek to provide important value added with respect to the entire program. **In addition**, performance incentives (see below) to pace disbursements against the productive activities of the BFP with technical improvements to the program, as well as on-going World Bank involvement in supervision throughout the project period, would help augment the impact derived from the technical components. As such, the World Bank’s participation with a loan size that is only a small share (less than 10%) of the BFP

over the project period would nonetheless allow for a scale of impact on the content and performance of the entire program.

This first ambitious *program-based* sector investment operation (Program-Based SWAp) builds on lessons learned in smaller SWAp components in previous projects, in Brazil and elsewhere. It also paves the way for the use of SWAps in Brazil, as set out in the FY04-07 CAS, in support of high priority government programs where similar Bank policy and technical additionality can have a strategic and catalytic impact on a sector or large program.

The proposed project will draw on the significant technical assistance that the World Bank has been providing to the Government for the conceptualization and design of these reforms since March 2003, following discussions between President Lula and President Wolfensohn. This support has been provided under the umbrella of the Brazil Social Assistance Program (BRASA, EW-P078828-ESW), a programmatic ESW/AAA program, including assistance on the overall design of an integrated program, issues pertaining to the system for identifying and selecting beneficiaries, and monitoring and evaluation of the program.

The proposed project would also build on and complement the on-going PSRL program in the Human Development (HD) sectors, which emphasizes actions to enhance equity, improve the quality and efficiency of social programs, and increase accountability in the social sectors. It will also entail significant synergies with the proposed HD Technical Assistance Loan (TAL), which would assist the Government in developing institutional capacity to monitor the progress and impact of its social policies. Specifically, the proposed TAL would provide support to the Brazilian Institute of Geography and Statistics (IBGE) to strengthen their household survey system for the purposes of monitoring and evaluating social policy, including the generation of data that would be highly relevant for monitoring and evaluating the performance of the BFP. The TAL would also support a strengthening of monitoring and evaluation in education and health, which entails valuable inter-sectoral linkages for the BFP.

More generally, the World Bank has acquired considerable technical expertise around the world in strengthening targeting systems, developing monitoring and evaluation systems for conditional cash transfers, and in promoting the types of institutional innovations envisaged for the BFP. The Bank team consists of specialists who bring considerable international experience in each of these areas.

3. Higher level objectives to which the project contributes

The proposed project is at the center of one of the core pillars of the Bank's CAS – achieving a more equitable Brazil – and is closely aligned with corporate priorities of achieving the Millennium Development Goals (MDGs). The BFP will directly contribute to the reduction of poverty (MDG 1) and inequality in the short- and long-term. In coordination with other government programs, many of which are Bank supported, it will also contribute to reducing malnutrition (MDG 1), achieving universal education (MDG 2), reducing child mortality (MDG 4), and improving maternal health (MDG5) through the demand-side incentives it provides for investments in education, nutrition and health (for pregnant women and young children).

B. PROJECT DESCRIPTION

1. Lending instrument, Program objective and Phases

The project will adopt three key features in terms of the lending instrument: (a) a programmatic approach; (b) a Program-Based Sector-wide Approach (SWAp); and (c) mechanisms to pace disbursements against conditional cash transfers under the BFP (Component 1) in line with technical improvements. These three

features will help foster an effective link between the implementation of the BFP while helping strengthen the program through crucial technical assistance.

Programmatic Approach (APL). The World Bank proposes to support the Bolsa Família Program (BFP) with a programmatic series of operations (Adaptable Programmatic Lending, APL). This programmatic approach would allow for a long-term, on-going partnership between the Government and the World Bank on one of the Government's main flagship social programs (see Annex 15). It would also permit a deepening of the technical strengthening of the program over time. The overall development objectives of this multi-phased program would be to strengthen the BFP's ability to reduce poverty and inequality by providing poor families with income transfers and incentives to invest in the human capital of their children. With these overall objectives, the programmatic series of operations would be divided into two phases:

- **Phase 1 (mid-2004 to end-2006).** This first project (with a proposed loan of US\$572.2 million) would cover the transition phase, focusing on consolidating the four main conditional cash transfer schemes and improving the basic architecture of the BFP. As discussed below, the main objectives of this phase include strengthening the program's effectiveness in reducing poverty and inequality and promoting human capital development by: (a) consolidating conditional cash transfer programs and reducing gaps and duplications in coverage; (b) improving the system for identifying the target population; (c) developing a monitoring and evaluation system for the BFP; and (d) strengthening the basic institutional functioning of the BFP.
- **Phase 2 (2007-08).** The second project (with a proposed loan of US\$520.2 million or higher) would build on these foundations to further consolidate the safety net and deepen technical improvements aiming to transform Brazil's safety net in general and the BFP in particular into a modern social assistance and social service system. Such improvements would depend on the institutional and reform opportunities that arise in Phase 1, but could include: (a) supporting additional efforts to consolidate the safety net (for example with possible further integration of other transfer programs into the BFP); (b) further improvements in the system for identifying the target population; (c) on-going contributions to monitoring and evaluation (including the implementation of the follow-up beneficiary survey); (d) further improvements in service delivery, including possible mainstreaming of approaches to link BF beneficiaries to complementary services and develop tailored empowerment (*emancipação*) strategies for improving their self-reliance.

The key achievements of the first phase – which would also constitute trigger indicators for moving to the second phase – are described in Table 1 below.

Table 1 – TRIGGERS TO MOVE TO SECOND PHASE APL (Second Project)

Consolidating Conditional Cash Transfers	<ul style="list-style-type: none"> • Coverage of at least 2/3 of extreme poor families by program • Pre-reform transfer programs eliminated (former beneficiaries either converted to Bolsa Família or dropped from programs)
Strengthening of System for Identifying the Target Population	<ul style="list-style-type: none"> • Cadastro questionnaire and BF eligibility criteria revised and published • Expansion and recertification data collection strategy designed and implemented • All detectable duplications in the Cadastro Único database eliminated • Periodicity for updating Cadastro Único and recertifying Bolsa Família beneficiaries formally established • Recertification process commenced in at least 25% of municipalities • Cadastro Único users (MDS and at least 50% of municipalities) with access to data
Developing monitoring and evaluation system	<ul style="list-style-type: none"> • MIS for BFP fully operational and generating adequate reports • Results of at least one round of Quality Control Reviews for Bolsa Família program published • Baseline beneficiary survey conducted
Institutional Strengthening	<ul style="list-style-type: none"> • Matrix of key functional and institutional responsibilities for BFP published • Strategy for operating program in remote areas developed • Beneficiary information booklets (cadernetas) designed, published and distributed • System for verifying human capital conditionalities operating

Program-Based Sector-Wide Approach (SWAp). An additional feature of the proposed loan would be the use of a program-based sector-wide investment approach (Program-Based SWAp). A Program-Based SWAp makes sense in this instance because it would associate World Bank financing with one of the Government's highest priority programs, which involves integrating the main federal conditional cash transfer programs as a comprehensive sector policy. By taking advantage of Brazil's sound institutional and fiduciary framework, the Program-Based SWAp is expected to increase commitment, impact, and flexibility. The Bank will carefully monitor and supervise the proposed Program-Based SWAp operation, like all other investment operations.

In terms of financing mechanisms, Component 1 of the proposed loan would reimburse the Government for a small share (less than 10%) of productive expenditures on conditional cash transfers made under the BFP, which are funded with government resources that are largely earmarked for that purpose. The Government is pursuing fiscal reforms to address this situation and the World Bank is supporting such measures through the fiscal policy dialogue and related ESW and lending program (as discussed in the CAS). The Brazilian Government requested that the World Bank loan, in support of Component 1, would reimburse a share of these expenses. Given the current earmarking of revenues in Brazil, government revenues would be applied to make the payments for expenditures under Component 1, and the Bank would then reimburse expenditures as specified in the legal agreement. The Bank funds disbursed would be part of the regular federal budget financing, with the Bank as one of the sources of overall funds, which are spent consistent with federal budget policies and procedures. The Government has indicated to the Bank its intention to use the increased funds available for development priorities. Annual federal budgets are approved by the Brazilian Federal Congress and are derived from the budget plan (LDO) and the Multi-Year Plan (PPA), which is a transparent four-year framework for federal expenditures, developed by the Brazilian authorities with the participation of civil society, the World Bank, and other development partners. The Government engages with the Bank in a discussion of the development expenditures.

Aside from the Bank's financial contribution, the loan would provide critical additionality in technical design and implementation. As discussed below, the Government has requested that the World Bank provide technical assistance and partnering to support key improvements in its system for identifying the target population, monitoring and evaluation, and institutional reforms under three technical components. Performance incentives (see below) to pace disbursements against the productive activities of the BFP with technical improvements to the program, as well as on-going World Bank involvement in supervision throughout the project period, would help augment the impact derived from the technical components.

Hence while the Bank's financial participation would represent only a small share of the program over the project period, its support seeks to strengthen the scale and performance of the entire BFP. The financing arrangements for these three technical components (and for a small component to support project management) would conform to traditional lending arrangements for technical assistance. This would ensure an on-going close association of the Ministry of Social Development and the World Bank for the implementation of the technical assistance activities.

Pacing Disbursements with Technical Improvements

The proposed project would also build in certain mechanisms to pace disbursements in-line with technical improvements. While the total amount of financing for Component 1 (US\$551.5 million) would represent 8.9% of the total cash transfers budget for the BFP during the project period, disbursements and cost-sharing percentages would be linked to key milestones of technical improvements. Specifically, loan proceeds for this component would be made with monthly disbursement percentages that will increase as the actions listed in Table 2 are met. The disbursements will start at the monthly rate of 8%, will be increased to 9% when the stage 2 milestones in Table 2 have been met; and will be increased to 11% when the stage 3 milestones in Table 2 have been met.

The pacing of disbursements for Component 1 with technical improvements to the program (supported by Components 2-4) has several objectives. First, it would allow the World Bank to partner with the BFP in a pragmatic way, recognizing the important role of the program in the short-run and also the need for technical improvements in the program's systems. Second, it would promote stronger synergies between support of program implementation and on-going safety net consolidation (Component 1) and the specific support to technical activities to strengthen the basic architecture of the program (Technical Components). Third, it would create incentives for the program implementing agency to achieve, or exceed, the key milestones for systems improvements and for the Finance and Planning ministries to ensure support for these crucial technical activities (e.g., if milestones are reached, the loan's financing percentage would increase and disbursements would accelerate).

Assuming that the stage 2 and 3 milestones are met by end 2004 and end 2005 respectively, the pace of disbursements is such that loan proceeds for Component 1 would be disbursed by end 2006, as indicated in Table 4 below. In the unlikely event that stage 2 milestones are not met, disbursements would continue to be made at a 8% disbursement percentage; similarly, in the event that stage 3 milestones are not met (but stage 2 milestones have been met), disbursements will be made at a 9% disbursement percentage. If disbursements remain at either of these lower disbursement percentages, they would continue into 2007. The full level of support would still be justified since the pre-reform CCT programs (such as Bolsa Escola and Bolsa Alimentação) – and the newly created BFP that replaces them – are among the top third of social assistance programs in developing countries and would thus be worthy of support even under the unlikely worst-case scenario in which the proposed improvements are not implemented. Moreover, the risks of this scenario materializing are very unlikely as the milestones were designed to serve as reasonable indicators of timely progress in strengthening the systems of the BFP and they have the full commitment of the Ministry of Social Development (MDS). In addition, since the triggers for moving to the second-phase APL project represent cumulative progress with technical improvements encompassed by the two sets of milestones, the potential withdrawal of the second-phase APL operation provides a sufficient disincentive for the unlikely scenario of non-compliance.

Table 2 – PERFORMANCE MILESTONES (Disbursement Conditions)

	STAGE 2 MILESTONES (indicative target date: by December 2004)	STAGE 3 MILESTONES (indicative target date: by December 2005)
Strengthening of System for Identifying the Target Population	<ul style="list-style-type: none"> • New Cadastro Único questionnaires developed • Instruments for implementing the eligibility criteria for BF beneficiaries revised • Normative acts and operational guidelines for the Cadastro Único published on MDS webpage 	<ul style="list-style-type: none"> • Data collection strategy designed and piloted • All detectable duplications in the Cadastro Único database eliminated • Cadastro Único users (MDS and 30% of municipalities) with access to Cadastro Único data
Developing monitoring and evaluation system	<ul style="list-style-type: none"> • Terms of reference for design of MIS for the BFP prepared • Inventory of existing inter-governmental partnerships for BFP completed • Terms of reference for Quality Control Reviews developed • Terms of reference for baseline beneficiary survey prepared 	<ul style="list-style-type: none"> • Adequate Management Information System (MIS) for BFP developed and operational • Quality Control Reviews for Bolsa Família processes developed and piloted in at least 10 municipalities • Baseline beneficiary survey developed and piloted in at least 10 municipalities
Institutional Strengthening	<ul style="list-style-type: none"> • Matrix of key functional and institutional responsibilities for BFP published on MDS webpage • Beneficiary information booklets (<i>cadernetas</i>) designed 	<ul style="list-style-type: none"> • System for verifying human capital conditionalities developed, piloted in at least 5 municipalities • Beneficiary information booklets (<i>cadernetas</i>) distributed

2. Project development objective and key indicators

As discussed elsewhere, the broad objectives of the BFP are to reduce poverty and inequality and promote human capital investments among poor families through the provision of direct monetary transfers to poor families and incentives for investing in human capital. As a Sector-Wide Approach, World Bank assistance would broadly support these same objectives. As the World Bank's financial contribution is relatively small (US\$572.2 million, or 9.3% of total conditional cash transfers under the BFP), it would be most accurate to state that overall reduction of poverty and inequality is the *ultimate* objective of the Bank's assistance under the proposed project. The proposed project would seek to strengthen the BFP's ability to achieve these broader objectives of reducing poverty and inequality and promoting human capital development by supporting: (a) a consolidation of conditional cash transfer programs and reductions in gaps and duplications in coverage; (b) a strengthening of the system for identifying the target population; (c) the development of a monitoring and evaluation system for the BFP; and (d) a strengthening of the basic institutional functioning of the program. Key performance indicators for tracking progress towards these objectives are listed in Table 3 below.

Table 3 – Key Performance Indicators for Monitoring Progress Over Period Covered by Phase 1 Project

OUTCOME INDICATORS	
➤	At least 2/3 of extreme poor families receiving BF income transfers
➤	At least 40% of total transfers going to families in the bottom quintile
➤	At least 80% of primary-age school-age children in extremely poor beneficiary families attending school
➤	At least 95% of beneficiary children with health cards
INTERMEDIATE RESULTS INDICATORS	
➤	Pre-reform programs eliminated (former beneficiaries either converted to Bolsa Família or dropped from programs)
➤	Transactions costs for transfer payments reduced
➤	New Cadastro Único questionnaires developed and printed
➤	Expansion and recertification data collection strategy designed and operational
➤	Elimination of all detectable duplications in the Cadastro Único database
➤	Periodicity for updating Cadastro Único and recertifying Bolsa Família beneficiaries formally established
➤	Cadastro Único users (MDS and at least 50% of municipalities) with access to data
➤	Adequate MIS developed and operating
➤	Quality control survey for BF processes implemented
➤	Baseline beneficiary survey conducted
➤	Matrix of key functional and institutional responsibilities published
➤	Strategy for operating program in remote areas developed
➤	Beneficiary information booklets (<i>cadernetas</i>) designed, published and distributed
➤	System for monitoring human capital conditionalities operating
➤	Training provided to at least 1/2 of municipalities for their role in implementing BF program

3. Project components

The proposed first phase APL project (mid-2004 to end-2006) would consist of five components: one component that would reimburse the Government for expenditures on conditional cash transfers under the BFP; three mutually-reinforcing technical components to help improve the quality and basic architecture of the program; and a small component for project management.

Component 1: Conditional Cash Transfers (Grants) (US\$6,174 million in project costs; US\$551.5 million in loan financing). This component would provide support to the Government in consolidating and rationalizing conditional cash transfers, and in reducing duplications and gaps in coverage of the BFP, as

part of a broader and balanced strategy for economic and human capital development. For this component, the World Bank would reimburse the Treasury a share of the expenses on conditional cash transfers made under the BFP during the project period. The category of disbursements would be cash transfers (BF grant transfers). Disbursement percentages would increase as key technical improvements (“milestones”) are made, as discussed above. (See Annex 7 for details on financial management and disbursement arrangements).

Component 2: Strengthening the System for Identifying the Target Population (US\$4.4 million in project costs including contingencies). This component would provide assistance to improve the mechanisms used to identify the target population of the BFP, which constitute a key element of the basic

Table 4 – Summary of Loan Proceeds and Expected Pace of Disbursements, US\$ million (Loan Proceeds, excluding counterpart funding)				
<i>Calendar Years (CY)</i>	CY 2004	CY 2005	CY 2006	TOTAL
1. Conditional Cash Transfers (Grants)*	156.5**	221.0	174.0	551.5
2. Strengthening System for Identifying Target Population	0.4	2.4	1.6	4.4
3. Developing a Monitoring and Evaluation System for BFP	0.4	4.7	1.9	7.0
4. Institutional Strengthening	0.5	1.3	1.0	2.8
5. Project Management	0.2	0.3	0.3	0.8
Front End Fee:	5.7	0.0	0.0	5.7
Total Loan:	163.7	229.7	178.8	572.2
* Loan proceeds under this component would be reimbursed to the Treasury against a small share (less than 10%) of expenditures on conditional cash transfers under the BFP during the project period. **Including retroactive financing (see Annex 7)				

architecture of the program. With a more accurate system for identifying the target population, the program will achieve better redistributive efficiency, with a higher share of its resources going to the poor, and will be able to cover a larger share of the poor. It will thus serve as a more efficient instrument for reducing poverty and inequality in Brazil.

As with its predecessors (pre-reform programs), the BFP selects beneficiaries from a national database of potentially poor households called the “Cadastro Único.” While the construction of the Cadastro Único sought to integrate household registries across the (previous) multiple programs in a very short period of time, there are several aspects of the system that could be improved. To do this, Component 2 of the proposed project will support activities to strengthen the system for identifying the target population of the BFP and overhaul the Cadastro Único system in several key areas: (a) improving the strategic framework for the overall system including conducting a study to identify other programs that could potentially use the Cadastro for eligibility determination; (b) revising the eligibility criteria for the BFP and the Cadastro questionnaire and data collection strategy, taking into account different local realities reflecting urban vs. rural settings (including population and poverty density) and diverse cultural, ethnic and racial characteristics of the populations; (c) reducing administrative errors in the Cadastro Único; and (d) strengthening the technical and technological capacity of the Cadastro Unit in MDS to monitor, verify and use the Cadastro Único, as well as the capacity of municipalities and other potential cooperating institutions for carrying out data collection and beneficiary selection. Specific activities to be financed are listed and described in Annex 4.

In terms of general timing of activities and results of this component, most activities to be supported under the component assume that preparatory activities would be undertaken in 2004 and early 2005, so as to allow for the rolling out of the new Cadastro system in 2005-06. This would mirror the upcoming needs of the BFP in terms of its planned large-scale expansion in 2005-06 as well as the need to recertify existing households in the Cadastro in that period (since by that time, their information would have expired). As discussed above, improvements to the Cadastro Único – including designing and printing the new questionnaires, revising and publishing the new BFP eligibility criteria, designing an improved data collection strategy for expansion and recertification, eliminating all detectable duplications in the Cadastro database, and granting access for MDS and municipalities to Cadastro Único data – would constitute performance milestones for increasing the disbursement percentage for Component 1, as well as triggers for moving to Phase 2 of the proposed APL program as they would signal key achievements in strengthening the basic architecture of the program.

Component 3: Developing a Monitoring and Evaluation System (US\$7.0 million in project costs including contingencies). This component would support the design and implementation of a monitoring and evaluation (M&E) system. Such a system would constitute a key element of the basic architecture of the program, and one that the Government has made a top priority since the launching of the BFP. To support this, Component 3 of the proposed project will support: (a) the development of a strategy for the overall M&E system and support for capacity building in MDS in this area; (b) the strengthening of Bolsa Família’s management information system (MIS) which would provide up-to-date information on program activities and outputs; (c) the development of instruments to monitor program processes to provide feedback on the quality of service delivery and program implementation and to detect problems so that they can be corrected early, including (i) inter-government processes; (ii) annual Quality Control Reviews to monitor BFP processes (including verification of health and education conditionalities, the selection of beneficiaries, and payments); and (iii) support for mechanisms for citizen oversight (“social control”) respecting socio-cultural and ethnic specificities of prospective beneficiaries; and (d) the development, execution, and analysis of qualitative instruments and quantitative surveys to monitor and evaluate key outcomes and the impact of the program at both the “territorial” (municipal and sub-municipal) and family levels. Specific activities to be financed are listed and described in Annex 4.

Since the design and operation of a solid monitoring and evaluation system constitutes a key element of the basic architecture of the BFP, such improvements would constitute performance milestones for increasing the disbursement shares for Component 1, and triggers for moving to Phase 2 of the proposed APL program, as noted above.

Component 4: Institutional Strengthening (US\$3.2 million in project costs including contingencies). This component would support the strengthening of the basic institutional functioning of the BFP in terms of:

- Strengthening of the operational institutional framework, including the legal architecture of the program (developing needed *regulamentos*, operational guidelines, norms, etc. for the BFP and the Cadastro Único);
- Strengthening program management, including: (a) clarifying and strengthening institutional roles for the basic functioning of the program itself, including developing a matrix of responsibilities, clarifying information flows for the Cadastro Único, and developing and implementing a system for verifying human capital conditionalities; (b) providing training and technical assistance on the system for verifying human capital conditionalities; (c) developing a strategy for operating the program in remote areas; (d) defining possible mechanisms for inter-governmental partnerships to help in expanding the program, by increasing the value of benefits, and/or expanding coverage, and linking BFP beneficiaries to complementary services; and (e) developing an inter-municipal information network to share good practices, experiences with implementing conditional cash transfers and the BF Program across municipalities;
- Developing a solid communications and dissemination strategy with consideration of culturally- and ethnically diverse publics, including: (i) establishing a “hotline” number with trained operators to answer questions on the program and the Cadastro Único (for the general public, beneficiaries, other officials, etc.); and (ii) designing, printing and disseminating information booklets (*cadernetas*) for beneficiaries (including information about benefits and conditionalities); and
- Identifying and evaluating social welfare innovations in “empowerment” and “bridging” approaches. This sub-component would support the identification and evaluation of initiatives to help BFP beneficiaries to develop tailored empowerment strategies (“*emancipação*” strategies) and to gain access to complementary programs and services (bridging services). These initiatives could involve various approaches, including: (a) social worker support to help beneficiaries develop these empowerment (*emancipação*) strategies and bridging access to complementary services; and/or (b) the development of “one-stop shops” where beneficiaries can gain access to information about a variety of social services (including the BFP). Some similar experiences have also been developed at the local level in Brazil and in other countries. The sub-component would thus support: (a) international study tours and exchanges to share information on these various “empowerment” and “bridging” approaches; (b) consultancies and workshops to identify and evaluate such approaches; and (c) training and capacity building for beneficiaries, trainers (*multiplicadores*) and program managers (*gestores*).

Since strengthening the basic institutional functioning of the BFP constitutes a key element of the basic architecture of the program, such improvements would constitute performance milestones for increasing the disbursement shares for Component 1, and triggers for moving to Phase 2 of the proposed APL program, as noted above. Annex 4 provides additional details on the component.

Component 5: Project Management (US\$0.7 million in project costs including contingencies). The project will support a strengthening of the implementation capacity of MDS. To provide such support, the

proposed Project will finance incremental costs related to management and supervision of Project activities. These costs include consultants that would support strategic, technical and operational aspects of the project, as well as equipment and travel expenses. Annexes 4 and 6 provide additional details.

4. Lessons learned and reflected in the project design

The choice of project design benefits from lessons learned in Brazil's relatively long and rich history with conditional cash transfers (both at the federal and at the local levels) and on international experience. As discussed above, it also builds on the findings of an on-going programmatic sector study (the BRASA), particularly the in-depth work on safety net integration reforms and targeting. Among the main lessons learned from these experiences are:

- (a) Instrument.** Experience to date – albeit still very limited – reveals that as an approach, SWAp offer an enormous opportunity for leveraging up the Bank's own financial contribution to provide impact on an entire sectoral program (rather than just at the project level). By relying on the Borrower's fiduciary framework (in this case for financial management only), the SWAp approach is responsive to client requests for a streamlining of Bank requirements by eliminating the need for maintaining parallel records and procedures only to satisfy the Bank's own requirements. In addition, task manager experience with an ongoing SWAp in Brazil indicates that the end result of streamlining fiduciary systems and requirements is that the Bank's supervision process becomes focused more on providing technical advice and addressing sectoral issues that may arise, as opposed to focusing on procedural requirements that are best handled by fiduciary specialists.
- (b) Importance of strong Borrower commitment, ownership and leadership.** There is no doubt that the BFP has both high-level and widespread commitment. Indeed, it is the Government's flagship social initiative. Support for the consolidation of conditional cash transfers as a way to build on previous successes and bring them to a new level of performance has been widespread, cutting across political parties, branches of government (with strong executive support and rapid passage of the Bolsa Família Law by the Congress), academic circles, civil society and even the media. It is generally believed that such integration will improve the efficiency and equity of these instruments. Internationally, providing conditional cash transfers to poor families has been shown to be an operationally feasible and politically acceptable approach to social assistance. Research has shown that concerns about cash subsidies being "assistentialist" can be overcome by: (a) linking the assistance to desirable behaviors such as sending children to school and for health care visits; and (b) giving the transfers to mothers whose decisions regarding the intra-household allocation of resources often favor children's nutrition, health and education. Both of these conditions are features of the BFP. Other concerns about possible "welfare dependency" can be alleviated by efforts to link beneficiaries to other complementary services that could help them "grow" out of poverty (as will be developed under the BFP, with the support of the proposed project).
- (c) Importance of accurate selection of beneficiaries.** Internationally, the impact of transfer programs on poverty and inequality has been considerably higher with an effective system for identifying and selecting beneficiaries. As discussed above and in Annex 4, recent evaluations (including one conducted under the BRASA programmatic ESW) suggest that several aspects of Brazil's Cadastro Único – the household registry from which Bolsa Família beneficiaries are selected – should be improved. Given its importance as a critical feature of the basic architecture of the program, the proposed project will support key activities to strengthen the system for identifying the target population of the BFP (and the Cadastro Único system).

- (d) Impact on educational attainment.** Conditional cash transfer programs have improved educational indicators and outcomes. An ex-ante evaluation by Bourguignon, Ferreira and Leite (2003)⁴ found that Brazil's Bolsa Escola Program (one of the predecessors to the BFP) significantly increased the share of children in school and decreased the share that were only working. Using similar methodologies, simulations in Annex 9 suggest that the BFP could significantly increase total educational attainment and reduce repetition rates. Mexico's *PROGRESA* program (a conditional cash transfer program now called *Oportunidades*) has had significant impacts in improving educational attainment of the poor, raising total years of schooling by an additional 0.66 years. It has also contributed to increasing enrollment and reducing repetition and drop out rates.
- (e) Impact on health and nutrition.** Conditional cash transfer programs have also improved health and nutrition indicators, but care must be taken in avoiding the use of anthropometric indicators for eligibility purposes. Mexico's *PROGRESA* program significantly improved nutrition and helped make young children more robust to illness. IFPRI's evaluation of the Bolsa Alimentação Program (one of the predecessors to the BFP) shows it had a significant impact on food consumption and dietary diversity. Nonetheless, despite these positive impacts, the program had a surprisingly negative impact on child growth. Since most of the mothers selected to participate in the program were former beneficiaries of a program ("ICCN") that previously distributed milk and oil exclusively to underweight children, it is possible that beneficiary mothers assessed that the continued eligibility of their children would be negatively affected by their achieving normal weight. This kind of strategic behavior had been widely reported by health workers monitoring ICCN beneficiaries. The IFPRI evaluation also found that the Bolsa Alimentação program had a small positive effect on the growth of children who had not previously benefited from the ICCN program. The implications of these results underscore the importance of not using anthropometric indicators for eligibility purposes and investing in significant public information campaigns to promote the positive messages of growth promotion. In fact, the BFP includes growth promotion as a condition of receiving benefits for very young children, and does not base eligibility on evidence of malnutrition.
- (f) Empowerment strategies and bridging to complementary services.** International experience suggests that efforts to link ("bridge") beneficiaries of transfer programs to other complementary services and to help them develop empowerment (*emancipação*) strategies can be an effective way to help them "grow" out of poverty and reduce their dependence on social assistance. As discussed above and in Annex 4, the proposed project would support the identification and evaluation of these approaches.
- (g) The need to establish a solid monitoring and evaluation system.** Any new, large-scale social sector program needs to have a system to monitor program activities (MIS), implementation processes, beneficiary satisfaction and service delivery, and program outcomes and to evaluate program impact. Such a system would include formal information mechanisms (such as surveys and audits), but also citizen oversight mechanisms (social control) to promote transparency and accountability. As discussed above and in Annex 4, the proposed project supports the development of such a system for the nascent BFP.
- (h) Institutional and implementation capacity.** Programs of this nature require sophisticated administrative capacity. Although Bolsa Família is a new program operating under a new ministry, it builds on the foundations established by the pre-reform programs (e.g., maintaining the channeling of payments to beneficiaries in a fairly direct manner through Brazil's extensive banking system). In addition, many of the staff involved in the Ministry of Social Development in general and the BFP in

⁴ Bourguignon, François, Francisco H. G. Ferreira, and Phillippe G. Leite (2003). "Conditional Cash Transfers, Schooling, and Child Labor: Micro-Simulating Brazil's Bolsa Escola Program." World Bank Economic Review, Vol. 17, No. 2.

particular have extensive prior experience managing or working on the federal pre-reform programs or similar local CCT programs. Institutional arrangements are discussed in Annexes 1, 6, and 7. As discussed above and in Annex 4, the proposed project supports the strengthening of institutional capacity both at the federal and sub-national levels (via training, systems strengthening, consultancies, etc.).

5. Alternatives considered and reasons for rejection

The approach adopted for the proposed project has many advantages over other possible instruments:

- **Programmatic vs. Single Operation.** The programmatic APL approach allows for a long-term and on-going partnership between the Government and the World Bank to support Brazil's flagship social program;
- **Investment vs. Adjustment Operation.** The Government has requested the use of an investment operation rather than an adjustment instrument because it allows for a closer, continuous partnership to accompany on-going program implementation. Adjustment operations are more suitable for supporting policy reforms (such as the reforms that fostered the integration of CCT programs, as supported by the HD PSRL), but less appropriate for accompanying program strengthening and implementation on an on-going basis. The specific design of the proposed investment operation – a programmatic SWAp that paces disbursements against the productive activities supported by the BFP with technical improvements to the program through performance incentives – would better meet the needs of the Brazilian Government and the BFP.
- **Joint Package vs. Separate SWAp and TA Operations.** Numerous synergies arise from combining technical and financial support in a single instrument, since (a) the technical would contribute to the on-going strengthening of the program; (b) pacing disbursements with progress on the technical aspects (performance-based disbursement incentives) would reinforce links between program implementation and technical improvements; and (c) the larger magnitude of financial support would help provide leverage for achieving the technical improvements supported by the project. The combined package offers multiple opportunities for impact in terms of aligning substance and incentives.
- **Program-Based SWAp Approach vs. Traditional Investment Operation.** The use of a Program-Based SWAp approach instrument for the financing of the BFP is appropriate since: (a) it supports integrating the main CCT programs across the “sector” of social assistance (comprehensive policy reforms); (b) the project will link World Bank disbursements to a high priority Government program (ownership); and (c) the instrument will reduce transactions costs associated with traditional investment lending. Through the Program-Based SWAp approach, the World Bank's participation with a loan size that is only a small share (less than 10%) of the BFP over the project period would nevertheless allow for a scale of impact on the content and performance of the entire program.

C. IMPLEMENTATION

1. Institutional and implementation arrangements

The Borrower will be the Federative Republic of Brazil. The proposed project will be implemented by the newly-created Ministry of Social Development (MDS). MDS was created on January 23, 2004 with the

objective of further integrating the management of Brazil's social programs (as part of a broader integration strategy that also covered the integration of conditional cash transfer programs into the BFP). The MDS integrated three previous entities, including the Extraordinary Ministry for Food Security (MESA), the Ministry of Social Assistance (MAS), and the former Executive Secretariat for the Bolsa Família Program (which was previously under the Presidency).

The MDS structure includes *inter alia* an Executive Secretariat (SECEX) under the Minister, which oversees two special departments, a Directorate of Special Projects (DPE) and a Secretariat for Planning, Budget and Procurement (SPOA), and which supervises the activities of five secretariats, including the Secretaria Nacional de Renda de Cidadania (SENARC); a secretariat for other social assistance programs (e.g., BPC-LOAS, PETI, Agente Jovem); a secretariat for food security; a secretariat for *articulação* (policy); and a secretariat for monitoring, evaluation and capacity building. The SENARC oversees the operations of the Bolsa Família Program. The BFP is also guided by the decisions of the President, supported by the recommendations of management board (*Comitê Gestor do Programa Bolsa Família*), which is responsible for policy coordination and promoting partnerships between the various sectors and levels of Government and with civil society. Institutional arrangements for various functions of the program also involve a number of other actors (see Annex 1).

To promote a mainstreaming of project activities and to contribute value added to the overall BFP, the proposed project will build on the organizational and leadership structures of MDS. Specifically, it will be headed by the Executive Secretary (SECEX) and managed by a Core Management Committee (CMC, *Núcleo de Gestão*), which will be comprised of the managers from the relevant units of MDS: SECEX, DPE, SENARC, the Secretariat of Monitoring and Evaluation, and the head of the PIU (see below). Functionally, this Core Management Committee will be divided into two areas: a Technical Secretariat and a Project Implementation Unit (PIU). See Annex 6 for details.

2. Monitoring and evaluation of outcomes/results

The Ministry of Social Development is committed to monitoring and evaluating results of the BFP. From the outset of the program, the Government has prioritized the development of a solid M&E system for the program. Component 3 will support this priority (see above and in Annex 4). The proposed Integrated HD TAL will also support complementary efforts, such as the implementation of the household budget survey (POF) in 2005, which will also provide relevant data for monitoring and evaluating the BFP.

Project results and outcomes will be monitored via on-going project supervision using a combination of household survey and administrative data (see Annex 3). The pacing of disbursements under Component 1 with technical improvements (milestones) also provides incentives for monitoring intermediate results during project implementation.

3. Sustainability

Three factors shape the sustainability of the BFP: Government commitment; the credibility and quality of the program; and fiscal sustainability.

First, as discussed above, the BFP is Brazil's flagship social program and it plays a central role in the Government's development strategy. Overall commitment to the BFP is extremely high, both in terms of support from the highest levels of government and in terms of broad support in the different branches of government (as evidenced, for example, by the rapid passage of the law establishing the program).

Second, while rapid expansion is aimed at fulfilling the high expectations attached to the program and the need for quick results, investments in the quality of the program are also crucial for ensuring the sustainability of the program. A solid system for accurately identifying the target population is the foundation of the program's credibility. The proposed project seeks to strengthen this system (the Cadastro Único) under Component 2. Institutional strengthening – including a clarification and strengthening of the institutional roles for core program functions (such as the system for identifying the target population and the verification of conditionalities) and a solid communications strategy – is also central to improving and maintaining the program's credibility. Component 4 will support efforts to strengthen these functions. Quality control processes are also crucial for building credibility and providing program managers with needed feedback to identify and correct problems as they arise. The development of such processes will be supported by Component 3. A solid impact evaluation can also promote sustainability of the program by demonstrating the program's effectiveness and results. This has been the case for conditional cash transfer programs in other countries where a solid demonstration and quantification of positive outcomes has resulted in the resilience of programs across government administrations. Component 3 will support the design and implementation of a baseline impact evaluation survey, which would then be followed up by an evaluative survey in the proposed second APL project.

Third, with respect to fiscal sustainability, the program is expected to increase in size and resource needs. As shown in Table 5 below, the program is expected to reach 11.2 million families by the end of the project period (2006), up from 3.6 million families at the start of 2004. A significant share of these beneficiaries will be converted from existing pre-reform programs, so the marginal increase is smaller than if the beneficiaries were entirely new. Nonetheless, the program will require a significant but managed increase in resources, from R\$4.3 billion in 2003 (even less for the pre-reform programs in 2002) to R\$9.4 billion by 2006. In terms of shares of total federal primary expenditures and GDP, the program will rise from 1.1% of primary expenditures in 2003 to 2.5% by 2006 and from 0.2% of GDP in 2003 to 0.5% by 2006. This rise in spending needs will likely be offset by expected savings from the recently-approved pension reforms, estimated at 0.4% of GDP (or about R\$8 billion) per year during that period. The shift in resources from regressive pensions to progressive conditional cash transfers under the BFP is an important part of the Government's strategy to reduce poverty and inequality in Brazil. Efficiency gains will arise from merging the programs, and will also partially offset these higher costs (thus allowing for greater coverage). The program is also seeking better complementarity and a pooling of resources with state and local programs for expanded coverage to further expand the pool of available resources.

Table 5 - Bolsa Família: Beneficiaries and Budget, 2002-06

	2002	2003	2004	2005	2006
Beneficiaries: Million families covered					
Bolsa Família	n.a.	3.6	6.5	8.7	11.2
Budgets: <u>Billion R\$</u>					
Bolsa Família ^b	Pre-reform R\$2.4 ^a	R\$4.3 ^c	R\$5.85	R\$7.50	R\$9.39
Budgets: <u>Billion US\$</u>					
Bolsa Família ^b	Pre-reform US\$0.8 ^a	US\$1.5 ^c	US\$2.0	US\$2.6	US\$3.2
^a These figures cover actual spending for Bolsa Escola (BE), Bolsa Alimentação (BA), and Auxílio Gas (AG). The Fome Zero Cartão Alimentação (PCA) did not exist in 2002. ^b These figures include budgets for those beneficiaries who continue to benefit from previous pre-reform programs (BE/BA/AG/PCA) but have not yet been converted to the menu of benefits under the BFP (due to budget constraints they remain with the old program benefits), but are now managed by a single agency (the SENARC) as part of the BFP. As the BF program expands, these families will be converted to the BFP menu. They also include the administrative / operating costs of the BFP. ^c The R\$4.3 bn identified as BF spending in 2003 was roughly allocated as follows: (a) by November, BE+BA+PCA+AG had spent about R\$2.48 bn; (b) BF spent about R\$0.8 bn in its first three months of operation (oct, nov, dec, with an average of about R\$263 mn per month); and (c) the remaining R\$1.0 bn was spent on the families in BE+BA+PCA+AG in the last two months of the year. Exchange rate about 1:2.9. Sources: 2002: Palocci, Antonio, Lisboa, Marcos de Barros, et. al. (November 2003). 2003-06: PPA and BFP/MDS.					

4. Critical risks and possible controversial aspects

A review of critical risks and mitigation measures is listed in Table 6 below. The BFP is an important part of Brazil's development strategy, one that has the potential to reduce poverty and inequality today (through the provision of redistributive transfers) and tomorrow (by tying these transfers to incentives for investments in human capital). Nonetheless, the potential of the BFP needs to be placed in the context of Brazil's well-rounded strategy for development, which promotes simultaneous actions on both the economic and social fronts, including crucial investments in the supply of quality education and health services as well as other empowerment (*emancipação*) efforts and social programs, which all complement the BFP.

Table 6 – Critical Risks and Mitigating Measures

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
To Project Development Objective		
Possible delays or problems in adapting to a new ministerial structure and institutional arrangements resulting from the integration of multiple programs. Associated risks could involve: (a) the risk of failing to meet high expectations due to possible initial implementation problems as institutional arrangements are sorted out; and (b) the possibility of vague definition of inter-institutional roles among the various agencies involved.	Government is currently working on defining institutional and inter-institutional structures for program. Component 4 will support measures to strengthen the basic institutional framework for the BFP.	M
International experience with transfer programs suggests that control systems should be in place to ensure transparency and objectivity, particularly during election periods. Given that municipal elections are to be held in late 2004, the Government is taking measures to minimize the potential for political manipulation at the municipal level in Cadastering and beneficiary selection as the program expands.	Risk mitigation measures include: (a) strengthening the system for identifying the target population and selecting beneficiaries; (b) publicizing beneficiary lists on the internet so as to promote social control (as is currently being launched); (c) regular re-certification of households for eligibility purposes (updating the Cadastro data); and (d) quality control reviews for the BFP and the Cadastro. Components 2-4 will support these measures to help improve the quality and credibility of the program.	S until Cadastro improvements implemented
Risk of budget cuts for the BFP.	Earmarking of government resources will help mitigate this risk. Disbursement mechanism for proposed project (reimbursing against expenditures on the program) will also help protect the budget for the BFP.	M
Low municipal capacity to implement Cadastro data collection for selection of beneficiaries and/or verification of conditionalities.	All Components seek to strengthen municipal capacity. Since there are over 5,000 municipalities, the project will likely focus first on strengthening the capacity of some municipalities to ensure quality, and then focus on multiplying these results in other municipalities.	S in the interim, M as project progresses
Risk that program might fail to reach extreme poor, even with technical improvements.	Design of program to prioritize extreme poor (with per capita incomes <R\$50) will help mitigate this risk. The use of the poverty map to promote outreach survey methods for data collection in extremely poor areas under the Cadastro Único (as opposed to on-demand registration) will also promote coverage of the extreme poor. Other mitigation efforts include: (a) outreach efforts via information campaigns (Component 4); (b) the development of a strategy to operate the program in remote areas (Component 4); (c) social control mechanisms (Component 3); and (d) overall improvements to the Cadastro Único (Component 2).	M
Possible low compliance by beneficiaries with human capital conditionalities.	Component 4 will (a) seek to strengthen the system for verifying compliance; and (b) support the publication	M

	and dissemination of beneficiary information booklets (<i>cadernetas</i>) to promote awareness of the program and the importance of complying with human capital conditions.	
Bottlenecks on the supply side: Insufficient supply of education and health services to meet increase in demand in some municipalities; and minimal accumulation of human capital because of the low quality of schools that beneficiaries attend in certain areas.	Mechanisms are being designed to foster links between the supply and demand side and to work with the Ministries of Health and Education as well as the municipal authorities to eliminate these bottlenecks. These are being supported by Component 4 of the project (inter-institutional strengthening). The Ministries of Health and Education are also promoting investments to improve the supply – and quality – of schools and health care.	M overall S in some areas
The risk that disbursements against cash transfers (Component 1) could move much faster than institutional improvements.	Performance incentives (disbursement percentages) based on compliance with key milestones would help pace disbursements with technical improvements.	M
To Project Component Results		
Weaknesses in existing the Cadastro system could generate possible high rates of leakage to the non-poor and possible exclusion of some of the poor from the program (though some such errors are inevitable even with the best systems). There is also a risk that it might be politically difficult to remove ineligible non-poor beneficiaries (once identified) from the program.	The Government is committed to strengthening the Cadastro Único mechanisms for identifying and selecting beneficiaries. Component 2 of the project will support these efforts.	S at least during election period and until Cadastro improvements implemented
The new institutional arrangements create the risk of low capacity for designing and implementing the M&E system. Also, related to the political risk mentioned above, the pressures to expand quickly (quantity) could come at the expense of quality of M&E systems design as attention is diverted.	The Government has prioritized creation of a strong M&E system for BFP. Component 3 will help build capacity and continued emphasis on these issues (along with the performance milestones). The component also envisages use of outsourcing and partnership arrangements to supplement capacity.	M
For institutional strengthening, there is a possible risk that the BFP officials would focus more on promoting the inter-governmental partnerships to expand the program (quantity) over the strengthening of their basic institutional functioning for the core BFP.	Component 4 will help the BFP develop a balanced strategy between promoting these important partnerships while strengthening the core functioning of the program.	M

5. Loan conditions and covenants

1. Effectiveness Conditions:

- Adoption of an Operational Manual for the Project satisfactory to the World Bank, including: institutional arrangements; operational procedures (including a system for monitoring and verification of conditionalities, eligibility procedures); procurement and contracting procedures, sample standard bidding documents and filing instructions (including for QCBS and NCB); disbursement and financial management procedures, including template FMRs; auditing procedures; and supervision, project administration, monitoring and progress reports, evaluation plans; and Performance Indicators.
- MDS will appoint for the PIU two procurement specialists, a financial manager and two accountants with qualifications and experience satisfactory to the World Bank.
- Draft Terms of Reference for audits approved by the World Bank.

2. Milestones for moving from 8% to 9% disbursement percentage for Component 1 (reimbursing against SOTs) (“Stage 2 milestones” from Table 2):

- New Cadastro Único questionnaires developed
- The instruments for implementation of eligibility criteria for BF beneficiaries revised
- Normative acts and operational guidelines for the Cadastro Único published on MDS webpage

- Terms of reference for design of MIS for BFP prepared
 - Inventory of existing inter-governmental partnerships for BFP completed
 - Terms of reference for Quality Control Reviews developed
 - Terms of reference for baseline beneficiary survey prepared
 - Matrix of key functional and institutional responsibilities for BFP published
 - Beneficiary information booklets (*cadernetas*) designed
3. Milestones for moving from 9% to 11% disbursement percentage for Component 1 (reimbursing against SOTs) (“Stage 3 milestones”):
- Data collection strategy designed and piloted
 - All detectable duplications in the Cadastro Único database eliminated
 - Cadastro Único users (MDS and 30% of municipalities) with access to Cadastro Único data
 - Adequate Management Information System (MIS) for BFP developed and operational
 - Quality Control Reviews for Bolsa Família processes developed and piloted in at least 10 municipalities
 - Baseline beneficiary survey developed and piloted in at least 10 municipalities
 - System for verifying human capital conditionalities developed, piloted in at least 5 municipalities
 - Beneficiary information booklets (*cadernetas*) distributed
4. Covenants:
- The Borrower shall carry out the IPDP.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

As with other conditional cash transfers, there are many potential benefits of the Bolsa Família program, including:

- A reduction in immediate poverty and inequality due to the redistributive cash transfers;
- Gains in education due to both an income effect and a price effect associated with the conditionality of minimum school attendance required of school-aged children in all beneficiary families (see Annex 1); and
- Gains in health status due to both an income effect and a price effect associated with health-related conditionalities for pregnant women and young children (see Annex 1).

Conceptual and data limitations prevent the monetary quantification of many of these benefits. Conceptually, while it is possible to quantify the magnitude of poverty and inequality impacts that could result from these transfers, it is not possible (or desirable) to quantify these benefits in monetary terms. Data limitations also prevent the quantification of the impact of the program on health status. Given these limitations, a full-fledged cost-benefit or cost-effectiveness analysis is not possible. Nor is such an analysis required, due to the nature of the project (poverty project).

Nonetheless, the project team used household survey data to simulate the potential impact of the BFP on poverty, inequality and educational attainment. The results (expected by end 2006) are significant (see Annex 9 for details):

- The program will transfer an average of R\$71 (US\$24)⁵ to 11.2 million families by end 2006.
- This transfer could result in a large reduction of extreme poverty, from 14.5% to 8.1% and a reduction in overall poverty (extreme + moderate) from 33.3% to 29.9%.

⁵ US dollar conversions for benefit amounts provided for reference only using an exchange rate of 2.9.

- This transfer could reduce inequality from a Gini Coefficient of 0.595 to 0.578.
- The conditionalities and income effects of the transfer could result in an increase in total years of schooling attained of 3.4%.

2. Technical

International and Brazilian experience shows that conditional cash transfer programs can be extremely effective mechanisms for reducing poverty and inequality in the short-run, and providing incentives for human capital development which can reduce poverty and inequality in the long run. International experience also shows that some of the key aspects of basic architecture for conditional cash transfers include: (a) an accurate system for identifying and selecting the target population; (b) a well-balanced system for monitoring and evaluating program activities, processes, results and outcomes; and (c) clear institutional structures and roles for the basic functions of the program (including program oversight, financial and information flows, the system for identifying the target population, and verifying conditionalities). These are the very areas that make up the technical components of the proposed project.

The specific content of each technical component was also designed taking into account international experience and Brazilian realities and will draw on the significant technical assistance that the World Bank has been providing to the Government for the conceptualization and design of these reforms since March 2003, following discussions between President Lula and President Wolfensohn. This support has been provided under the umbrella of the Brazil Social Assistance Program (BRASA, EW-P078828-ESW), a programmatic ESW/AAA program, including assistance on the overall design of an integrated program, issues pertaining to identifying and selecting beneficiaries, and monitoring and evaluation of the program. The proposed project would also build on and complement the on-going PSRL program in the HD sectors, which emphasizes actions to enhance equity, improve the quality and efficiency of social programs, and increase accountability in the social sectors. As discussed above, the proposed HD TAL will also support activities (including the household budget survey, POF 2005) that would serve as inputs into the proposed BFP project.

More generally, the World Bank has acquired considerable technical expertise around the world in strengthening targeting systems, developing monitoring and evaluation systems for conditional cash transfers, and in promoting the types of institutional innovations envisaged for the BFP. The Bank team consists of specialists who bring considerable international experience in each of these areas.

3. Fiduciary

Procurement (Annex 8). The procurement risk assessment of the project was determined to be high risk as presented in the Capacity Assessment of the Project, since MDS was only recently created and does not have prior experience working with World Bank-financed projects. MDS will carry out procurement activities in collaboration with UNDP. The capacity assessment recommends several actions to be implemented to improve the MDS procurement capacity as part of the project implementation. It is expected that this project would require stronger supervision of procurement as the capacity of the agency is limited. The supervision plan proposes a frequency of biannual post-review missions. The size of the sample for post-review will be 1 in 5 in all cases. This ratio may be adjusted during project implementation depending on the performance and the results of the reviews.

Financial Management (Annex 7). A financial management assessment was conducted in accordance with OP/BP 10.02 and the Guidelines for Assessment of Financial Management in World Bank Financed Projects issued by the Financial Management Sector Board on October 15, 2003. It concluded that the financial management arrangements satisfy the World Bank's requirements, and a financial management system is in place that can provide with reasonable assurance, accurate and timely information on the status of the

project. The project will use an SOT (statement of transfers) methodology for Component 1 (reimbursement basis) and an SOE (statement of expenditures) methodology for Components 2-5. The financial monitoring/reporting system has the capacity to produce reliable information and reasonable cash forecasts. The overall financial management risk associated with the Project is rated as moderate. External audits will follow the Bank's new audit policy and guidelines issued by the FMSB on June 30, 2003.

Expenditure Eligibility. The proposed loan would finance the cost of reasonable taxes and duties in accordance with the provisions of the New Policy Framework for Eligibility of Expenses, and consistent with the established Brazil country financing parameters.

Retroactive Financing. Retroactive financing will be available for disbursement categories 1 (Goods), 2 (Consultant Services), 3 (Training and Seminars), 4 (BF Grants) and 5 (Incremental Operating Costs) procured in a satisfactory fashion and paid after January 1, 2004 up to a maximum of 19% of the loan amount. This retroactive financing percentage is consistent with the parameters included in the New Policy Framework for Eligibility of Expenses, and consistent with the established Brazil country financing parameters. It is recommended that, once the loan is declared effective, such expenditures be immediately claimed from the World Bank, on a reimbursement basis.

4. Social

The entire project is focused on delivering strong social outcomes. Indeed, it will support one of the Government's flagship social initiatives: the Bolsa Família Program. This program is designed to reduce poverty and inequality in the short run, and promote human capital development, which could further reduce poverty and inequality in the long run. The BFP is also designed to link program beneficiaries with complementary services and to promote the development of tailored empowerment ("*emancipação*") strategies.

Since the proposed project will support the Government's own program, it builds on the consultations that MDS has been carrying out with key stakeholders, including extensive consultations with: municipal heads and state governors; line ministries affected by the reforms (including the Ministries of Health, Education, Mines and Energy, and the former Ministry of Food Security, which was merged into MDS); private sector business groups (as part of their social responsibility dialogue); universities and think tanks; NGOs and other civil society organizations (including local social control committees); and groups of beneficiaries themselves. In addition, consultations were held with representatives of indigenous and Quilombola populations and anthropologists working with these groups as an input into the preparation of the IPDP (see Annex 10).

In terms of social issues, the project will support a strengthening of the system for identifying the target population (Component 2) to help ensure that program resources reach the poor and that beneficiary identification and selection is fair and transparent and respects the cultural, ethnic and racial characteristics of the poor population (including those of poor indigenous and Quilombola populations). The Cadastro Único system for identifying and selecting target populations has already piloted efforts to cover indigenous and Quilombola populations (see Annex 10).

Gender has also been an important consideration in the design of the BFP. The law governing the program includes an explicit provision that payment of BFP transfers should be made to the mother or woman in the household if at all possible. This preference for payments to women is based on international evidence that suggests that mothers' decisions regarding the intra-household allocation of resources often favor children's nutrition, health and education.

Finally, the solid monitoring and evaluation system for the BFP will help the program monitor the issues of access to project benefits (respecting the cultural and ethnic patterns of the country and the poor population) and transparency of beneficiary selection (among other aspects of program performance).

5. Environment

Not applicable.

6. Safeguard policies

OD 4.20 requirements were met with the Indigenous Peoples Development Plan in Annex 10 of the PAD.

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment</u> (OP/BP/GP 4.01)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Cultural Property (OPN 11.03, being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP/GP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP/GP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

7. Policy Exceptions and Readiness

The proposed project does not require any exceptions from Bank policies or procedures. The project meets all Regional criteria for readiness for implementation.

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

Annex 1: Country and Sector or Program Background

BRAZIL: BR Bolsa Família

Country Context: The Dual Challenges of Economic Growth and Social Progress

Brazil's Government is committed to realizing the country's large potential for welfare improvements through simultaneous actions on the economic and social fronts. This two-part strategy recognizes that economic growth is crucial for development. Nonetheless, growth has been elusive in recent years, with GDP contracting by 0.2% in 2003.⁶ Faster growth depends on a coordinated push to improve conditions for investment and for higher productivity. This means reducing long-term public liabilities (especially through structural reforms in the public pensions system) to create fiscal space for public investment and cut the cost of capital; reducing impediments to innovation and investment stemming from excessive regulation and bureaucracy; addressing trade barriers; moving toward a more efficient and deeper financial sector; and investing more in human capital, in particular in secondary education.

At the same time, the Government's dual strategy emphasizes the importance of lasting social progress. Over the past decade, Brazil carried out significant reforms to expand the coverage, quality, and efficiency of its education and health systems and strengthen its safety net. Basic social indicators improved faster than in most other countries with similar income levels. Brazil is now close to achieving universal coverage of basic education. Infant mortality fell from 48 per 1000 live births in 1991 to less than 30 in 2000. The poverty rate fell sharply since economic stabilization in 1994, and has hovered around 28-30% (from 36% in 1992) since then.

Nonetheless, deeper social progress is essential to improve the quality of life of the least advantaged groups. The importance of achieving visible and rapid social gains while maintaining economic stability is further highlighted by the ambitions, high expectations, and hopes that rest on this particular Government administration. Rapid achievements on the social side would consolidate broader support for economic responsibility and difficult reforms, thus strengthening the foundations for growth and for even faster social progress in the future.

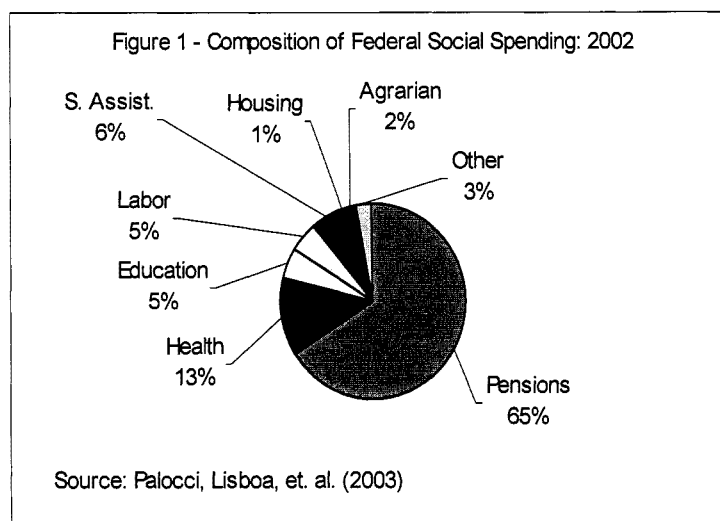
Despite recent progress, challenges remain. Education indicators still lag due to Brazil's low starting point, particularly among the poor. Disparities remain in health care funding across regions, and in utilization rates across socio-economic groups. Poverty has remained fairly constant since the mid-1990s and the poverty profile has changed, with the effects of the recent economic slowdown being felt primarily in metropolitan areas in the Southeast. In fact, poverty levels in metropolitan areas increased sharply, with the Southeast share of poverty increasing from 17-26% from 1998-2001. Poverty incidence among youth also increased, and poverty rates continue to be especially high for those with low levels of education, as well as for indigenous and afro-descendent populations. Related to these disparities, Brazil is still one of the world's most unequal societies: with a Gini coefficient of 0.59 for incomes, the richest 1% of the population receives 10% of total monetary income—the same share as the poorest 50%. Analysis shows that income inequality in Brazil stems primarily from unequal access to education and a high skill premium for labor, along with a highly regressive pension system.

Higher quality and more equitable access to education (including secondary and tertiary education) are key to reducing poverty and inequality in the long run. However, the positive impacts of education reform take time to materialize. Reforms to social assistance programs (see below) and a more equitable pension system can achieve complementary results sooner and substantially reduce inequality and alleviate poverty.

⁶ IBGE, February 2004.

Country Context: Social Spending⁷

As stated in the report on social expenditures by the Ministry of Finance (November 2003), total social spending⁸ of the federal Government reached R\$204.2 billion, or 15.5% of GDP in 2002. This is relatively high. In fact, on a per capita basis, Brazilian public social expenditures are 50% higher than might be expected given the country's income level.⁹ Social spending grew significantly over the past few years, rising from 12.7% of GDP in 1998. However, this growth mirrors the rise in public spending on pensions (previdência), which is by far the largest component of social spending in Brazil (Figure 1). Health is the second largest spending area, protected by a constitutional amendment that requires a certain percentage of all fiscal receipts to be allocated to spending on health. The federal Government spends fairly equal amounts on social assistance, labor, and education (Figure 1).



Sector Context: Brazil's Social Protection System

Brazil allocates three-quarters of total federal social spending to social protection activities in the areas of pensions (previdência), social assistance, and active labor market programs (Figure 1).

Previdência Benefits.¹⁰ As discussed above and as stated in the report on social expenditures by the Ministry of Finance (November 2003), federal spending on pensions (previdência) dwarfs all other categories, accounting for 86% of total federal social protection spending, two-thirds of total federal social expenditures, and 9.7% of GDP in 2002. Some 69% of spending on previdência goes to private sector pensions under the *Regime Geral de Previdência Social* (RGPS), including both urban and rural pensions. Another 27% is allocated to public sector pensions under the *Regime Jurídico Único* (RJU). The remainder (5.6%) goes to a variety of employer-paid benefits (sick pay, accident pay, maternity pay, family allowances) and another 1.3% goes to administrative costs of the National Social Security Institute (INSS). In principle, previdência benefits are contributive; in other words, to have access to them, an individual must have contributed or be contributing to the INSS system. In reality, however, the previdência system runs significant deficits. In 2002, these deficits – which can be interpreted as public subsidies or assistance transfers to previdência beneficiaries – accounted for about a third of total outlays on previdência benefits (or 3.2% of GDP). Spending on previdência benefits is highly regressive. Households in the top quintile receive 71 times more previdência benefits than do those in the bottom quintile. Those in the top two quintiles receive 60% of all previdência benefits.¹¹ These inequalities arise in two ways: (a) the restriction

⁷ This section draws primarily from: Palocci Filho, Antonio, Marcos de Barros Lisboa, Otávio Ribeiro Damaso, Roberto Pires Messenberg, and Rozane Bezerra de Siquiera (November 2003). "Gasto Social do Governo Central: 2001-2002." Ministério da Fazenda, Secretaria de Política Econômica. Social spending includes outlays and tax breaks for related purposes.

⁸ Following Brazilian tradition, social spending includes expenditures on: pensions (previdência) and social assistance, health, education, housing, basic sanitation, active labor market policies/programs, and agrarian support.

⁹ The World Bank (June 2000). "Brazil: Selected Issues in Social Protection." Report No. 20054-BR.

¹⁰ This section draws primarily from: Palocci Filho, Antonio, Marcos de Barros Lisboa, Otávio Ribeiro Damaso, Roberto Pires Messenberg, and Rozane Bezerra de Siquiera (November 2003). "Gasto Social do Governo Central: 2001-2002." Ministério da Fazenda, Secretaria de Política Econômica.

¹¹ Incidence information from Levy, Nogueira, O'Donoghue and Siqueira (2003), as referenced in Palocci, Lisboa et. al. (November 2003).

of previdência benefits to all those in the formal sector (having made contributions to the INSS system); and (b) inequities within the previdência system, with rural pensioners receiving benefits equal to one minimum wage (R\$240 per month) from the RGPS/INSS system, while on the other extreme, public-sector pensioners receive benefits averaging 15 minimum wages.¹²

Active Labor Market Programs.¹³ The Federal Government also maintains several programs to protect workers and promote employment, which in total account for 5% of federal social spending and 0.7% of GDP. The largest of these is unemployment insurance (seguro-desemprego),¹⁴ which absorbs 60% of spending in this area, followed by a salary bonus (abono salarial), which accounts for another 13.5%, and various employment promotion programs. All of these benefits are limited to formal sector workers. One of the main social initiatives of the new Government was to introduce a new program in this area, the “Primeiro Emprego” program, which seeks to help youth obtain skills and access for their first jobs.

Social Assistance. The federal Government operates numerous social assistance programs. In 2002, these absorbed close to 6% of total federal social spending and 1% of GDP.¹⁵ Prior to the recent integration reforms, the federal Government operated four large conditional cash transfer programs that were targeted to roughly the same target group of poor families (see more on this below). These accounted for about a quarter of all direct safety net spending by the federal Government. The remaining social assistance expenditures were allocated to programs that were tailored to the specific needs of vulnerable groups (see Table 1), including assistance to the disabled, the elderly, school feeding and other in-kind nutritional assistance, and PETI, a child labor eradication program that combines conditional cash transfers with support for after school activities designed to keep children out of risky labor activities. In addition, many state and local governments operate their own safety net programs (consolidated spending information not available). As discussed below, the Bolsa Família reforms seek to merge not only the federal conditional cash transfer programs, but also to integrate the federal-state-local programs vertically where sub-national programs exist. Until the recent household budget survey (POF 2002-03), which will soon be available for analysis, there were no nationally representative household survey data on specific social assistance programs (federal or sub-national). As such, the incidence of these programs is unknown.¹⁶

¹² Palocci, Lisboa et. al. (November 2003).

¹³ This section draws primarily from: Palocci Filho, Antonio, Marcos de Barros Lisboa, Otávio Ribeiro Damaso, Roberto Pires Messenberg, and Rozane Bezerra de Siquiera (November 2003). “Gasto Social do Governo Central: 2001-2002.” Ministério da Fazenda, Secretaria de Política Econômica.

¹⁴ This benefit is limited to formal sector workers who have been dismissed without “just cause.” The benefit is based on the last monthly salary received, and can be paid for five months (continuously or not) within any 16 month period. In 2002, about 9.5 million workers received this benefit. Palocci, Lisboa et. al. (November 2003).

¹⁵ These include outlays and tax breaks for social assistance.

¹⁶ However, data from the census (a grouped question of several programs together) suggest that cash transfer programs (to poor families as well as the disabled, which were supposed to be targeted to poor disabled with per capita incomes below R\$90 per month) were poorly targeted, with 54% of total transfers going to non-poor families (and the programs only covering about 2.3% of the poor). Palocci, Lisboa et. al. (November 2003).

Table 1 – Direct Federal Government Spending on Social Assistance Programs, 2002					
Conditional Cash Assistance to Poor Families			Tailored Assistance to Specific Vulnerable Groups		
Programs	Amount^a	% of Total	Programs	Amount^a	% of Total
Bolsa Escola	1605.4	15.7%	Assistance to Elderly	1983.7	19.4%
Bolsa Alimentação	152.0	1.5%	PETI (child labor)	516.1	5.0%
Auxílio Gas	650.5	6.3%	Agente Jovem (youth)	66.7	0.7%
P. Cartão Aliment. (PCA) ^b	n.a.	n.a.	Other child-related assist.	289.6	2.8%
Sub-Total Above	2407.9	23.5%	School feeding, other nut.	949.1	12.1%
Above programs merged into Bolsa Família Program in October 2003 (after introduction of the PCA and continued expansion of other programs)			Assistance to Disabled	3328.6	32.5%
			Other ^c	703.8	9.0%
			Sub-Total Above	7837.5	76.5%
GRAND TOTAL (Cash assistance to poor families + tailored assistance programs)				10245.4	100.0%
(a) In million reais (R\$ mn).					
(b) PCA is the Programa do Cartão Alimentação of the Fome Zero Program that was introduced in 2003.					
(c) "Other" includes: support to vulnerable populations, support to indigenous populations, and various other supports.					
Source: Palocci, Lisboa, et. al. (November 2003). Figures exclude tax breaks (renúncias tributárias) related to social assistance activities.					

PROGRAM BACKGROUND: SAFETY NET REFORMS AND THE BOLSA FAMÍLIA PROGRAM

The Reform Agenda: Integrating Cash Transfer Programs for Improved Efficiency

As part of its dual focus of maintaining macro stability while achieving more equitable growth and rapid social progress, the Government recently initiated sweeping reforms to improve its social safety net. These reforms seek to integrate several federal conditional cash transfer programs. Many of these programs are individually promising, and evaluations have demonstrated the positive impacts of the Bolsa Escola and Bolsa Alimentação programs (see Annex 9). Nonetheless, the separate operation of multiple programs with similar objectives and actions is inefficient. As such, the reforms seek to integrate these programs horizontally into a single, improved conditional cash transfer program, "Bolsa Família." The reforms are also seeking better complementarity -- and possibly a vertical pooling of resources -- with state and local programs, as discussed below.

Prior to these reforms, Brazil operated multiple cash transfer programs oriented to poor families. These programs included:

- **Bolsa Escola (BE)**, which provided a monthly transfer of R\$15 for each school-aged child (with a maximum of three children, or R\$45) to poor households (<R\$90 in per capita income). In exchange, the three recipient children all had to attend school a minimum of 85% of the time (conditionality). As of October 2003, Bolsa Escola benefited about 5.6 million families. Bolsa Escola became a well-known trademark (and export) of Brazilian social policy. It was operated by the Ministry of Education.
- **Bolsa Alimentação (BA)**, which targeted pregnant and lactating women and young children and provided a monthly transfer of R\$15 per person (for up to three people, or R\$45 per household) to poor households (<R\$90 in per capita income). In exchange, these individuals had to make specified health care visits and the mothers had to participate in nutritional education workshops (conditionalities). As of October 2003, Bolsa Alimentação benefited about 1.7 million families. It was operated by the Ministry of Health.
- **Cartão Alimentação (PCA)**, which was part of the Fome Zero program and provided a monthly transfer of R\$50 to poor families. In principle, these families were supposed to use the funds for food purchases. The program expanded rapidly from its launching in 2003, reaching 289,000 families in August and 774,764 by October. It was operated by the (former) Ministry of Food Security (MESA).
- **Auxílio Gás (AG)**, which provided a monthly cash transfer of R\$7.50 (in the form of a bi-monthly payment of R\$15) to poor families (<R\$100 in income per capita) to compensate them for the

elimination of an indirect subsidy on cooking gas. As of October 2003, about 9.7 million households received the Auxílio-Gás payment. It was administered by the Ministry of Mines and Energy.

Collectively, these programs represented about a quarter of federal spending on social assistance in 2002 (see Table 1 above). Although each maintained its own emphasis (promoting schooling, health care, food consumption, or compensating for adjustment), they all provided cash transfers to roughly the same target group of poor families. Each program was managed with separate administrative structures, beneficiary selection processes, and banking-sector contracts for payments issuance. These separate structures created inefficiencies and administrative duplication, resulted in considerable gaps and duplications in coverage, and missed important synergies from jointly promoting education and health. Given these inefficiencies, the reforms seek to integrate these programs into a single, improved conditional cash transfer (CCT) program called the “Bolsa Família Program” (BFP), which was officially launched on October 20, 2003.

The Bolsa Família Program

Reform and Program Objectives. There are different levels of objectives for the BFP. **First**, as a safety net reform, the new program will integrate the four CCT programs mentioned above (BE, BA, PCA, AG). As such, the **objectives of the safety net reforms** include:

- Consolidating and rationalizing federal conditional cash transfer programs;
- Promoting efficiency in the use of public resources (e.g., by reducing administrative costs and promoting more efficient program management);
- Improving the system for identifying the target population;
- Leveraging synergies from jointly promoting education and health incentives;
- Strengthening monitoring and evaluation; and
- Leveraging opportunities to systematize complementarities in the social safety net between federal and sub-national programs (promoting vertical integration).

Second, with this platform, the **objectives of the new BFP** (the program itself) include:

- Reducing poverty and inequality today, through a direct monetary transfer to poor families (which could have a potential impact on both the families themselves and on the local economies in which they live); and
- Reducing poverty and inequality tomorrow, first, by providing incentives and conditions for investments in human capital on behalf of beneficiary families, and by developing a system to link beneficiary families to complementary services that could help them invest and grow out of poverty in the future.

Target Group. The BFP defines two target groups. The priority target group is those “extreme poor” families with per capita monthly incomes below R\$50 (US\$17). The program also targets those “moderately poor” families with per capita monthly incomes below R\$100 (US\$34)¹⁷ but higher than R\$50 (US\$17). Data from the Household Income Survey (PNAD 2002) suggest that about 32% of the population would be considered “poor” using a total cutoff of R\$100 (the extreme poor and the moderately poor combined).¹⁸

¹⁷ Brazil does not have an official poverty line and research institutions use different poverty lines that lead to different poverty numbers. The poverty line used in the World Bank’s Poverty Assessment is set at around R\$80 per month (US\$27) and is adjusted for each region using a regional price index. This results in a national poverty rate of 28.7%. IPEA’s extreme poverty line was established at R\$62, yielding an extreme poverty rate of 14.6%. IPEA calculates the full poverty line as twice the extreme poverty line, or R\$124, resulting in a poverty rate of 33.6%. This value is close to that being used by the Government in their documents.

¹⁸ Leite, Phillippe (January 2004).

Benefit Levels.¹⁹ The program will provide cash transfers ranging from R\$15-95 (US\$5-33) to these target families. By law, payments are preferably made to the mother or woman in the household. The exact transfer amount will depend on income levels and household composition (see Table 2 below). These amounts were set with the goal of minimizing the number of people benefiting from the previous programs that could either be excluded or face reduced benefits under the integrated program.

Monthly transfers are expected to average about R\$71 (US\$24) per beneficiary family, a significant increase in average benefits, rising from about R\$24 (US\$8) in total for the previous programs.²⁰ On a per capita basis, this represents about 19% of the poverty line used by the World Bank, 12% of IPEA's poverty line, and 6% of the minimum wage.

While these transfers could create adverse incentives to work (causing, for example, a reduction in total hours worked), the use of graduated benefits for higher income levels (rather than an immediate 100% cut-off) could lessen these impacts. In fact, simulations using data from the PNAD 2002 suggest that these transfer amounts (non-labor income) would have very little impact on adult work effort of the target group (though they would have an impact in reducing child labor).²¹ These results are consistent with those found in the empirical evaluation of Mexico's PROGRESA Program.²² Moreover, they are significantly smaller than average transfers for previdência (pension) benefits.

Table 2 – Bolsa Família Menu of Benefits by Income Group (Monthly Transfers Per Family)			
	Base Transfer	Variable Transfer (per number of):	Total Transfer
General Benefit Description	Irrespective of Family Composition or Size	<div>➤ Children 0-12</div> <div>➤ Adolescents up to age 15</div>	Add base + variable
Per Capita Income:		Up to 3 Variable Transfers	
<R\$50 per month	R\$50 (US\$17)	R\$15-45 (US\$5-15)	R\$65-95 (US\$22-33)
<R\$100 per month	none	R\$15-45 (US\$5-15)	R\$15-45 (US\$5-15)
Conditionalities	Apply to all relevant family members (see menu below)		
From: Law No. 10.836, January 9, 2004. US dollar conversions for benefit amounts provided for reference only using an exchange rate of 2.9.			

Scope and Spending. The BFP is rapidly becoming one of the Government's major social initiatives. It surpassed its target of 3.6 million families in its first three months of operation in 2003 (reaching 3.615). The Government's multi-year plan (PPA) targets 11.2 million families (or about 44 million people) by 2006 (see Table 3), which will represent a significant scaling up of social assistance as compared with the (overlapping) coverage of its predecessors.

The initial phase of expansion primarily involves certifying and "converting" (or "migrating") beneficiaries from the pre-reform programs to the BFP (Table 4). This process is being done gradually (mainly as fiscal resources permit) and should be complete by 2006. As part of the integration process, the BFP took over the management of the cash transfer benefits being paid to the beneficiaries that are still receiving benefit amounts from the pre-reform programs but who are gradually being migrated to the (higher) unified benefit

¹⁹ US dollar conversions for benefit amounts provided for reference only using an exchange rate of 2.9.

²⁰ d'Ávila Viana, Ana Luiza (February 2004). "Programa Bolsa Família." Prepared for the World Bank in preparation for the Shang'hai Scaling Up events.

²¹ Simulations by Leite, Phillippe (January 2004) using data from the PNAD 2002 show that the transfer levels under the Bolsa Família program would have very little (insignificant) impact on adult work effort. Earlier work by Bourguignon, François, Francisco Ferreira and Phillippe Leite (2003) show that lower transfer levels (under the previous Bolsa Escola program) would, however, have an effect in reducing child labor (and increasing school attendance).

²² Parker and Skoufias (2000) found that market work for adults does not appear to fall with the PROGRESA transfers in Mexico (partly to compensate for the significant impact that the program does have on reducing child labor).

schedule under the BFP. They are all being validated as eligible for the BFP and are subject to the same set of conditionalities as the families already on the BFP.

There will be some addition of new beneficiaries in 2004, however, as the program attempts to interview and register some 900,000 potential new beneficiaries in capital cities and large urban centers to correct for previous biases against these cities in the registration database (Cadastro Único, see below).

The BFP will also require a significant but managed increase in financing, reaching a total of R\$33 billion (US\$11 billion) over the PPA period from 2004-07 (see Table 3). The planned budget is R\$5.8 billion (about US\$2 billion) for 2004, which is already about R\$1.5 billion higher than spending on the separate programs in 2003, mainly due to the higher average benefits paid to Bolsa Família beneficiaries as compared to those on the previous programs. In terms of shares of total federal primary expenditures and GDP, the program will rise from 1.1% of primary expenditures in 2003 to 2.5% by 2006 and from 0.2% of GDP in 2003 to 0.5% by 2006. This rise in spending needs will likely be offset by expected savings from the recently-approved pension reforms, estimated at 0.4% of GDP (or about R\$8 billion) per year during that period. The shift in resources from regressive pensions to progressive conditional cash transfers under the BFP is an important part of the Government's strategy to reduce poverty and inequality in Brazil. Efficiency gains will arise from merging the programs, and will also partially offset these higher costs (thus allowing for greater coverage). The program is also seeking better complementarity and a pooling of resources with state and local programs for expanded coverage to further expand the pool of available resources.

Table 3 - Bolsa Família: Beneficiaries and Budget, 2002-06					
	2002	2003	2004	2005	2006
Beneficiaries: Million families covered					
Bolsa Família	n.a.	3.6	6.5	8.7	11.2
Budgets: Billion R\$	Pre-reform				
Bolsa Família ^b	R\$2.4 ^a	R\$4.3 ^c	R\$5.85	R\$7.50	R\$9.39
Budgets: Billion US\$	Pre-reform				
Bolsa Família ^b	US\$0.8 ^a	US\$1.5 ^c	US\$2.0	US\$2.6	US\$3.2
^a These figures cover actual spending for Bolsa Escola (BE), Bolsa Alimentação (BA), and Auxílio Gas (AG). The Fome Zero Cartão Alimentação (PCA) did not exist in 2002. ^b These figures include budgets for those beneficiaries who continue to benefit from previous pre-reform programs (BE/BA/AG/PCA) but have not yet been converted to the BF program (due to budget constraints they remain with the old program benefits). As the BF program expands, these families will be converted to the BF program. ^c The R\$4.3 bn identified as BF spending in 2003 was roughly allocated as follows: (a) by November, BE+BA+PCA+AG had spent about R\$2.48 bn; (b) BF spent about R\$0.8 bn in its first three months of operation (oct, nov, dec, with an average of about R\$263 mn per month); and (c) the remaining R\$1.0 bn was spent on the families in BE+BA+PCA+AG in the last two months of the year. Exchange rate about 1:2.9. Sources: 2002: Palocci, Antonio, Lisboa, Marcos de Barros, et. al. (November 2003). 2003-07: PPA and BFP/MDS.					

Table 4 – Conversion of Beneficiaries from Pre-Reform Programs to the Integrated BFP (as of March 2004)				
	Bolsa Escola	Bolsa Alimentação	P. Cartão Alimentação	Auxílio Gas
# Families as of October 2003	5,562,456	1,669,554	774,764	9,707,829
% migrated to BFP as of end December 2003	32%	80%	55%	28%
Remaining stock	3,771,199	326,587	349,905	6,931,699
Source: Ana Luiza d'Ávila Viana (March 2004).				

Program Conditionalities. The transfers would be conditional on all relevant family members complying with key human development conditionalities as part of an important policy shift towards focusing assistance on the family (rather than on individuals). Previous programs provided support and conditionalities only for some individuals within the family. For example, under Bolsa Escola, school attendance was only required for up to three school-aged kids, but not for any more than three children. The same was true for Bolsa Alimentação (with conditionalities only applying to beneficiary members). In addition, synergies are expected from the simultaneous promotion of investments in health and education

within a family. The BFP requires all relevant family members to comply with the relevant conditionalities (see menu, Table 5). In some areas, the supply of adequate or the availability of culturally-appropriate health and education services may be lacking. The BFP is developing a policy to define co-responsibility requirements in these cases (and an information feedback mechanism to ensure that municipalities, states, and the line ministries promote the needed supply-side response).

Table 5 – Bolsa Família: Menu of Conditionalities for Beneficiary Families	
Children ages 6-15 years	Enrolment and regular school attendance
Children ages 0-6 years	Vaccines up to date
Pregnant women	Pre-natal visits
Conditionalities described in Law 10.836 of January 9, 2004; menu with age ranges from draft Operational Guidelines.	

Table 6 – Social Indicators related to Bolsa Família Conditionalities, Latest Available Data				
	Poorest Quintile	Richest Quintile	National Average	Range by States
School Enrollment				
5-15 years old	88%	99%	92%	88-96%
5-9 years old	83%	98%	89%	81-95%
10-15 years old	92%	99%	95%	91-97%
Average Schooling				
5-15 years old	2.31	4.12	3.14	2.29-3.71
5-9 years old	0.66	1.05	0.84	0.53-1.22
10-15 years old	3.25	5.38	4.24	3.03-4.97
Repetition Rates				
5-15 years old	40%	6%	25%	10-50%
5-9 years old	8%	1%	4%	0-11%
10-15 years old	58%	8%	35%	14-68%
Vaccine Coverage	(kids <5; 1996)	(kids <5; 1996)	(kids <1; 2002)	(kids <1; in 2002)
Polio	n.a.	n.a.	97.1	83-100
DPT	65.6	81.9	96.0	72-100
Measles	77.9	90.2	94.5	75.5-100
BCG	n.a.	n.a.	100.0	91.8-100
Hep B	n.a.	n.a.	88.8	66.1-100
All	56.6	73.8	n.a.	
Malnutrition	(kids <5; 1996)	(kids <5; 1996)	(kids <5; 1996)	
% stunting	23.2%	2.3%	10.5%	n.a.
% mod. underweight	11.5%	3.0%	3.0%	n.a.
Growth monitoring			(2003)	
% kids < 1 weighed	n.a.	n.a.	85%	n.a.
Pre-natal Visits				
% > 2 visits (1996)	64.2%	97.2%	n.a.	n.a.
% > 7 visits (2000)	n.a.	n.a.	46.0%	n.a.
Per cap. health visits	n.a.	n.a.	2.4 (2001)	1.4-2.9 (2001)

Sources: Education data: PNAD 2001, 2002. Health data: MS/DATASUS; 1996 figures from Pesquisa Nacional sobre Demografia e Saúde.

As shown in Table 6 above, the aims of the conditionalities appear to be appropriate, given the apparent correlation between poverty and relatively weak outcomes of key education and health indicators (with much worse indicators for the poor). For example, children in the poorest quintile are less likely to enroll, more likely to repeat, and complete on average two years less of schooling than their counterparts in the richest quintile. Only half of all poor children under five are fully up-to-date for their vaccines. Malnutrition is also fairly high among the poor. Only a small share of pregnant poor woman appear to be having more than two pre-natal visits.

Human Capital Investments: Supply- and Demand-Side Interactions. The interaction between this type of targeted CCT program and the provision of more universal “supply side” services for health and education is mutually complementary: (a) on the one hand, the provision of quality health and education services is clearly a crucial requirement for conditional transfers to work; as such, efforts are being made to simultaneously invest in such services; (b) on the other hand, even if health and education services were universally available, CCTs would be needed to help alleviate common demand-side constraints (direct and indirect costs) that prevent poor households from taking up these services. Investments in both the BFP, and in the supply and quality of health and education services, are thus crucial elements of a balanced human capital development strategy. An inter-ministerial social committee has been established to help ensure coordination among the social sector ministries (and the Ministry of Education, for example, has also established a special secretariat to focus on the issues of inclusion and diversity in education, including coordinating links with the BFP).

Institutional Arrangements. The Bolsa Família Program is managed by SENARC in the newly-created MDS. The BFP also involves three types of inter-actions: inter-governmental, inter-sectorial, and between the Government and civil society. The roles and degree of involvement of each of these actors varies by specific aspect of the program (see simplified matrix in Table 7).

First, overall program oversight and articulation is managed at the federal level by MDS. SENARC is responsible for overseeing the operations of the program, including managing the Cadastro Único (see below) and the payment of benefits. It is guided by the decisions of the President, supported by the recommendations of management board (the *Comitê Gestor do Programa Bolsa Família*), which is responsible for policy articulation, promoting partnerships between levels and sectors of government and with civil society, overseeing formal audits and social controls.

Second, as discussed below, beneficiary identification is conducted via a data collection and eligibility process that is managed by the SENARC/MDS (including the Cadastro Único unit in the SENARC), and involves the municipalities (for data collection) and the Caixa Econômica Federal (CEF, to manage the national database).²³ See Table 7 and discussion below for more details.

Third, the institutional arrangements for financial flows and payment of transfers are fairly direct and simple, building on the long experience of cash transfer programs in using the country’s extensive banking system. As discussed in Annex 7, each month, the MDS sends a Program Financing Proposal (PPF) to STN for approval. This PPF is established based on the list of eligible beneficiaries from the Cadastro Único.²⁴ Once the PPF is approved by STN, the MDS issues an *ordem bancaria* and instructs the STN (National Secretariat of the Treasury) to transfer funds to a specific BFP account in the Caixa (CEF). Eligible beneficiaries (on the payroll) then withdraw their monthly benefits using electronic benefit cards (EBCs).²⁵ The EBCs are distributed to eligible beneficiaries according to the list established by the MDS. Upon entering the program, beneficiaries must pick up these cards at the nearest CEF agency (or lottery, post office or municipality). They are notified through the municipalities and must pick up their cards and withdraw funds within a 90-day period of time. Experience from the pre-reform programs shows that approximately 3-5% of Bolsa Escola beneficiaries did not withdraw their benefits within the 90-day time period, mainly due to communications or transport difficulties in extremely remote rural areas. This share

²³ CEF is a federal savings/credit union organization. Apart from banking services, CEF has traditionally provided payments issuance services for federal assistance programs. CEF operates its open 2,047 agencies nationwide, and is linked with 8,900 lottery points and 2,000 banking correspondents. This broad network is supposed to guarantee its presence in all Brazilian municipalities, one of the reasons for its central role in managing the Cadastro Único database and payments issuance for social programs.

²⁴ As discussed in this Annex, some of these beneficiaries include those currently receiving benefit amounts from the pre-reform programs (Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio Gas) but who are gradually being migrated to the (higher) unified benefit schedule under the BFP. They are all being validated as eligible for the BFP and are subject to the same set of conditionalities as the families already on the BFP.

²⁵ Beneficiaries are not required to have their own bank accounts.

was reportedly much higher under the Bolsa Alimentação Program (up to one third of beneficiaries that did not withdraw their benefits, according to an operational audit by the *Tribunal de Contas da União*, TCU). The Operations Director in SENARC in MDS monitors the balance of the BFP account in the Caixa (CEF). Undisbursed amounts arising from the expiration of benefits that are not claimed within the 90-day period are returned from the Caixa (CEF) to STN and credited to the MDS for use by the BFP.

Fourth, MDS is responsible for **verification of health and education conditionalities**, which is still defining mechanisms to be used for this purpose. These mechanisms will likely involve both inter-sectoral and inter-governmental actors, for example with municipalities gathering and forwarding compliance records to the Ministries of Health and Education (which could help foster a link to the “supply side” for these services) and to MDS. The development and strengthening of such a system for monitoring conditionalities would be supported by Component 4 of the proposed project. MDS will also verify compliance via annual Quality Control Reviews (with random samples of municipalities and beneficiary families), as discussed for Component 3 of the proposed project in Annex 4.

Fifth, the institutional arrangements for **monitoring and evaluating** program performance and impact are still being configured (and this will be supported by Component 3 of the proposed project, as discussed in Annex 4). MDS has the responsibility for monitoring and evaluation at the federal level, and developing such a system is one of the top priorities of the program. Municipalities will also be responsible for evaluating the performance and the impact of the program in their own jurisdictions. Formal audits of the program will be a federal responsibility, but civil society will also be given an important role in promoting social controls. Further information is included in Annex 4.

Inter-Governmental Partnerships as a Strategy for Expansion and Vertical Integration. One of the recent innovations of the BFP has been the emphasis on rationalizing the safety net across levels of government. Bolsa Família has sought to forge partnerships with states and municipalities that also operate their own cash transfer programs (local *Bolsa*-type programs) or are willing to add their own resources to the program in order to further expand benefits or coverage. For example, the three state governments are currently already co-financing the program (Rio Grande do Sul, Roraima, and São Paulo), six others are in advanced negotiations with the federal Government for similar co-financing arrangements, and one state is completely merging its own program into Bolsa Família. Numerous other states are also negotiating the provision of complementary services to Bolsa Família beneficiaries with the federal Government (see below). Similar types of partnerships are being forged with multiple municipalities. These vertical partnerships constitute an innovative way to allow for a further integration of the safety net, and an expansion or scaling up of the BFP beyond the limits of federal fiscal resources. They are further discussed in Annex 4.

Beneficiary Identification, Selection, and Expansion. As discussed above and in Annex 4, the BFP makes use of the Cadastro Único – a national registry of potentially poor households –for beneficiary selection. With respect to institutional responsibilities for the Cadastro Único, data collection and beneficiary registry are decentralized to the municipalities, but operation and maintenance of the database are centralized at the federal level, with oversight provided by the Ministry of Social Development (the Cadastro Único unit within MDS), and system management and operation conducted by the Caixa Econômica Federal (CEF).

Table 7 – Simplified Matrix of Institutional and Functional Responsibilities for BFP

Program Management	SENARC/MDS	Caixa (CEF)	Municipalities	States	Line Ministries	Civil Society
Cadastro Único Registry (see also Annex 4)	<ul style="list-style-type: none"> Oversees and manages BFP Manages Cadastro Único *Develops questionnaire Interacts with municipalities *Provides training *Conducts within and cross-database crosschecks 	<ul style="list-style-type: none"> Consolidates databases transmitted from municipalities into a national database Assigns the social identification number (NIS) Conducts within and cross-database crosschecks 	<ul style="list-style-type: none"> Collect data from households** Enter, clean, consolidate local databases Transmit them to Caixa (CEF) 	<ul style="list-style-type: none"> Inter-act with municipalities Provide training 		<ul style="list-style-type: none"> Social Control
Beneficiary Selection (see also Annex 4)	<ul style="list-style-type: none"> *Establishes eligibility criteria *Verifies beneficiary selection processes Establishes national-level eligible beneficiary list (payroll) 		<ul style="list-style-type: none"> Local managers of the BFP select beneficiaries using federal criteria 			<ul style="list-style-type: none"> *Social Control functions
Payments of benefits to Beneficiaries	<ul style="list-style-type: none"> Authorizes and monitors payments 	<ul style="list-style-type: none"> Sends out EBCs to beneficiaries (via local CEF agencies, municipalities, post, lottery points) Makes payments to beneficiaries via pooled account (beneficiaries access payments via EBCs) 	<ul style="list-style-type: none"> In some cases, distribute EBC cards to beneficiaries after receiving them from CEF 			<ul style="list-style-type: none"> *Social Control functions
Verification of Conditionality	<ul style="list-style-type: none"> *Establishes menu of conditionalities and guidelines for compliance and verification *Promotes awareness of conditionalities via information on BFP *Conducts annual quality control reviews of compliance with conditionalities (see Annex 4) 		<ul style="list-style-type: none"> *Local agents (schools, community health agents) verify compliance on regular basis *Municipalities forward this information to the SENARC (BFP) and MEC/MS 		<ul style="list-style-type: none"> *MEC/MS supervise verification of conditionalities** 	<ul style="list-style-type: none"> *Social Control functions
Monitoring and Evaluating Program Performance and Impact (see also Annex 4)	<ul style="list-style-type: none"> *Monitors payments processes and accounts with Caixa (CEF) *Conducts quality control reviews of processes, payments, conditionality compliance, and Cadastro information *Evaluates territorial and beneficiary impact for overall program 		<ul style="list-style-type: none"> Monitor BFP processes at local level Evaluate impact at local level 	<ul style="list-style-type: none"> Monitor BFP processes Evaluate impact at state level 	<ul style="list-style-type: none"> IBGE conducts other complementary household surveys (e.g., POF, PNAD) 	<ul style="list-style-type: none"> *Social Control functions *Participatory evaluations
Empowerment / <i>Emancipação</i> strategies	<ul style="list-style-type: none"> Supports the establishment of <i>emancipação</i> strategies 		<ul style="list-style-type: none"> Provide complementary services via partnerships with BFP 	<ul style="list-style-type: none"> Provide complementary services via partnerships with BFP 	<ul style="list-style-type: none"> Promotes the provision of health and education services (MEC, MS) Provide complementary services (other federal programs, services) 	<ul style="list-style-type: none"> *NGOs also provide complementary services
*Role/activity to be supported by proposed project (see Annex 4).						

As discussed for Component 2 in Annex 4, eligibility criteria for the BFP are currently based on self-reported income. International experience suggests that the use of unverified incomes for identifying and selecting beneficiaries is generally problematic due to measurement errors and incentives for under-reporting and manipulation. The experience with Brazil's Cadastro Único is no exception. The income questions in the current questionnaire were poorly defined (reference periods, coverage of types of income), and, without any form of verification, there is simply too much room for error and under-reporting. Given these problems, a broad consensus has developed to shift to a proxy-means tested system. However, the Bolsa Família Law specifies target groups in terms of income cutoffs (for eligibility criteria). Nonetheless, it does not specify how income is to be measured. Since self-reported income is unreliable, welfare (and eligibility) could be measured using: (a) predicted income (predicted based on proxy variables); or (b) a two-step process whereby self-reported income is the first "filter," and then it is "verified" or "validated" using proxy indicators (as discussed in Annex 4).

In the first phase of the Bolsa Família reforms (end 2003–2004), most existing beneficiaries were converted from the pre-reform programs (BE, BA, PCA, some of which also have AG, see Table 4) into the BFP. The goal of the reforms was to minimize losses to existing beneficiary households. This process also involved cleaning and validating the existing Cadastro Único database to detect and correct for any obvious errors (missing information, duplications, etc.). Since the coverage of families mainly consisted of conversion families, there was no massive expansion in terms of numbers of *new* families receiving benefits (other than the planned expansion for some 900,000 new families in capital cities in 2004) in this phase. The second phase (2005–06), however, will involve significant expansion of the BFP (see Table 3). This expansion – along with the need to re-certify²⁶ existing households in the Cadastro (since by then their information will have become out of date) – will imply a new wave of widespread data collection for the Cadastro Único. Actions to strengthen data collection efforts for the Cadastro Único and eligibility criteria for the BFP will be supported by the proposed project and are described in Annex 4 (Component 2).

Empowerment (“*Emancipação*”) Efforts: Linking BF Beneficiaries with Complementary Services. An important policy emphasis for the BFP is to foster bridges between Bolsa Família beneficiaries and other complementary services so as to help promote their empowerment (“*emancipação*”) so as to help them escape from poverty (*portas de saída*). Indeed, the BFP has opted not to establish rigid time limits for beneficiaries, but rather to help reduce their dependency on social assistance by fostering their development through these links. Such bridges could include (a) links to education and health services, including culturally-appropriate services (the additional demand generated by these conditionalities could also serve to stimulate supply of these services); and (b) connections to other complementary services (such as job placement or training services, micro-credit, emergency assistance, etc.). While a strategy for building these links is still being developed (and indeed would be supported by the proposed project, as discussed for Component 4 in Annex 4), some states and municipalities are already linking Bolsa Família beneficiaries to complementary services offered at these sub-national levels.

²⁶ The Bolsa Família law does not specify the periodicity required for re-certification. Discussions with program officials suggest that a policy for re-certification will be established, and the periodicity would likely be 1–2 years.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

BRAZIL: BR Bolsa Família

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed	A. PROJECT UNDER SUPERVISION		
Health Sector	Family Health Project (Loan 7105-BR)	S	S
Health Sector	Disease Surveillance Control – VIGISUS (Loan 4394-BR)	S	S
	B. PROJECT COMPLETED		
Human Development	First Programmatic Human Development Sector Reform Loan (Loan 7159-BR)	S	S
Social Protection	Social Protection Special Sector Adjustment Loan (Loan 4430-BR)	HS	HS
	C. IBRD PLANNED PROJECTS		
Human Development	Human Development Technical Assistance Loan (P082523)		
Human Development	Human Development Programmatic Sector Reform Loan II (TBD)		
Health Sector	Health Surveillance Modernization Project – VIGISUS II (P083013)		
Major related projects financed by IDB			
Human Development	Programa Sectorial de Promoción del Capital Humano (BR-0360)	Closed	
Social Protection	Programa de Reforma y Protección Social (1174/OC-BR)	Closed	

Annex 3: Results Framework and Monitoring

BRAZIL: BR Bolsa Família
Table 1 – RESULTS FRAMEWORK

PDO	Outcome Indicators	Use of Outcome Information
LONG-TERM PROGRAM DEVELOPMENT OBJECTIVES FOR BOLSA FAMÍLIA - 2 PHASE APL (2004-2008)		
Strengthen the BFP's ability to reduce poverty and inequality by providing poor families with income and incentives to invest in the human capital of their children.	<ul style="list-style-type: none"> ➤ At least 3/4 of extreme poor families receiving BF income transfers ➤ At least 90% of primary-age school-age children in extremely poor beneficiary families attending school ➤ At least 97% of beneficiary children with health cards ➤ At least ¾ of children aged 0-12 months have at least three weightings marked on their health cards ➤ At least ¾ of pregnant women making a health visit before the end of the fourth month of pregnancy. 	<p>YR 0 (pre-reform/pre-program): data from POF '03 creates baseline</p> <p>YR 2-3: follow-up data collection will allow to monitor objectives</p> <p>YR 4-5: adjust the program based on feedback from years 2-3</p> <p>YR 6: follow-up data collection will allow further monitoring of objectives</p>
PROJECT DEVELOPMENT OBJECTIVES FOR FIRST PHASE OF APL (2004-2006)		
<p>Strengthen effectiveness of the safety net by:</p> <ul style="list-style-type: none"> ➤ Consolidating CCT programs ➤ Reducing gaps and duplications ➤ Improving system for identifying target population ➤ Developing M&E system 	<ul style="list-style-type: none"> ➤ At least 2/3 of extreme poor families receiving BF transfers ➤ At least 40% of total transfers going to bottom quintile ➤ At least 80% of primary-age school-age children in extremely poor beneficiary families attending school ➤ At least 95% of beneficiary children with health cards 	<p>YR 1: Gauge degree of: consolidation of programs, reductions in gaps and duplications in coverage, improvements in efficiency, the system for identifying the target population, and development of M&E system</p> <p>YR 1: Determine if strategy for establishing basic architecture of BF program needs to be adjusted</p> <p>YR 2: Adjust program architecture as needed</p>
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: Conditional cash transfers consolidated	<p>Component One:</p> <ul style="list-style-type: none"> ➤ At least 2/3 of extreme poor families receiving BF transfers ➤ Pre-reform programs eliminated (former beneficiaries either converted to BFP or dropped from programs) ➤ Transactions costs for transfer payments reduced 	<p>Component One:</p> <p>Insufficient consolidation may flag lack of funding or lack of political will to phase out pre-reform programs for those families that will not be converted to BFP</p>
Component Two: System for Identifying Target Population Strengthened	<p>Component Two :</p> <ul style="list-style-type: none"> ➤ New Cadastro Único questionnaires developed and printed ➤ Expansion and recertification data collection strategy designed and operational ➤ Elimination of all detectable duplications in the Cadastro Único database ➤ Periodicity for updating Cadastro Único and recertifying Bolsa Família beneficiaries formally established ➤ Cadastro Único users (MDS and at least 50% of municipalities) with access to data 	<p>Component Two:</p> <p>Inaccuracies in the identification of the target population may flag inadequate data collection strategies in Cadastro Único and/or imprecise application of eligibility criteria</p>
Component Three: Architecture for monitoring and evaluation system established	<p>Component Three:</p> <ul style="list-style-type: none"> ➤ Adequate MIS for BFP developed and operating ➤ Quality Control Reviews of BF processes implemented ➤ Baseline beneficiary survey conducted 	<p>Component Three:</p> <p>Lack of progress may flag lack of appropriate intra- and inter-institutional structures. Will inform on-going refinement of M&E strategy.</p>
Component Four: Strengthen basic institutional functioning of Bolsa Família Program	<p>Component Four:</p> <ul style="list-style-type: none"> ➤ Matrix of key responsibilities for BFP published ➤ Strategy for operating program in remote areas developed ➤ Beneficiary information booklets (<i>cadernetas</i>) designed, published and distributed ➤ System for monitoring human capital conditionalities operating ➤ Implementation training provided to at least 1/2 of municipalities 	<p>Component Four:</p> <p>Clarification of key functional and institutional roles will help inform the strategies for beneficiary selection and M&E.</p>

Table 2 – PERFORMANCE MILESTONES (Disbursement Conditions)

	STAGE 2 MILESTONES (target: by December 2004)	STAGE 3 MILESTONES (target: by December 2005)
Strengthening of System for Identifying the Target Population	<ul style="list-style-type: none"> • New Cadastro Único questionnaires developed • Instruments for implementing eligibility criteria for BF beneficiaries revised • Normative acts and operational guidelines for the Cadastro Único published on MDS webpage 	<ul style="list-style-type: none"> • Data collection strategy designed and piloted • All detectable duplications in the Cadastro Único database eliminated • Cadastro Único users (MDS and 30% of municipalities) with access to Cadastro Único data
Developing monitoring and evaluation system	<ul style="list-style-type: none"> • Terms of reference for design of MIS for the BFP prepared • Inventory of existing inter-governmental partnerships for BFP completed • Terms of reference for Quality Control Reviews developed • Terms of reference for baseline beneficiary survey prepared 	<ul style="list-style-type: none"> • Adequate Management Information System (MIS) for BFP developed and operational • Quality Control Reviews for Bolsa Familia processes developed and piloted in at least 10 municipalities • Baseline beneficiary survey developed and piloted in at least 10 municipalities
Institutional Strengthening	<ul style="list-style-type: none"> • Matrix of key functional and institutional responsibilities for BFP published on MDS webpage • Beneficiary information booklets (cadernetas) designed and printed 	<ul style="list-style-type: none"> • System for verifying human capital conditionalities developed, piloted in at least 5 municipalities • Beneficiary information booklets (cadernetas) distributed

Table 3 – TRIGGERS TO MOVE TO SECOND PHASE APL (Second Project)

Consolidating Conditional Cash Transfers	<ul style="list-style-type: none"> • Coverage of at least 2/3 of extreme poor families by program • Pre-reform transfer programs eliminated (former beneficiaries either converted to Bolsa Familia or dropped from programs)
Strengthening of System for Identifying the Target Population	<ul style="list-style-type: none"> • Cadastro questionnaire and BF eligibility criteria revised and published • Expansion and recertification data collection strategy designed and implemented • All detectable duplications in the Cadastro Único database eliminated • Periodicity for updating Cadastro Único and recertifying Bolsa Familia beneficiaries formally established • Recertification process commenced in at least 25% of municipalities • Cadastro Único users (MDS and at least 50% of municipalities) with access to data
Developing monitoring and evaluation system	<ul style="list-style-type: none"> • MIS fully operational and generating adequate reports • Results of at least one round of Quality Control Reviews for Bolsa Familia program published • Baseline beneficiary survey conducted
Institutional Strengthening	<ul style="list-style-type: none"> • Matrix of key functional and institutional responsibilities published • Strategy for operating program in remote areas developed • Beneficiary information booklets (cadernetas) designed, published and distributed • System for verifying human capital conditionalities operating

Arrangements for results monitoring

Overall Outcome Indicators. Overall outcome indicators will primarily be monitored using a set of household surveys:

- **Household Budget Surveys (POF).** This survey instrument collects comprehensive data on welfare measures (consumption and income, which could be used for estimating poverty and inequality), subjective measures of poverty, and anthropometric measures (for malnutrition). It also is the only survey that includes quantitative questions regarding a comprehensive list of federal social programs (pensions, unemployment insurance, and, importantly, conditional cash transfer programs). The survey is nationally-representative (and representative at some sub-national levels) with a sample of about 66,000 households. The POF was carried out by IBGE in 2002-03, and included quantitative questions on the coverage and receipt of benefits from the pre-reform programs (Bolsa Escola, Bolsa Alimentação and Auxílio Gas). This provides an excellent opportunity for establishing baseline indicators for the Bolsa Família Program, such as coverage, gaps, duplications, and distributional incidence. The data are being processed and should be available for analysis by end May 2004. With the support of the proposed Integrated HD Technical Assistance Loan (TAL, under preparation), the next POF would be carried out in 2005. This would allow for the evaluation of overall changes in living conditions (poverty, inequality, and malnutrition), as well as many of the outcome indicators for the BFP.
- **Beneficiary Surveys.** The beneficiary surveys to be conducted under the proposed APL program (Component 3) would provide further data on outcome indicators (many outcome indicators, including those for education and health). The baseline information would be collected under the first project (in 2005) and a follow up survey would be conducted under the second operation (in 2007) to allow time to gauge impact. See Annex 4 for more information.

Component 1. The results indicators for Component 1 (see Table 1) would be monitored as part of on-going supervision, relying primarily on administrative data from the program. Data on coverage of the program are readily available from payments information. The pre-reform programs are gradually being phased out as beneficiaries are “migrated” to the BFP (or dropped if deemed ineligible). This process is expected to be completed by 2006. With respect to savings on administrative costs due to the consolidation of four programs into one, data will come from administrative information from MDS and Caixa (available information suggests that making a single payment instead of four separate payments will result in about a significant reduction in transactions costs).

Technical Components 2-4. The results indicators for these components are all based on technical improvements. These would be monitored as part of on-going supervision, relying primarily on administrative data from the program.

Annex 4: Detailed Project Description

BRAZIL: BR Bolsa Família

This annex provides details on each of the five components: (a) conditional cash transfers (Component 1); (b) strengthening the system for identifying the target population (Component 2); (c) developing a monitoring and evaluation system (Component 3); (d) institutional strengthening for improved service delivery (Component 4); and (e) project management (Component 5).

Component 1 – Conditional Cash Transfers (US\$ 6,174 in project costs; US\$551.5 million in loan financing)

This component would provide support to the Government in consolidating and rationalizing conditional cash transfers, and in reducing duplications and gaps in coverage of the BFP, as part of a broader and balanced strategy for economic and human capital development.

For this component, the World Bank would reimburse the Treasury a share of the expenses on conditional cash transfers made under the BFP during the project period. The category of financing would be conditional cash transfers (BF Grant Transfers). As in any investment loan, the World Bank would disburse against verification of project expenditures and conformity with the loan conditions. (See Annex 7 for details on financial management and disbursement arrangements).

The proposed project would also build in certain mechanisms to pace disbursements in-line with performance of the technical aspects. While the total amount of financing for Component 1 (US\$551.5 million) would represent 8.9% of the total cash transfers budget for the BFP, disbursements and cost-sharing percentages would be linked to key milestones of technical improvements. Specifically, loan proceeds for this component would be made with increasing disbursement percentages that will increase as the actions listed in Table 2 in Annex 3 are met. The disbursements will start at the rate of 8%, will be increased to 9% when the stage 2 milestones in Table 2 in Annex 3 have been met; and will be increased to 11% when the stage 3 milestones in Table 2 in Annex 3 have been met.

The pacing of disbursements for Component 1 with technical improvements to the program (supported by Components 2-4) has several objectives. First, it would allow the World Bank to partner with the BFP in a pragmatic way, recognizing the important role of the program in the short-run and also the need for technical improvements in the program's systems. Second, it would promote stronger synergies between support of program implementation and on-going safety net consolidation (Component 1) and the specific support to technical activities to strengthen the basic architecture of the program (Technical Components). Third, it would create incentives for the program implementing agency to achieve, or exceed, the key milestones for systems improvements and for the Finance and Planning ministries to ensure support for these crucial technical activities (e.g., if milestones are reached, the loan's financing percentage would increase and disbursements would accelerate).

The main indicators for monitoring the results of this component include: (a) the share of extreme poor families receiving BFP transfers; (b) the gradual phasing out of pre-reform programs (such that the former beneficiaries are either converted to the BFP or dropped from the pre-reform programs); and (c) the reduction in administrative (including transactions) costs for transfer payments (due to the merging of four separate programs into a single integrated program).

Component 2 – Strengthening the system for identifying the target population²⁷ **(US\$4.4 million in project costs)**

OBJECTIVES OF COMPONENT

This component seeks to improve the mechanisms used to identify the target population of the Bolsa Família program to guarantee its republican, federative, and democratic characteristics. By doing so, the program will achieve better redistributive efficiency, with a higher share of its resources going directly to the poor, and will be able to cover a larger share of the low-income population.

RESULTS FRAMEWORK AND KEY MILESTONES FOR COMPONENT

The main indicators for gauging the outcomes of this component include: (a) the percent of total transfers going to the poor; and (b) the share of the poor covered by the program. These outcomes could be monitored through the collection of household survey data. In fact, baseline data for these outcomes were collected in 2002-03 for the pre-reform programs under the Household Budget Survey (POF) and will soon be available for analysis.

While the component will support numerous specific activities to help overhaul the Cadastro Único system used by the BFP to target benefits to the poor, a number of key milestones (outputs) will be monitored to gauge the progress towards meeting these goals, notably:

- By December 2004: (a) new Cadastro Único questionnaires designed; (b) instruments for implementing eligibility criteria revised; and (c) normative acts and operational guidelines for the Cadastro Único published on MDS webpage.
- By December 2005: (a) data collection strategy designed and piloted; (b) all detectable duplications in the Cadastro Único database eliminated; and (c) Cadastro Único users (MDS and 30% of municipalities) with access to Cadastro Único data.

THE CADASTRO ÚNICO

The accurate identification of poor households is an important input into the success of the Bolsa Família Program as a tool for poverty reduction. The target population for the Bolsa Família program is poor families (with per capita incomes less than R\$100 per month), with priority given to the extreme poor families (with per capita incomes less than R\$50 per month). Ensuring that the transfers – and the incentives for human capital investments – actually reach these families is crucial to the program's success.

As with its predecessors, the BFP selects beneficiaries from a national database of poor households called the “Cadastro Único.” The Cadastro Único was created in 2001 as an initiative to construct a single beneficiary registry database to serve its many means-tested conditional cash transfer programs. Until that time, each program operated its own system for identifying and selecting beneficiaries (all via unverified means testing) and some of these databases are still not fully compatible with the Cadastro Único (e.g., the Bolsa Escola registry, which still includes 3.6 million families). The creation of a unique database (the Cadastro Único) and social identification number (NIS) responded to the need to improve efficiency and coordination, and reduce duplication of administrative costs across the numerous safety net programs. The NIS has the same numerical structure as the PIS (identification of workers in the formal

²⁷ For more details, see: de la Briere, Benedicte and Kathy Lindert (2003). “Reforming Brazil’s Cadastro Único to Improve the Targeting of the Bolsa Família Program.” World Bank and DFID. Draft ESW. This section also draws on the conclusions of two workshops held in Brasília in November 2003 (one on household targeting systems, the other on proxy means testing), on a World Bank-Bolsa Família workshop held in December 2003, and on further dialogue and consultations between the World Bank and the Bolsa Família program team.

private sector) and the PASEP (identification of public sector employees) and no new NIS is created if one of these two numbers already exist for an individual.²⁸

The main screening mechanism used with the Cadastro Único is unverified household incomes (unverified means testing). Data collection and beneficiary registry are decentralized to the municipalities, but design, operation and maintenance of the database are centralized at the federal level, with oversight provided by the Ministry of Social Development (MDS), and system management and payments conducted by the Caixa Econômica Federal (CEF).²⁹

There are several advantages to having a single national database for determining and monitoring eligibility for social transfer programs, including *inter alia*: (a) preventing or reducing duplication of benefits (e.g., people receiving benefits from more than one municipality or program); (b) reducing duplication of administrative costs across programs; and (c) monitoring time in the program and graduation criteria. The Cadastro Único represents a major step forward in advancing these goals.

Nonetheless, several aspects of the Cadastro Único should be improved, including: (a) clarifying its objectives and institutional structure; (b) distortions due to the use of *a priori* registry quotas; (c) distortions due to the use of self-reported income for determining eligibility; (d) problems with the identification of households; (e) the static nature of the database; (f) the lack of a system for quality control; (g) a lack of data access by key potential users (programs, municipalities, MDS); and (h) software and implementation problems.

PRINCIPLES OF AN IMPROVED SYSTEM

The introduction of the BFP offers an opportunity to revamp Brazil's Cadastro Único system so as to improve the identification of target populations for social transfers and the coordination between complementary programs with different levels of governments. International experience³⁰ suggests several principles of good practice for target household identification systems:

- **Transparency.** This principle applies to procedures for gaining entry into the registry (e.g., the Cadastro Único) and for determining eligibility for the program (e.g., the Bolsa Família program). Household identification systems should also adopt internal controls (cross-checks, process quality control) and social controls to ensure transparency and consistency.
- **On-going access to the Cadastro Único for a dynamic safety net.** With this principle, systems for the identification of target households should avoid the static nature of the quota-based survey system: any family should be allowed to register at any time (with the explicit understanding that registry does not guarantee benefits). An improved system should also allow for on-going updates (demographic, location) for those who do benefit, and require regular re-certification.
- **Minimization of leakages to the non-poor.** All programs entail some degree of leakages. In fact, some degree of "leakage" to the non-poor is acceptable if: (a) the leakage goes to the very near poor; and (b) the costs of reducing this leakage (in terms of the financial costs of improved target accuracy and the indirect costs that could result from accidentally excluding eligible poor families due to barriers to entry) outweigh the benefits of reducing it (in terms of the savings from

²⁸ While these cross-checks are now routinely performed, other cross-checks with databases such as the NIT, which registers the self-employed, are still not in place, generating some duplication of identification.

²⁹ CEF is a federal savings/credit union organization. Apart from banking services, CEF has traditionally provided payments issuance services for federal assistance programs. CEF operates its open 2,047 agencies nationwide, and is linked with 8,900 lottery points and 2,000 banking correspondents. This broad network is supposed to guarantee its presence in all Brazilian municipalities, one of the reasons for its central role in managing the Cadastro Único database and payments issuance for social programs.

³⁰ Castañeda, Tarsicio, Kathy Lindert, Luisa Fernandez, and Bénédicte de la Brière (2003). "Implementing Household Targeting Systems: Lessons from Latin America and the United States." World Bank. Draft ESW.

allocating transfers to non-poor households that could instead be used to cover more poor households). Combined geographic and proxy-means tested household targeting systems in other countries, have generated impressive redistributive outcomes at fairly low cost.³¹

- **Outreach to the poor.** Specific efforts should also be made to ensure that the poor know of their potential eligibility for the program and can access the application and interview process.
- **Cost Efficiency.** Efforts should be made to minimize the cost of interviewing families, while ensuring the integrity of intake efforts. Although it is not possible to ascertain the poverty status of families *a priori* before interviews and data collection (and indeed, that was the problem with quota-based surveying under the current system), certain tools, such as self-selection mechanisms and geographic targeting (poverty maps), can help minimize the cost of interviewing large numbers of ineligible families.

National experience from some states and municipalities and the Cadastro Único itself suggests the following additional principles for Brazil:

- **National Identification System.** An inter-governmental working group is evaluating the remaining cross-checks necessary to minimize duplications and maximize the issuance of a NIS for each individual;
- **Shared Management of Social Databases Across Levels of Government.** While legal norms to guarantee access for state and municipal agencies are already in place, their operationalization is still lagging.

IMPROVING THE SYSTEM FOR IDENTIFYING THE TARGET POPULATION OF THE BFP AND THE CADASTRO ÚNICO

With the above principles in mind, this component seeks to improve the mechanisms used to identify the target households of the BFP. The component will mainly focus on the strengthening of the Cadastro Único, Brazil's target household identification and registry system. It also makes reference to specific actions that can be taken for improving the system for identifying the target population of the BFP that are (somewhat) independent of the Cadastro Único (since the BFP is only one of the users of the Cadastro). The discussion and ensuing matrices distinguish whether the proposed reforms and activities apply to the Cadastro generally, or to the BFP specifically. It is important also to note that work under another World Bank supported project (the HD Technical Assistance Loan) is supporting the construction of micro-area poverty maps (in IBGE), which could become an important instrument for targeting in Brazil (either on their own, or as an input into the Cadastro Único, as discussed below).

In terms of general timing, most actions and activities to be supported by the project assume that preparatory activities would occur in 2004 and 2005 with the goal of piloting, then rolling out the new system as the program expands (and existing beneficiaries are recertified) in 2005-06.

2A. Improving the Strategic and Institutional Framework for the Cadastro Único

This sub-component seeks to clarify the strategic and institutional framework for the Cadastro Único. In terms of timing, these issues should be addressed by the end of 2004.

³¹ Coady, David, Margaret Grosh, and John Hoddinott (November 2002). "The Targeting of Transfers in Developing Countries: Review of Experience and Lessons." The World Bank. Social Safety Net Primer Series. Castañeda, Tarsicio, Kathy Lindert, Luisa Fernandez, and Bénédicte de la Brière (2003). "Implementing Household Targeting Systems: Lessons from Latin America and the United States." World Bank. Draft ESW.

Issues. **First**, the uses of the Cadastro should be clarified. While the Cadastro was originally designed to serve multiple conditional cash transfer programs, these have now been merged into a single federal program (Bolsa Família). Yet there are numerous potential other uses for the Cadastro, including state and local programs (provided these governments have access to the data, as discussed below), and even other federal means-tested programs. **Second**, there is a need to strengthen institutional arrangements, clarifying responsibilities of the different agencies involved, including identifying: conceptualization, data collection, data management, management of the system for identifying possible target populations, systems management for registry and payments database, formal and social quality controls, maintenance, etc. **Third**, the current Cadastro system mixes the functions of identifying potential target populations and registration of beneficiaries to the detriment of the effectiveness of the system. The primary function of the Cadastro should be to collect household data on key variables for the purposes of screening these households against a predetermined set of criteria to determine eligibility. As a secondary function, a sub-set of these data could then be stored in a program-specific registry (for example for payments and conditionality monitoring) for each “user program.”

Remarks for an Improved System. **First**, a “user strategy” should be designed to identify potential users of the Cadastro. There would be many advantages to expanding the scope of the Cadastro to serve as a broader tool for social policy at many levels of government, including the cost efficiency gains of using a single instrument for multiple purposes and the incentives this would provide to municipalities to maintain their Cadastro records up-to-date. **Second**, the primary objective of the Cadastro Único should be to serve as system for identifying the target population. This implies interviewing and registering more households than will be eligible for any or any specific program (and communicating information about role of Cadastro to avoid raising expectations will be crucial, see below). A secondary objective would be for the Cadastro to provide registries for payments and monitoring for specific programs (e.g., creating program-specific sub-databases with historical and current information for beneficiaries and non-beneficiaries). These sub-databases should be tailored to the needs of each “user program.” **Third**, the new system should embrace clear institutional and financing roles for each aspect of Cadastro, preferably with centralized design (with consultations), decentralized data collection (properly financed), and centralized database management.

Main Activities. In light of the above issues and recommendations, this sub-component would support a number of activities designed to strengthen the overall strategic and institutional framework for the Cadastro Único, including:

- Developing strategic planning capacity and providing steering guidance for the component; and
- Conducting a study to review possible programs by different agencies and levels of government that are means-tested and that could benefit from using the Cadastro Único. The study should also identify possible modifications that would be needed to the Cadastro (e.g., the questionnaire or the data collection strategy) to serve these programs.

In addition, the Institutional Strengthening Component (Component 4) will contemplate the following complementary activities to strengthen the Cadastro’s institutional structure, including:

- Conducting a study to review existing legislation governing the Cadastro Único and to propose appropriate updates as necessary, clearly specifying functions, content, user programs, responsible agencies, funding, and outputs;
- Conducting an institutional and financing assessment of the existing Cadastro system and develop a proposal for reforms and clarifications;
- Developing normative acts (decree, reglamento) and operational guidelines regulating the Cadastro system, and spelling out general operational rules to be enacted; and

- Conducting workshops / seminars for consultations on the strategic and institutional framework of the Cadastro Único.

2B. Revising Eligibility Criteria (Bolsa Família Program), New Questionnaires (Cadastro Único) and Data Collection Methods

This sub-component seeks to (a) strengthen the definition and implementation of the eligibility criteria for the Bolsa Família and revamp the Cadastro Único questionnaire accordingly; and (b) strengthen the data collection strategy for the Cadastro Único. The eligibility and questionnaire aspects should be addressed by the end of 2004. The aim would also be to have a solid data collection strategy in place by 2005, when most existing households in the system would need to be re-certified (since most data would be out-of-date by that time) and when the BFP would begin large-scale expansion (carrying over into 2006 and 2007). A new wave of data collection is thus likely to begin in 2005, and the new system should be in place to support that. Some piloting of new approaches could occur in 2004 (particularly in large urban areas not previously covered by the Cadastro).

Issues with Respect to Eligibility Criteria and Questionnaires. There are several weaknesses under the current program system. **First**, the use of unverified incomes for identifying and selecting beneficiaries is generally problematic due to measurement errors and incentives for under-reporting and manipulation. The experience with Brazil's Cadastro Único is no exception. The income questions in the current questionnaire were poorly defined (reference periods, coverage of types of income), and, without any form of verification, there is simply too much room for error and under-reporting. **Second**, the current Bolsa Família Law does not provide any guidance for explicit prioritizing among the poor (moderate poor vs. extreme poor; families with children vs. individuals or couples with no children, etc.). With fiscal limitations, clear and transparent guidelines should be established to determine the ranking of eligible families to enter the program. **Third**, the Cadastro Único questionnaire and its associated manuals, while it did collect proxy information other than self-reported incomes, would benefit from substantial strengthening (concepts, definitions, structure of the questionnaire, manuals, etc.).

Recommendations for Eligibility Criteria and Questionnaires. **First**, the Bolsa Família Program (and the Cadastro questionnaire) should shift to a proxy-means tested system (*eligibilidade baseado em uma cesta de indicadores multi-dimensionais*). However, the Bolsa Família Law specifies target groups in terms of income cutoffs (for eligibility criteria). Nonetheless, it does not specify how income is to be measured. Since self-reported income is unreliable, it could be measured using: (a) predicted income (predicted based on proxy variables); or (b) a two-step process whereby self-reported income is the first "filter," and then it is "verified" or "validated" using proxy indicators. These indicators should be identified on the basis of

Proxy Means Testing

Proxy-means tests use a relatively small number of household characteristics to calculate a score that indicates how well off the family is (providing an estimate of its "probability of being poor"). These characteristics should ideally be easily observed, but not easily manipulated by families, and they should generally be correlated with overall welfare. Typical variables used in other countries include: geographic location, demographics and household composition, housing quality, ownership of durables, education of adults, availability of public infrastructure services, and employment. Locality-level poverty rates (from poverty maps) could also be used as proxies, reflecting the probability that the family is poor due to its location in a particular geographic micro-area. These variables are then weighted using statistical techniques to generate an overall points score. Those families with scores below certain thresholds are then eligible for benefits. Specific variables and weights are generally identified through analysis of household survey data and consultations with policy makers. Proxy means tests are generally better at accurately identifying those living in long-term, chronic poverty than those whose situations have recently worsened due to shocks (transient poor). Since most variables used for proxy-means testing change more slowly than incomes, updating and re-certification of beneficiaries can be less frequent (say every two years).

Proxy means testing is currently being used in a number of countries with relatively strong redistributive outcomes (low leakage rates) and low costs. Another advantage of proxy means systems is the multi-dimensionality of the "poverty measure."

empirical analysis of household surveys. They should be determined at the national level (for transparency), but should also build in variables to take into account geographic differences (e.g., urban, rural, regional). **Second**, Bolsa Família should give priority to the extreme poor (before the moderately poor) and to families with children (over those without). The current Bolsa Família Law does not address the issue of eligibility of couples or individuals without children. Bolsa Família has been giving priority to families with children, but this policy should be documented in a normative act for transparency. **Finally**, the Cadastro Único questionnaire should be revamped to improve its structure (maximum 2-3 pages), content (including proxy variables), and concepts and reference periods.

Issues Regarding Data Collection Methods. There are several problems with the current system of data collection under the Cadastro Único. **First**, the current system is static. It does not allow for on-going entry of households into the registry. Nor does it have a clear policy on the periodicity of updating and re-certification. Information for all households in the Cadastro is rapidly becoming out-of-date. **Second**, the current practice of using *a priori* quotas to limit number of households, that are interviewed and registered in each municipality, results in excluding potentially poor households before data are collected. There are several problems with quota-based registries, including: (a) a lack of transparency for deciding which households get interviewed; (b) opportunities for political manipulation; (c) potential for replicating existing inequalities at local level. **Third**, there are many inefficiencies in data collection methods. More guidance is needed to municipalities on the menu of possible methods to be used for collecting data (which would be tailored to local circumstances).

Remarks for an Improved System of Data Collection. **First**, a policy should be established to clarify the periodicity of updates and re-certification. Demographic changes should be updated as they occur. Full information (re-certification) should be conducted at a minimum every two years. **Second**, to avoid the static nature of the current system, the new system should allow for on-demand applications for registry in the Cadastro Único on an on-going basis (with information provided to applicants about the fact that entry into the Cadastro does not guarantee benefits). **Third**, the use of *a priori* quotas for the registry should be abandoned, and an information campaign should be conducted to avoid raising expectations among registrants in the Cadastro (to inform people that registry in Cadastro does not guarantee eligibility in any specific program). **Fourth**, data collection methods should be tailored to local realities, depending on density of poverty, urban/rural and cultural-ethnic groups (informed by poverty map). A menu of approaches should be developed, including on-demand vs. survey methods.³² **Fifth**, minimum quality standards should be developed to certify municipal databases, particularly in cases where municipalities already had their own registries (standards that would allow for the acceptance of these municipal registries as inputs into the Cadastro). **Sixth**, a data collection strategy (for the roll out beginning in 2005) should transparently determine which municipalities would be updated and/or expanded first. This plan should be objective, based as much as possible on priorities identified by poverty maps. Practically speaking, it will probably also reflect somewhat the pattern of partnerships (*pactuações*) being established between the federal Government and specific states and municipalities.

Main Activities. In light of the above issues and remarks, this sub-component would support a number of activities designed to (a) strengthen the eligibility criteria for the BFP, (b) revamp the questionnaire for the Cadastro Único, and (c) strengthen the system for data collection for the Cadastro Único, including:

- Conducting studies using household surveys (POF, PNAD) and data in existing Cadastro to develop and test an appropriate set of Proxy Means Indicators (variable and weights)³³;

³² For more details, see: de la Brière, Bénédicte and Kathy Lindert (2003). "Reforming Brazil's Cadastro Único to Improve the Targeting of the Bolsa Família Program." World Bank and DFID. Draft ESW.

³³ The goal would be to identify the variables that best predict welfare (or income) using a random sample of households (from the POF or PNAD) and using regression models. Given the heterogeneity of living conditions in Brazil, these models should include regional effects and a distinction between urban, peri-urban and rural areas as well as a distinction for diverse ethno-/cultural-populations.

- Developing and piloting a new Cadastro questionnaire based on above studies and taking into account the diverse geographic, cultural, ethnic and racial characteristics of the population (maximum 2-3 page questionnaire)³⁴;
- Reviewing strategies for collecting data in a handful of municipalities; developing a menu of approaches (on-demand, survey approaches, with possibility of using GPS systems as a data collection instrument) depending on poverty density, urbanization, and diverse ethnic/racial populations; and classifying municipalities according to this menu;
- Developing criteria for minimum standards and a process for certifying local databases;
- Assessing implementation costs (municipal level costs of interviewing, logistics for data collection), developing a strategy for providing financial incentives for data collection, piloting incentive scheme;
- Developing manuals and training strategy and materials for interviews (including manuals for questionnaire with definitions of concepts and variables), supervision, administration (describing all municipal activities for planning registry work, costing activities, contracting out if needed, managing data, and quality controls and transmission of databases), data entry and validation software, including specialized training materials to take into account the need to be sensitive to the diverse cultural, ethnic and racial characteristics of the population;
- Printing and distributing new questionnaires (see Part 2 – questionnaires/eligibility above) and manuals;
- Developing channels and mechanisms for on-demand applications and appeals;
- Piloting new data collection strategy and new questionnaires in a handful of municipalities of differing characteristics and evaluating pilot;
- Conducting training on data collection methods and questionnaires, particularly in municipalities that are poorer or have weaker administration capacity; and
- Rolling out new data collection system (with new questionnaires).

The corresponding sections of the operational guidelines clarifying (a) eligibility issues for the BFP (criteria, measurement, definitions of families, exit criteria, etc.) and (b) policies for updates and re-certification; data collections strategies; process and criteria for certifying minimum standards for municipal databases, will be drafted as an activity of the Institutional Strengthening Component (Component 4).

2C. Reducing Administrative Weaknesses in Cadastro Único System

This sub-component seeks to strengthen the accuracy of the Cadastro Único by developing systems controls and checks to reduce administrative weaknesses present in the current / original system. Many of these cross-checks could already be implemented for the existing Cadastro database for use in 2004 (some already are). They should also be built into the design of the new overall system (functions and technology).

Issues. Weaknesses in identification of individuals and a lack of internal and cross-system controls have resulted in administrative errors, duplications and ghost registrants in the Cadastro Único. As part of the Bolsa Família reforms, some of these errors are being cleaned up. However the new system needs to be strengthened so as to detect and correct for these errors on a systematic (automated) basis. In addition, the new focus of the BFP on the *family* rather than the *individual* as the assistance unit presents the additional challenge of tracking the identities both of individuals, and of individuals linked to family units (to ensure that individuals don't benefit in more than one family unit).

³⁴ A Cadastro questionnaire should be developed on the basis of information from the various programs that would use it (including but not limited to the BFP) so that it collects the variables needed for these specific programs (which might differ in eligibility measures and criteria).

Remarks for an Improved System. **First**, the new system should adopt a single social identification number (NIS) that can be used to cross-check identities (a) within the Cadastro system at any point in time and with past data; and (b) between the Cadastro and other relevant databases. **Second**, the new system could also use “soundex number” method of checking matches and near-matches of a specified set of characteristics (including the NIS) within the Cadastro and between the Cadastro and other databases. **Third**, the new system should build in automated checks to cover key “flags,” including: duplications, identity issues, address issues, ghost registrants (checking for example against obituary registry), missing information, and zeros (e.g., zero income). **Fourth**, the new system should be able to link individuals and families. **Fifth**, the new system should find an institutional way to help people get needed documentation.

Main Activities. In light of the above issues and remarks, this sub-component would support a number of activities designed to detect and correct for administrative errors in the Cadastro Único database, including:

- Reviewing existing database with respect to possible duplications; reviewing possible cross-checks within the Cadastro and between systems that could facilitate confirmation of identity and reduction of ghost registrants; and developing specified targets for duplications, missing information, people without ID numbers, etc.;
- Conducting cross-checks on the consistency of the Cadastro Único with data in the Population Census
- Developing and piloting strategy and system for: (a) adopting the NIS and helping potential applicants obtain needed documentation and NIS numbers; (b) running automated within-system “soundex style” cross checks and other forms of verification; (c) running automated cross-systems checks; and
- Developing a strategy and materials for training (videos, materials, courses, etc.) on the new identity systems and checks and conducting training of (a) local officials for verifying identity, helping individuals obtain documentation, and running cross-checks during registry and interview process; (b) central officials for running between-systems cross-checks on a periodic basis.

2D. Improving Information Technology (IT) and the Technical Efficiency of the Cadastro Único System

This component seeks to strengthen the IT capacity of the Cadastro Único unit in MDS (and in its collaboration with the CEF) and in municipalities (for data entry, validations, transfers, management, verifications and cross-checks, data warehousing, use by user programs and formulation of demands to the database manager, the CEF).

Issues. Numerous IT problems hamper the efficient functioning of the Cadastro system, including: (a) problems with uploading data from municipal databases; (b) lack of real time data access at various agencies and levels of Government (including in MDS, municipalities, other potential users), (c) data losses in transfers; (d) lack of internal automated systems checks; (e) lack of ability of the Cadastro Único database to converse with other databases for systems checks; (f) inability of system to accept updates or maintain registrant history across updates / time; and (g) a general lack of user-friendliness that greatly hampers the ability of municipalities and federal programs to access and use the data for program management. While issues (a) to (f) are dealt with in the discussion of the new management contract with CEF, the Bolsa Família unit in MDS and some municipalities need support to increase their data user capacity for program management.

Remarks for New System. Following a thorough assessment of the hardware, software, and communications needs of the whole Cadastro system (all involved agencies, including the federal, state,

and local agencies), the component would support activities to: (a) clarify and define the functional needs and demands of the users (mainly MDS and municipalities); and (b) supervise the piloting of the new Caixa system. The component would also seek to enhance IT capacity in MDS (for managing the Cadastro Único data and for using it for social assistance programs management, including the Bolsa Família Program), and at the state and municipal levels through training and increased hardware/software capacity.

Main Activities. In light of the above issues and remarks, this sub-component would support a number of activities designed to improve the IT and efficiency and capacity of the Cadastro Único agency users, including:

- Conducting a needs assessment on hardware and software for improved system for the MDS (Cadastro Único Unit), states and municipalities;
- Supervising the pilot test of the new Cadastro Único system in the Caixa (CEF) and contracting an outside expert to review pilot results;
- Purchasing new software and hardware for MDS and municipalities; and
- Conducting IT capacity building and training at federal (MDS and CEF) and sub-national levels (agencies involved in Cadastro Único system either as producers, managers or users of the data), as part of an integral “municipal-support kit” (that would include the training, manuals, and the equipment and software).

Table 1 - COMPONENT 2: ISSUES, REMARKS, ACTIONS, ACTIVITIES, POLICY CHOICES

Current System: Issues	New System: Remarks	Actions & Activities to Move to New System	Expected Outcomes of Recommended Reforms	Tracking Outcome Indicators	Outstanding Policy Choices that need to be clarified
2A - IMPROVING THE STRATEGIC AND INSTITUTIONAL FRAMEWORK OF THE CADASTRO ÚNICO					
<ul style="list-style-type: none"> Need to clarify: <ul style="list-style-type: none"> Which programs would use the Cadastro? As part of the institutional strengthening component: <ul style="list-style-type: none"> What are the functions of the Cadastro? Institutional and financial arrangements 	<ul style="list-style-type: none"> Should serve multiple programs Main function should be to identify the target population Program-specific registries should be tailored for each program Clear institutional arrangements, preferably with: <ul style="list-style-type: none"> Centralized design Decentralized data collection Centralized data management 	<ul style="list-style-type: none"> Develop strategic planning and provide steering for the component Conduct study of possible user programs <p>And as part of the institutional strengthening component</p> <ul style="list-style-type: none"> Conduct legislative study Undertake institutional assessment Develop Normative Acts and guidelines covering institutional aspects Conduct workshops / seminars for consultations on strategic and institutional framework of the Cadastro Único 	<ul style="list-style-type: none"> More effective instrument due to clearer objectives Greater incentives to maintain a quality and updated database Greater efficiency and accuracy due to clarified institutional and financing arrangements 	<ul style="list-style-type: none"> Publish and disseminate normative acts and guidelines 	<ul style="list-style-type: none"> Policy decisions needed as to which programs will use the Cadastro Único. Update on legislation governing Cadastro Único needed, including institutional and financial arrangements

Table 1 – COMPONENT 2: ISSUES, REMARKS, ACTIONS, ACTIVITIES, POLICY CHOICES

Current System: Issues	New System: Remarks	Actions & Activities to Move to New System	Expected Outcomes of Recommended Reforms	Tracking Outcome Indicators	Outstanding Policy Choices that need to be clarified
2B – ELIGIBILITY CRITERIA (BOLSA FAMILIA PROGRAM), QUESTIONNAIRE DEVELOPMENT (CADASTRO ÚNICO), DATA COLLECTION STRATEGY					
<ul style="list-style-type: none"> Type of indicator Definition of families (prioritization) Re-certification Inefficient questionnaire 	<ul style="list-style-type: none"> Eligibility criteria based on proxy-means tests Priority to extreme poor and families with children Revamp Cadastro Único questionnaire 	<ul style="list-style-type: none"> Revising eligibility criteria, elaborating revised questionnaire and manuals, developing new data collection strategy Develop channels and mechanisms for on-demand applications and appeals Printing and distributing manuals (interviewers, supervisors, and for software) Implementing training for new data collection 	<ul style="list-style-type: none"> Improved accuracy of the system for identifying target population Stronger ability to verify information provided for eligibility (via proxy indicators) Improved clarity and transparency of eligibility policies 	<ul style="list-style-type: none"> Published eligibility rules Printed questionnaires Pilot conducted Roll out of new system 	<ul style="list-style-type: none"> Type of Indicator: BF needs to clarify use of proxy means indicators Ranking of families: The BF needs to explicitly clarify prioritization of families with children and eligibility of couples or individuals with no children.
<ul style="list-style-type: none"> Static database (doesn't allow for updating) Use of a priori quotas generates distortions Inefficiencies in data collection methods 	<ul style="list-style-type: none"> Recertification every 1-2 years Allow for on-going on-demand applications Develop data collection strategy that is tailored to local circumstances and poverty density Develop minimum quality standards to certify municipal databases Incentives should be provided to maintain quality and updated databases Operations and training manuals should be developed 		<ul style="list-style-type: none"> Improved transparency of data collection process (by eliminating a priori interview quotas, clarifying procedures) More efficient and effective (lower cost, better accuracy) data collection strategies that are tailored to local circumstances according to a clear menu of approaches Lower errors of exclusion and inclusion in the Cadastro database. 	<ul style="list-style-type: none"> Data collection strategy approved and published Normative Acts / guidelines published Pilots conducted and analyzed New system rolled out 	<ul style="list-style-type: none"> Policy decisions needed regarding: <ul style="list-style-type: none"> Periodicity of data collection updates and re-certification Classification of municipalities using poverty map for on-demand vs. survey approaches for data collection strategies Circumstances for home visits (depend a lot on proxy means testing, and poverty map information) Normative Acts for Cadastro Único should cover issues of updates, data collection methods
2C – REDUCING ADMINISTRATIVE WEAKNESSES					
<ul style="list-style-type: none"> Current system does not include automated ways to detect and correct administrative errors Current system weak in terms of unique individual and household identification numbers 	<ul style="list-style-type: none"> Adopt single NIS for each individual Systems checks within Cadastro and with other systems for key “flags” System can link individuals and families System should help people get needed documentation 	<ul style="list-style-type: none"> Consultancies to develop a system for checking the database (including piloting and manuals) Cross-check consistency of Cadastro with Census Training of federal and local officials And as part of the institutional strengthening component: Develop guidelines for identification and cross checks in Operational Guidelines 	<ul style="list-style-type: none"> Reduced costs of program due to reduced errors and duplications Improved accuracy and legitimacy of system 	<ul style="list-style-type: none"> Published guidelines Information system reports on targets 	<ul style="list-style-type: none"> NIS and systems cross-checks depend on coordinated improvements with other major national databases

Table 1 – COMPONENT 2: ISSUES, REMARKS, ACTIONS, ACTIVITIES, POLICY CHOICES

Current System: Issues	New System: Remarks	Actions & Activities to Move to New System	Expected Outcomes of Recommended Reforms	Tracking Outcome Indicators	Outstanding Policy choices that need to be clarified
2D – IMPROVING TECHNOLOGY & EFFICIENCY OF CADASTRO SYSTEM					
<ul style="list-style-type: none"> Numerous IT problems hamper efficient functioning of Cadastro System Capacity to use the data for program management in MDS and municipalities is low 	<ul style="list-style-type: none"> Overhaul of IT system that is better designed to serve users and meet the needs of the Cadastro Único team (partially addressed through a new contract with CEF). Invest in IT capacities (training, hardware, software) for various agencies involved in Cadastro Único system 	<ul style="list-style-type: none"> Conduct a needs assessment on hardware and software capacities for improved system for the MDS (Cadastro and Bolsa Familia units), states and municipalities Conduct assessment of CEF's new system pilot to provide input for revising the strategy Contract an outside expert reviewer to review and verify pilot results Purchase new software, hardware for MDS and municipalities Develop training materials and conduct IT training at federal level (MDS and CEF) and sub-national levels (that would be part of an integral "municipal-support kit" (including the training, manuals, hardware and software) 	<ul style="list-style-type: none"> Improved access to, and use of, Cadastro Único system for various programs Capacity of MDS to oversee and use the Cadastro Único strengthened Capacity of municipalities to use the data for social policies and programs strengthened 	<ul style="list-style-type: none"> External review of new CEF system completed MDS unit trained to perform checks and use data to provide inputs for Bolsa Familia strategic planning 	<ul style="list-style-type: none"> Financing of new system depending on types of partnerships with states and municipalities

Component 3 – Monitoring and Evaluation of the Bolsa Família Program (US\$7.0 million in project costs)

OBJECTIVES OF COMPONENT

This component seeks to support the Bolsa Família Program (BFP) in designing and implementing a results-based monitoring and evaluations system aimed at: (a) monitoring the effectiveness of program delivery, (b) monitoring processes and instituting quality control reviews aimed at promoting public accountability and legitimacy, and (c) monitoring outcomes and assessing the program impacts at both the territorial and household levels.

RESULTS FRAMEWORK AND KEY MILESTONES FOR COMPONENT

While the component will support numerous specific activities to help develop a results-based M&E system, a number of key milestones (key results) will be monitored to gauge progress towards meeting these goals, including:

- By December 2004: (a) terms of reference for design of the management information system (MIS) prepared; (b) inventory of existing inter-governmental partnerships for monitoring and evaluation completed; (c) terms of reference for designing and conducting Quality Control Reviews developed; and (d) terms of reference for baseline beneficiary survey prepared.
- By December 2005: (a) adequate MIS developed and operational; (b) Quality Control Review for core BF processes developed and piloted in at least 10 municipalities; and (c) baseline of survey designed and piloted in at least 10 municipalities.

DEVELOPING A MONITORING AND EVALUATION SYSTEM FOR THE BFP

The monitoring and evaluation system proposed by the BFP includes four main sub-components: (3.A) Management Information System to improve effectiveness of program delivery; (3.B) Processes monitoring and quality control to ensure accountability and legitimacy; (3.C) Monitoring of outcomes and impact assessment at the municipal and household levels, and (3.D) Design and oversight of overall M&E system by external advisors.

3.A. Management Information System

The objective of this sub-component is to assist the BF team in developing a MIS to gather and process real time information that is crucial for project management and implementation supervision. Once in place, the system will be able to instantaneously supply information about various implementation indicators to the project management team and policy makers alike. A list of such indicators is found in Table 2 below.

The MIS developed under this sub-component will gather and process information held by Caixa Economica Federal (CEF), municipal governments and the education and health ministries. Regular newsletters and reports with detailed information on program delivery will be prepared and sent to key policy makers at federal, state and municipal levels as well as representatives of indigenous peoples and Quilombola communities. A web site will also be developed to provide real time information on program delivery and outreach status.

This sub-component would support the following activities for the setting up of an MIS for the BFP: (a) the design, training of staff and implementation of the MIS system; (b) MIS software and hardware equipment; (c) system maintenance and updating; (d) operational costs for project period; (e) training and dissemination workshops for MIS users (including federal, state and municipal government staff and policy makers).

3.B. Monitoring of Processes and Quality Control

This sub-component seeks to strengthen the efficacy and to promote transparency, accountability, and legitimacy of the BFP with activities in three main areas: (a) monitoring of inter- and intra-governmental processes; (b) quality control reviews to monitor core BFP processes at a downstream level (local, beneficiaries) to ensure accountability, legitimacy and transparency of program execution by establishing effective incentive mechanisms for decentralized implementation, and (c) the promotion of citizen oversight (“social control”) for the implementation of the BFP by local stakeholders.

Monitoring of Inter- and Intra-Governmental Processes. For this area, the project will support a series of activities aimed at: (a) creating a continuously updateable inventory of programs implemented by states and municipal governments, as well as by civil society, (b) assembling an inventory of current legal agreements (*pactuações*) establishing partnerships between state, municipal and federal governments for decentralized program implementation, (c) compiling existing local partnerships (*pactuações*) between civil society and local governments for social program implementation, and (d) mapping inter-dependencies between line ministries at the federal Government level which may either hinder or facilitate program implementation. Specific activities for this area include: (i) designing and carrying out the inventory of existing programs and partnerships (*pactuações*), as well as maintaining the inventories updated; (ii) workshops to disseminate the results of the inventory; and (iii) case studies in six different municipalities to validate inventory.

Quality Control Reviews for Monitoring of Core BFP Processes. For this area, the project will support the design and execution of random annual Quality Control (QC) Reviews at the municipal and beneficiary level to verify: (a) beneficiary identification procedures and eligibility³⁵; (b) compliance by BF beneficiaries with human-capital conditionalities and the system for verifying and reporting on this; (c) receipt of payments by BF beneficiaries; and (d) beneficiary satisfaction and feedback on the program. The QC Reviews will also seek to establish how quickly eligibility information gets out of date due to changes in economic and demographic circumstances (which could inform policies on updating and recertification). The QC Review process will be defined during project implementation, but the current scheme envisages that a random sample of numerous municipalities would be drawn each year. From each municipality, a further random sample of beneficiary families will be selected. Specific activities for these QC Reviews include: (a) designing the QC Review instruments, sampling strategy, and implementing periodic field surveys in 50 municipalities per year; (b) conducting workshops and disseminating publications with results of the QC Reviews; and (c) developing program re-design strategies to address implementation issues identified by the QC Reviews. The terms of reference for these Quality Control Reviews would be designed in 2004 and annual reviews would be carried out in 2005 and 2006.

Citizen Oversight (Social Control). Citizen oversight can also serve as an important mechanism for monitoring the BFP. The Government has already taken an important step to support citizen oversight by publishing the names of beneficiaries in a public manner. In addition, this component will support the following activities designed to strengthen citizen oversight: (a) a mapping and typology of existing manifestations of social control mechanisms in a sample of municipalities (in a diversity of cultural, ethnic and racial settings); (b) workshops to disseminate the results of this social control mapping; and (c) conducting in depth case studies to describe and analyze manifestations of social control. In addition, citizen oversight (social control) will be supported by the other components and sub-components via the publication of policies, procedures, study/survey results, the development of an information hotline to respond to questions about the BFP, etc.

³⁵ These controls would seek to verify information collected in the Cadastro with re-interviews and verification of information using both the current and the original reference periods of the original interview. This would allow for officials to gauge the accuracy of information collected at the time of the original interview, and to determine how quickly such information becomes outdated (e.g., changes in household composition and socio-economic circumstances), which would provide feedback as to the quality of information in the Cadastro (and identify sources of errors) and as to the frequency with which such information needs to be updated (re-certified).

3.C. Monitoring of Outcomes and Impact Assessment

This sub-component will support the monitoring of outcomes and assessment of program impact at two levels: (a) territorial-level outcomes, and (b) family-level outcomes. These two levels of analysis are mutually reinforcing, since, for example, the analysis of territorial-level outcomes can provide important contextual information for the analysis of family-level outcomes, and vice versa. A combination of complementary qualitative and quantitative methods will be used to monitor and evaluate outcomes for both levels of analysis.

Territorial-Level Outcomes. The objectives of territorial-level analysis are (a) to examine the potential impact of the BFP at a broader socio-economic level; (b) to assess the functioning and interactions of the BFP with other complementary programs and services; and (c) to provide broader contextual information that could also be useful in assessing impact at the household level. The unit of analysis would be a territorial reference base (e.g., sub-municipality, municipality, with a diverse representation of cultural and ethnic populations, and/or regional area). The indicators to be monitored include a variety of economic indicators, social indicators, the supply of public services and complementary programs, and social capital and other social themes (see Table 2 below). These indicators will be monitored and analyzed using spatial analysis techniques.

Data sources will include existing data, imputations between existing data sources, and the collection of new data. **First**, the monitoring and evaluation of outcomes at the territorial level will use existing and newly collected data at the municipal level. Existing data sources include the national population census, the national educational census carried periodically by the Ministry of Education, and administrative data from the Ministry of Health and other line ministries. **Second**, imputation methods (such as those developed by Lanjouw et. al. in the World Bank for poverty mapping) can be used to further expand the spatial database of indicators at the municipal level by combining census and sample data from large national surveys (e.g., PNAD, POF, etc.). **Third**, In addition to supporting the conformation of a municipal level data base from existing data sources, this component will also support data gathering of some key municipal level indicators that may not be available elsewhere. **Finally**, these quantitative data sources will be complemented by the use of focus groups (e.g., of beneficiaries and non-beneficiaries, local program managers, etc.) and other qualitative methods to monitor territorial impacts on social aspects, such as citizenship (cidadania).

Family-Level Outcomes. The objectives of family-level analysis will be to: (a) monitor the living conditions of BFP beneficiaries; and (b) evaluate the impact of the BFP. The indicators to be monitored include the economic and social conditions of the family, the family's access to other public services and programs, and indicators to gauge the beneficiaries' knowledge of and satisfaction with the BFP (beneficiary satisfaction survey), as shown in Table 2. A combination of qualitative and quantitative methods will be used for the analysis of household-level outcomes.

First, several participatory qualitative instruments will be used to monitor and evaluate the impact of the BFP at the family level. Anthropological and ethnological case studies will be conducted. These will be complemented by the use of focus groups, life histories (*linhas de vida*) and other methods, which can greatly enhance our understanding of the impact of the program on key social indicators and the interactions that the program has with other aspects of living conditions (including citizen participation, complementary services, etc.) especially for traditionally disadvantaged groups.

Second, this sub-component will support the collection of baseline survey data from a sample of program beneficiaries.³⁶ This will facilitate the monitoring of changes in living conditions for these BFP beneficiaries

³⁶ As explained in Annex 3, another opportunity for analyzing some of the needed quantitative outcome indicators comes from the Household Budget Surveys (POF). These surveys collect comprehensive information on welfare measures (income, consumption) and anthropometric data (for malnutrition), as well as quantitative information on key social programs, including conditional cash transfers. The first nationally-representative

(see Table 2 for example indicators). While the design of the survey will be defined during project implementation, the current concept is that program participants (from diverse geographic, cultural, racial and ethnic settings) included in the sample will be interviewed right after receiving their magnetic cards, but just before being able to make their first cash withdrawal. This approach will have two advantages: (a) families will already know of their eligibility for the program, and would thus understand that their answers to the baseline survey would not affect their chances of being accepted into the program; and (b) data would be collected before the payments can begin to have an impact (hence it would be a baseline survey).

Data for the baseline survey will be collected on an on-going basis (as families are registered into the program), beginning in 2005. A follow up survey will be conducted two years later (in 2007), and would be supported by the second-phase APL project. Data would thus be available for “pre-program” (baseline) and “post-program” impact analysis and monitoring.

In terms of impact evaluation methodologies, it would also be desirable to survey a “control” group of similar non-participant households (so as to generate comparison data of those “with” and “without” the program). The express delineation of a “control” group – that would be denied program benefits despite eligibility – raises ethical and political concerns. Indeed, officials from MDS have expressed such concerns. An interesting alternative would be to include in the survey a sample of non-participant families that were registered in the Cadastro Único but were not selected into the BFP because they did not meet eligibility criteria. Surveying these excluded households will allow for two valuable types of analysis: (i) an assessment of the efficacy of the registration process through the Cadastro Único, by verifying if excluded households are in fact less deprived than beneficiaries, and (ii) an assessment of the impact of the program on household level socio-economic indicators via the method of regression discontinuity design (see Hahn, Todd and Van der Klaauw, 2001). The baseline and follow up surveys will interview these non-participant families.³⁷

3.D. Design and Oversight of the Overall M&E System

This sub-component will support the creation of an external advisory group of national and international experts to assist the BFP in the design and implementation of the overall M&E. Specific activities to be supported by this component include: (a) hiring of national and international consultants to assist with the design and oversight of M&E system; and (b) workshops with national and international consultants to discuss and disseminate the overall design of the M&E system with the program management team and policy makers alike.

POF was carried out in 2002-03, and hence presents a “natural” baseline for many indicators for the BFP. A follow up POF will likely be carried out in 2005 with the support of the proposed Integrated HD TAL. These POF surveys will provide some (but not all) of the indicators needed.

³⁷ However, extra care needs to be taken to ensure that non-participant will provide accurate information by assuring them that their chances of eventually getting the program will not be affected by their answers to the interview.

Table 2 – Component 3: Monitoring and Evaluation System

Theme	Actions/Indicators	Instrument/Data Source	Products/Uses	Activities for Project Financing
SUB-COMPONENT 3.A. – MANAGEMENT INFORMATION SYSTEM (MIS)				
Diagnostics of program activities (Disaggregated by geographic area and ethnicity/race)	Coverage <ul style="list-style-type: none"> Number of families in the Cadastro that are eligible Number of families that are receiving the BFP transfer (beneficiaries) For beneficiary families: <ul style="list-style-type: none"> Socio-economic profile of beneficiaries Date of entry into the program Date of delivery of the electronic card Date of receipt of the electronic card Date of first withdrawal of benefits from card Location of withdrawal (same municipality as Cadastro information?) Average time elapsed between beneficiary application and selection into the program Average time elapsed between beneficiary selection into the program and receipt of magnetic card Average time elapsed between beneficiary selection and first transfer withdrawal Financial: <ul style="list-style-type: none"> Amounts transferred per month Total spending on the program Amounts not withdrawn by beneficiaries within specific time period Amounts paid per month by municipality as % of total funds (arrecadação) of the municipality % of families complying with conditionalities 	<ul style="list-style-type: none"> Cadastro Único database Registry of BFP beneficiaries (database) Caixa (CEF) 	<ul style="list-style-type: none"> MIS outputs Periodic bulletins (on website and published) that would be widely disseminated Crucial input for program management and planning Input for program evaluation (explanatory information) Input for elaborating scenarios and projections 	<ul style="list-style-type: none"> Design and implementation of MIS, including training IT equipment Workshops Operations, maintenance and recurrent costs of system
Monitoring the Cadastro (Disaggregated by geographic area, and ethnicity/race)	Coverage <ul style="list-style-type: none"> Socio-economic profile of Cadastro registrants Number of families that are eligible (from census or survey) Number of families in the Cadastro Único Time <ul style="list-style-type: none"> Date of registry in Cadastro (if dates not available, t_0 = today) % of households with data more than 1 (or 2) years out of date % of households being updated each quarter 	<ul style="list-style-type: none"> Cadastro Único database 	<ul style="list-style-type: none"> MIS outputs, bulletins Inputs for managing the Cadastro Único (quality, quantity) Instrument for planning and re-planning Information for evaluation 	
Monitoring compliance with conditionalities	<ul style="list-style-type: none"> % of families reported not complying with education conditionalities (by area, ethnicity) % of families reported not complying with health conditionalities (by area, ethnicity) % of families penalized for lack of compliance (by area, ethnicity) 	<ul style="list-style-type: none"> Administrative records collected at municipal levels Identity number Info flows TBD 	<ul style="list-style-type: none"> MIS outputs, bulletins Inputs for managing the BFP Information for sectoral ministries regarding possible supply-side gaps (MEC/MIS) 	

Table 2 – Component 3: Monitoring and Evaluation System, Continued

Theme	Actions/Indicators	Instrument/Data Source	Products/Uses	Activities for Project Financing
SUB-COMPONENT 3.B. – MONITORING PROCESSES				
Monitoring inter- and intra-governmental processes	<ul style="list-style-type: none"> • “Cold data” (<i>dados frios</i>): Continuous inventory of existing programs at S/M levels and in third-sector (e.g., coverage of programs, spending on programs, eligibility criteria, services delivered) • Inventory of agreements (<i>convenios, pactuações</i>) between BFP and S/M and their content (e.g., to expand program coverage, to expand benefit levels, to provide complementary services) • “Hot data” (<i>dados quentes</i>): information on management of programs, the <i>convenio</i> process, partnerships with the third sector • Mapping inter-sectoral partnerships and dependencies within the federal level 	<ul style="list-style-type: none"> • Inventories of programs, partnerships, and roles at S/M and inter-sectoral levels 	<ul style="list-style-type: none"> • Geo-referenced inventory database (map) • Typology of different types of partnerships and institutional practices • Will help BFP monitor, assess, and promote inter- and intra-governmental partnerships as a way to expand the program and leverage the provision of complementary services for BFP beneficiaries 	<ul style="list-style-type: none"> • The design, piloting and implementation of the inventories • Workshops • Case studies on partnerships • Updating of inventory
Monitoring and Quality Control for core BFP processes at downstream (local, family level)	<p>Quality Control Reviews Covering:</p> <p>(a) <i>Quality Control of Core BFP Processes</i></p> <ul style="list-style-type: none"> • Cadastro Único indicators and data (re-interview) • Changes in Cadastro data • Eligibility criteria • Payments • Compliance with conditionalities <p>(b) <i>Beneficiary household satisfaction with the program</i></p> <ul style="list-style-type: none"> • Average length of wait to receive electronic card • Problems receiving electronic cards or withdrawing cash • Knowledge of program rules (conditionalities, etc.) • Difficulties complying with conditionalities (and reasons for these) • Overall satisfaction with the program • Perceived impact of program on own living conditions • Prospects and aspirations for the future 	<ul style="list-style-type: none"> • Unit of analysis = municipality records and beneficiary families • Random sample of municipalities and families • Focus groups of beneficiaries and local program managers 	<ul style="list-style-type: none"> • Annual Quality Control Reviews (published and on website) • Will provide feedback to evaluate and strengthen BFP core processes (eligibility determination and verification system for conditionality compliance, which are supported by Components 2 and 4 respectively) • Will promote accountability and credibility of program 	<ul style="list-style-type: none"> • Design, pilot and implement annual Quality Control Reviews in 2005 and 2006 • Workshops • Focus groups with <i>gestores locais</i> • Dissemination of findings and good practices • Preparation of a strategy to improve processes (based on results)
Citizen Oversight (social control)	<ul style="list-style-type: none"> • Mapping of existing manifestations of social control in areas where program is already operating • Dissemination of information about BFP • Typology of social control practices • Hotline (supported by Institutional Component 4) • Mechanism for analyzing questions and answers (supported by Institutional Component 4) 	<ul style="list-style-type: none"> • Mapping and typology of social control mechanisms • Case studies 	<ul style="list-style-type: none"> • Mapping and typology of social control mechanisms • Will provide feedback on program processes and facilitate dissemination of good practices for local program managers • Will promote accountability and credibility of program 	<ul style="list-style-type: none"> • Design and implementation of social control typology/mapping • Workshops • Case studies

S/M = state and municipal

Table 2 – Component 3: Monitoring and Evaluation System, Continued

Theme	Actions/Indicators	Instrument/Data Source	Products/Uses	Activities for Project Financing
SUB-COMPONENT 3.C. – MONITORING AND EVALUATING OUTCOMES				
Territorial-level impacts (Unit of analysis = sub-municipality, municipality, state, region)	<u>Economic indicators</u> <ul style="list-style-type: none">• Territorial population and growth• Labor market balances: population, labor force participation, employment, unemployment• Municipal total revenues• Average per capita income in the municipality• Municipal level public expenditures per capita• The number of micro-enterprises in the municipality	<ul style="list-style-type: none">• Existing data sources: census, census update (<i>contagem</i>), educational census, administrative data, DATASUS, regional/municipal surveys	<ul style="list-style-type: none">• Geo-referenced data base with unit of analysis = municipality or census segment• Spatial analyses, diagnostics of situation before and after (t_0, t_1, t_2)• Reports with recommendations (disseminated)	<ul style="list-style-type: none">• Creation of geo-referenced database• Design of manual for using database• Specific survey in 10 municipalities• Workshops• Focus groups
	<u>Social indicators</u> <ul style="list-style-type: none">• Poverty (from imputed spatial poverty maps)• Inequality (from imputed spatial poverty maps)• Income and expenditure per capita (from imputed maps)• Health and nutritional status of the municipal population (if data available)• Average schooling status of the municipal population• Average literacy in the municipality• Culturally appropriate indicators <u>Supply of public services and complementary programs</u> <ul style="list-style-type: none">• Access to educational services (schools)• Access to health services• Access to housing and public utilities (power, water, sewage)• Access to micro credit programs• Access to training programs• Local sustainable integrated development programs <u>Social capital and other social themes</u> <ul style="list-style-type: none">• Access to personal documents• Measures of citizenship (ciudadania)• Measures of violence and crime• Impact on indigenous and Quilombola communities	<ul style="list-style-type: none">• Imputations combining census and household survey data (poverty maps)• Specific surveys for more detailed information• Focus Groups on social and citizenship (ciudadania) issues	<ul style="list-style-type: none">• Focus group studies on citizenship (ciudadania)• Territorial-level information will help (a) to examine the potential impact of the BFP at a broader socio-economic level; (b) to assess the functioning and interactions of the BFP with other complementary programs and services; and (c) to provide broader contextual information that could also be useful in assessing impact at the household level.	

Table 2 – Component 3: Monitoring and Evaluation System, Continued

Theme	Actions/Indicators	Instrument/Data Source	Products/Uses	Activities for Project Financing
SUB-COMPONENT 3.C. – MONITORING AND EVALUATING OUTCOMES – CONTINUED				
Family-level impacts (unit of analysis = beneficiary and non-beneficiary families in the Cadastro Único)	<p><i>Economic indicators</i></p> <ul style="list-style-type: none"> • Occupation of household members • Income of household members • Household per capita income and per capita expenditure • Household asset ownership • Household access to credit • Composition of household expenditure • Composition of household income <p><i>Social indicators</i></p> <ul style="list-style-type: none"> • Household demographic composition (“the family”) • Fertility • Educational attainment of household members • Health and nutritional status of household members • Citizenship of household members • Access to housing and public utilities • Culturally appropriate indicators <p><i>Supply of public services and complementary programs</i></p> <ul style="list-style-type: none"> • Household access to educational services • Household access to health services • Household access to complementary government programs 	<ul style="list-style-type: none"> • Anthropological and ethnological case studies • Focus Groups • Life histories (<i>linhas de vida</i>) • Other qualitative methods • Baseline family survey of beneficiaries and non-beneficiaries in the Cadastro Único (Follow up survey would be conducted in 2007 with support of proposed second phase APL project) 	<ul style="list-style-type: none"> • Publications for anthropological, ethnological case studies; focus groups; life histories; other qualitative methods (disseminated) • Database with baseline family survey • Diagnostics and analysis • Reports with recommendations (disseminated) • Feedback for program improvements and re-planning 	<ul style="list-style-type: none"> • Proposal for logical framework to define indicators and approaches for qualitative and quantitative work, including TORs • Anthropological and ethnological case studies • Qualitative studies (focus groups, etc.) • Design and analysis of quantitative family survey • Conducting of survey and creation of database (cleaned) • Workshops • Publications • Additional studies analyzing results

Component 4 – Institutional Strengthening (US\$3.2 million in project costs)

OBJECTIVES OF COMPONENT

This component would support the strengthening of the basic institutional functioning of the BFP in terms of: (a) strengthening the overall and operational framework for the program; (b) strengthening program management; (c) developing a solid communications and dissemination strategy; and (d) piloting innovative approaches to service delivery.

RESULTS FRAMEWORK AND KEY MILESTONES FOR COMPONENT

The main results of this component include the accomplishment of a set of activities such as: the publication of a matrix of key functional and institutional responsibilities; the publication of the BF beneficiary information booklets (*cadernetas*); an operating system for the verification of beneficiary compliance to human capital conditionalities; and training on BF implementation provided to at least half of BF municipalities. A number of key milestones (outputs) could be monitored to gauge the progress towards meeting these goals, they include:

- By December 2004: (a) matrix of key functional and institutional responsibilities published; (b) beneficiary information booklets (*cadernetas*) designed.
- By December 2005: (a) system for verifying human capital conditionalities developed and piloted in at least 5 municipalities; (b) beneficiary information booklets (*cadernetas*) distributed.

MAIN ACTIVITIES SUPPORTED BY COMPONENT

4.A. Strengthening Institutional Framework for BFP

A key step towards strengthening the overall and operational institutional framework of the BFP is the definition of the normative and legal architecture of the program. Activities in this area would include the completion and publication of needed *regulamentos*, or norms, on the design and functioning of both the BFP and the Cadastro Único. For example, the specific definition of BFP conditionalities for beneficiary family members example should be clarified. The periodicity of re-certification of family data in the Cadastro Único also needs to be defined. The definition of proxy variables to predict or validate income for eligibility criteria also needs to be legally established. Guidelines to register and include indigenous and Quilombola families in the Cadastro Único and the BFP should be clearly defined. These regulations could be documented and disseminated in the operational guidelines (*regulamentos*) of the BFP. The design of the overall operational framework and functions of oversight of its implementation could be carried out by a committee, a group of consultants or advisors, such as those set up for the other components. These system design and oversight activities would be supported by technical and capacity building assistance.

4.B. Strengthening Program Management

The project will also support the strengthening of program management in two key areas: (a) the institutional arrangements for the core BFP functions; and (b) mechanisms for inter- and intra-governmental partnerships.

First, the institutional arrangements for core BFP functions need to be clarified. This would include the definition of a matrix of key institutional responsibilities among all actors involved (MDS, SENARC, CEF, municipalities, line ministries, etc.). This would greatly improve program implementation and build

institutional accountability and credibility. The project will also support the definition and clarification of institutional roles and information flows for the Cadastro Único. In addition, a (decentralized) system and information flows for monitoring beneficiary compliance with health and education conditionalities would be defined. Capacity building and training on the verification of human capital conditionalities would also be supported. The project would also support the development of a strategy for operating the program in remote areas.

Second, mechanisms for inter- and intra-governmental partnerships will be defined. The BFP is currently pursuing numerous partnerships with states and municipalities. These partnerships take several different forms. Some seek to integrate local cash transfer programs with the BFP in order to expand the number of beneficiaries or increase the level of benefits (or both). Others seek to link BFP beneficiaries with complementary services and programs at the local level. The project will also support the development of an Information Network (*Rede*) across municipalities (to share good practices, experience, etc.). At the federal level, the BFP is also currently defining intra-governmental roles. The project will also support a study to explore the possibility of integrating other programs with the BFP.

4.C. Developing a Communications and Dissemination Strategy

The institutional strengthening component will support the development of a solid communications and public information strategy. This will help promote the program, generate awareness of the program, beneficiary compliance with conditionalities, and support the credibility and legitimacy of the program. It will also serve as an instrument to support citizen oversight (social control). The sub-component will support the following activities: (a) the design of an information strategy that will consider the information needs of specific groups including culturally, ethnically, and racially distinct groups; (b) the development of a “hotline” number with trained operators to answer questions on the BFP and on the Cadastro Único; (c) publications and editing services; and (d) the design, publication and dissemination of beneficiary information booklets (*cadernetas*), including information about benefits and conditionalities. The latter would become an important tool for promoting program take-up and conditionality compliance.

4.D. Promoting the Empowerment (*Emancipação*) of BFP Beneficiaries

This sub-component would support the identification and evaluation of initiatives to help BFP beneficiaries to develop tailored empowerment strategies (“*emancipação*” strategies) and to gain access to complementary programs and services (bridging services). These initiatives could involve various approaches, including: (a) social worker support to help beneficiaries develop these empowerment (*emancipação*) strategies and bridging access to complementary services; and/or (b) the development of “one-stop shops” where beneficiaries can gain access to information about a variety of social services (including the BFP). Some similar experiences have also been developed at the local level in Brazil and in other countries. The sub-component would thus support: (a) international study tours and exchanges to share information on these various “empowerment” and “bridging” approaches; (b) consultancies and workshops to identify and evaluate such approaches; and (c) training and capacity building for beneficiaries, trainers (*multiplicadores*) and program managers (*gestores*).

Table 3 - Component 4: Institutional strengthening

Area	Indicators/Actions	Products/Use	Activities
4. A. Strengthening the operational and legal framework	<ul style="list-style-type: none"> Regulations Norms 	<ul style="list-style-type: none"> BFP Manual Regulations and rules published Clarify key policy parameters for BFP 	<ul style="list-style-type: none"> Creation of an advisory committee on institutional aspects of the program Legal experts (consultants), technical assistance and capacity building services Publications
4. B. Strengthening Program Management	<ul style="list-style-type: none"> Definition of the institutional roles Design of institutional arrangements and information flows for the Cadastro Único Developing system for monitoring beneficiary compliance with health and education conditionalities including in culturally- and/or ethnically-distinct areas Developing a strategy for operating the program in remote areas 	<ul style="list-style-type: none"> Matrix of institutional responsibilities Clarified information flows for Cadastro Único Clarified institutional roles for conditionality compliance verification system Strengthened capacity to fulfill basic institutional roles 	<ul style="list-style-type: none"> Consultancies and advisory services for the definition and elaboration of the matrix of institutional roles Consultancies for the development of remote areas strategy Consultancies for the evaluation of information flows for the Cadastro Único and the verification of conditionalities Testing and training on the system for verifying conditionalities Workshops Focus groups
4.B.2. Strengthening inter- and intra-governmental partnerships	<ul style="list-style-type: none"> Definition of possible mechanisms for federal/state/municipal partnerships Delineating alternative models of partnerships (e.g., co-financing of benefits, complementary service provision) Possible integration of other federal cash transfer programs with the BFP 	<ul style="list-style-type: none"> Definition of possible partnership mechanisms Study of other federal cash transfer programs that could potentially be integrated with BFP Inter-Municipal Information Network 	<ul style="list-style-type: none"> Definition of possible mechanisms for inter- and intra-governmental partnerships Inventory and study of other federal programs that could potentially be integrated with BFP Development of an Information Network (<i>Rede</i>) across municipalities (to share good practices, experiences) Workshops Publications
4. C. Communication and dissemination strategy	<ul style="list-style-type: none"> Information on the BFP Information on the Cadastro Único Information on conditionalities Information on results and good practices 	<ul style="list-style-type: none"> Information and communications strategy, inclusive of the culturally- and/or ethnically-distinct populations Communication tools (website; hotline/call center with trained operators) 	<ul style="list-style-type: none"> Advisory services for designing information and communications strategy Hotline: communications equipment, IT equipment, design of Q&A protocol Recurrent costs for operating hotline Editing services Design, publication and distribution of beneficiary information booklets (<i>cadernetas</i>)
4. D. Promoting emancipação of BFP beneficiaries	<ul style="list-style-type: none"> New approaches to help BFP beneficiaries: <ul style="list-style-type: none"> Access complementary services (bridging function) Develop pathways out of poverty (<i>emancipação</i> strategies) 	<ul style="list-style-type: none"> Studies on national and international experiences in innovative approaches to bridging services and <i>emancipação</i> strategies Supporting efforts to promote the Empowerment (<i>Emancipação</i>) of BFP Beneficiaries 	<ul style="list-style-type: none"> Consultancies to identify and evaluate innovative international and local experiences and approaches Workshops Study tours Capacity building and training in empowerment strategies

Component 5 – Project Management
(US\$0.7 million)

The project will support a strengthening of the implementation capacity of MDS. To provide such support, the proposed Project will finance incremental costs related to management and supervision of Project activities. These costs include consultants that would support strategic, technical and operational aspects of the project, as well as equipment and travel expenses. The arrangements for project implementation are discussed in Annex 6.

Annex 5: Project Costs
BRAZIL: BR Bolsa Família

Project Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
1. Conditional Cash Transfers ³⁸	6,174.0	0.0	6,174.0
2. System for Identifying the Target Population	2.8	1.2	4.0
3. Developing a Monitoring and Evaluation System	7.0	0.1	7.1
4. Institutional Strengthening for Improved Service Delivery	2.9	0.3	3.2
5. Project Management Support	0.7	0.0	0.7
Total Baseline Cost	13.4	1.6	15.0
Physical Contingencies	0.3	0.1	0.4
Price Contingencies ³⁹	-0.3	0.1	-0.2
Total Project Costs	13.4	1.8	15.2
Front-end Fee	-	5.7	5.7
Total Financing Required	6,187.4	7.5	6,194.9

³⁸ The total World Bank loan is US\$572.2 million. This includes US\$551.5 million that would be reimbursed to the Treasury for a share of expenditures on conditional cash transfers under the BFP, which are funded with government resources that are largely earmarked for that purpose.

³⁹ Price contingencies are generated by the COSTAB system on the basis of assumptions regarding projected inflation and exchange rate movements.

Annex 6: Institutional and Implementation Arrangements

BRAZIL: BR Bolsa Família

1. Implementation period

The project is expected to be implemented over a period of two years and four months (first phase APL), with a completion date of June 30, 2006 and a closing date of December 31, 2006.

2. Borrower and Implementation Agencies for the Bolsa Família Program

The Borrower will be the Federative Republic of Brazil. The BFP is being managed and implemented by the *Secretaria Nacional de Renda de Cidadania* (SENARC, Secretariat for Citizen Income) in the newly-created Ministry of Social Development (MDS). MDS was created on January 23, 2004 with the objective of further integrating the management of Brazil's social programs (as part of a broader integration strategy that also covered the integration of conditional cash transfer programs into the BFP). The MDS integrated three previous entities, including the Extraordinary Ministry for Food Security (MESA), the Ministry of Social Assistance (MAS), and the Executive Secretariat for the Bolsa Família Program (which was previously under the Presidency).

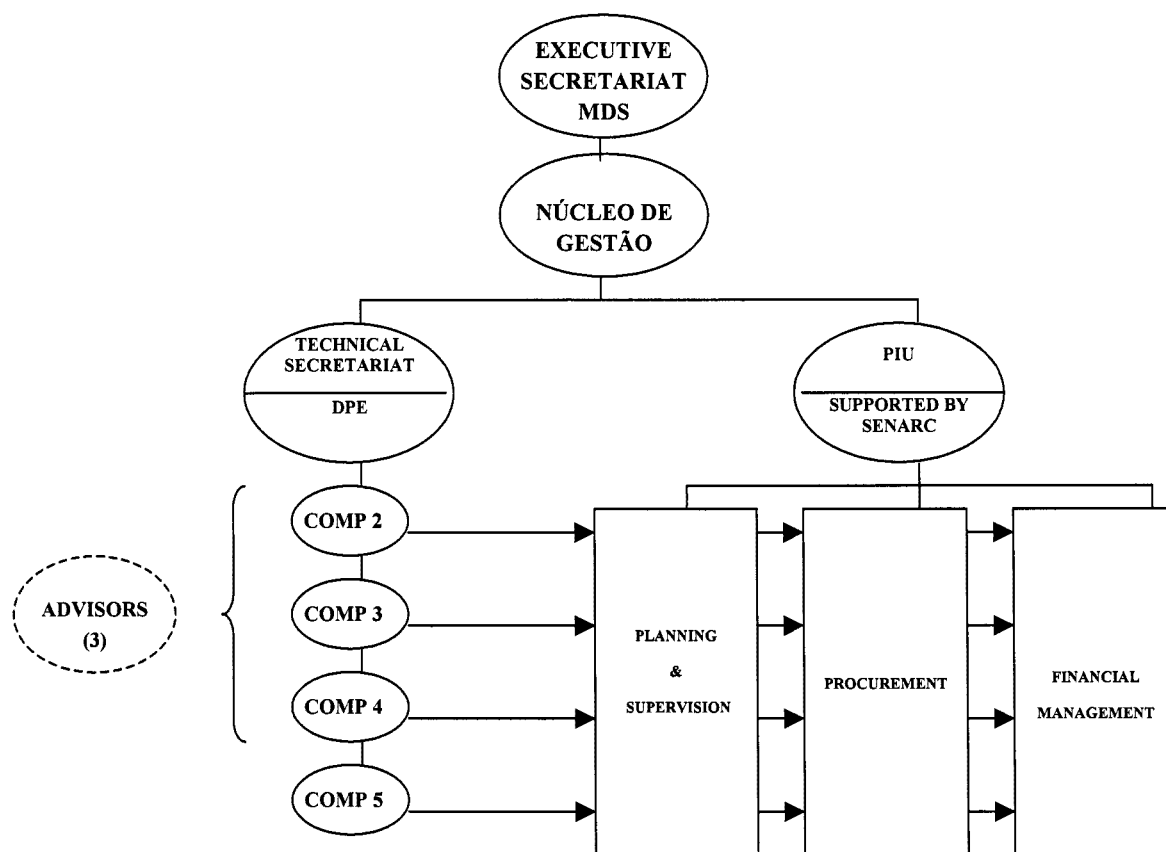
The MDS structure includes *inter alia* an Executive Secretariat (SECEX) under the Minister, which oversees two special departments, a Directorate of Special Projects (DPE) and a Secretariat for planning, budget and procurement (SPOA), and which supervises the activities of five secretariats, including the Secretaria Nacional de Renda de Cidadania (SENARC); a secretariat for other social assistance programs (e.g., BPC-LOAS, PETI, Agente Jovem); a secretariat for food security; a secretariat for policy formulation (*articulação*) ; and a secretariat for monitoring, evaluation and capacity building. The SENARC oversees the operations of the Bolsa Família Program. The BFP is also guided by the decisions of the President, supported by the recommendations of management board (*Comitê Gestor do Programa Bolsa Família*), which is responsible for policy coordination and promoting partnerships between the various sectors and levels of government and with civil society. Institutional arrangements for various functions of the program also involve a number of other actors, as discussed in Annexes 1 (general) and 7 (financial).

3. Project Management

As discussed elsewhere, the proposed project would adopt a program-based sector-wide approach (Program-Based SWAp) in order to associate disbursements under the World Bank loan with sector-wide reforms that integrate the main federal conditional cash transfer programs into the Government's flagship social program, the BFP. By taking advantage of Brazil's sound institutional and fiduciary framework, the Program-Based SWAp is expected to increase commitment, impact and flexibility.

Consistent with this approach, and to promote a mainstreaming of project activities and to contribute value added to the overall BFP, the proposed project will build on the organizational and leadership structures of MDS. Specifically, it will be headed by the Executive Secretary (SECEX) and managed by a Core Management Committee (CMC, *Núcleo de Gestão*), which will be comprised of the managers from the relevant units of MDS: SECEX, DPE, SENARC, the Secretariat of Monitoring and Evaluation, and the Coordinator of the PIU (see below). Functionally, this Core Management Committee will be divided into two areas: a Technical Secretariat and a Project Implementation Unit (PIU).

FIGURE 1 - PROJECT MANAGEMENT WITHIN THE STRUCTURE OF MDS (FOR COMPONENTS 2-5)



Technical Secretariat. The Technical Coordinator for the project (likely to be the Director of the DPE; and serving on the CMC) will be supported by a technical team and will be responsible for establishing the technical directives and activities of the project, ensuring the solidity of their content, and ensuring that they are consistent with the objectives of the project and the directives established by the CMC. This technical team would consist of full-time consultants, including: (a) a technical assistant to assist the Technical Coordinator with overall technical coordination; and (b) an advisory committee for each of the three technical components, consisting of technical specialists and technical assistants. This technical team will be responsible for: (a) ensuring that the content of the activities to be implemented under the project is consistent with the directives of the CMC and the directions of the BFP; (b) overseeing technical design and implementation; (c) planning and monitoring the technical project components; (d) preparing technical specifications and terms of reference for contracting consultant services; and (e) working with ad hoc technical consultants/advisors to be hired for each technical component.

Project Implementation Unit (PIU). The Coordinator of the PIU will be designated by the Executive Secretariat of MDS and will likely also be the Director of Operations of the SENARC. The PIU will be responsible for: (a) on-going planning and supervising of the project; (b) verifying that the operational procedures, as established in the Loan Agreement and in the Operational Manual, are being complied with; (c) administration of project activities, including agreements, contracts, procurement and the Procurement Plan; (d) preparing reports on financial performance and disbursement; (e) tracking project funds; (f) contracting independent technical audits; (g) providing operational guidance to the units in

charge of implementation of project activities; (h) supervising compliance with these guidelines; and (i) preparing progress reports on the project (including technical and operational activities, and compliance with operational guidelines) and submitting these to the World Bank every four months. To accomplish the requirements of the project described above the PIU will be supported by the Operations Department in SENARC and will be staffed by MDS officials and with following key personnel (in addition to the PIU Coordinator):

- **Overall Project Operations Support:** The PIU Coordinator will be assisted by a technical assistant (full-time consultant) for overall operations coordination. An IT specialist (full-time consultant) will also be hired to support the entire project team.
- **Project Coordination, Planning and Supervision:** The team will include a technical specialist and a technical assistant (both full-time consultants) for planning and supervision. This team would be responsible for overseeing and monitoring the project, preparing annual and updated project plans and preparing project progress reports.
- **Procurement:** Two procurement specialists (one full-time consultant and one ad hoc consultant) who will be responsible for: (i) overall procurement processing; (ii) annually updating the Procurement Plan; (iii) ensuring that the activities financed by the project follow the procedures established in the Guidelines of the Bank and in the Loan Agreement. (See Annex 8 for more details).
- **Financial Management:** A financial manager (staff member) with the overall responsibility for financial management and administration of the project, who will liaise with STN for Component 1, oversee the preparation of the financial management sections of the Operational Manual, and train staff on the operation of the SIAFI (*Sistema Integrado de Administração Financiera*) system. This financial manager will be assisted by two accountants who will be responsible for: (i) preparation of Statements of Expenditures (SOE) for Components 2-5; (ii) preparations of consolidated FMRs to be sent to the World Bank (see Annex 7); and (iii) ensuring that the records of the project will be kept for the annual audit by SFC (*Secretaria Federal de Controle*) and World Bank supervision. (See Annex 7 for more details).

4. Implementation Strategy

Implementation of Component 1. Component 1 will support the implementation of the BFP, which will provide conditional cash transfers (grants) to poor families (as described in Annex 1). The BFP is implemented by the SENARC in the MDS, in partnership with the Caixa Econômica Federal (CEF) and the municipalities. Institutional arrangements for the BFP are discussed in more detail above and in Annex 1. Disbursement requests for Component 1 will be made directly by the Treasury (STN), as discussed in Annex 7.

Implementation of Technical Components. The other components (Components 2, 3, 4 and 5) will be implemented as per the arrangements discussed above and according to the procurement guidelines outlined in Annex 8 and the financial management arrangements outlined in Annex 7.

Disbursements. Disbursement arrangements for all components are discussed in Annex 7.

Operational Manual (OM). In order to reduce implementation delays and define roles, responsibilities, mechanisms, schedules and accountability arrangements, the Operations Team will prepare a draft of an Operational Manual of the project (enactment would be a condition of effectiveness). The OM will include conditions necessary for implementation of the project such as: institutional arrangements; operational procedures (including a system for monitoring and verification of conditionalities, eligibility procedures); procurement and contracting procedures, sample standard bidding documents and filing

instructions (including for QCBS and NCB); disbursement and financial management procedures, including template FMRs; auditing procedures; and supervision, project administration, monitoring and progress reports, and evaluation plans; and Performance Indicators. The OM will also include procedures for carrying out Component 1, including financial reporting and disbursement procedures.

Annex 7: Financial Management and Disbursement Arrangements

BRAZIL: BR Bolsa Familia

A financial management risk assessment of the Bolsa Família Program (BFP) was conducted. As discussed in Annex 6, the proposed project will be implemented by the Ministry of Social Development (MDS) at the federal level. The assessment was carried out in accordance with OP/BP 10.02 and the Guidelines for Assessment of Financial Management Arrangements in World Bank Financed Projects issued by the Financial Management Sector Board on October 15, 2003.

The overall objective of the assessment was to determine whether the Borrower has, or will have, acceptable financial management arrangements in place by loan effectiveness. These include, but are not limited to, capacity to (a) properly manage and account for all program's proceeds, expenditures and transactions; (b) produce timely, accurate and reliable program financial statements and reports, including Financial Monitoring Reports (FMRs), for general and Bank special purposes; (c) safeguard program's assets; (d) engage independent auditors acceptable to the Bank in a timely way; and (d) disburse Bank funds in accordance to applicable Bank rules and procedures.

The assessment was carried out jointly with the implementing MDS staff, Secretaria do Tesouro Nacional (STN, National Treasury Secretariat), and other staff members involved in the implementation of the program. It included the (a) discussion with financial management staff in MDS and STN officials; (b) evaluation of financial management systems in place and/or those to be used for program's monitoring, accounting and reporting; (c) review of staffing requirements, including training and qualifications; (d) discussion of flow of funds arrangements and disbursement methodology; (e) review of internal control mechanisms in place; (f) discussion with regard to reporting requirements, including the format and content of FMRs; and (g) review of internal and external audit arrangements.

The financial management assessment of the BFP builds on the overall Country Financial Accountability Assessment (CFAA) which was carried out for Brazil in 2002. The CFAA assessed the public financial management system at the national level and concluded that *"...Brazil's system provides reliable information. Adequate systems exist to manage and track the receipt and use of funds and there is a high level of fiscal transparency, both of which would support any program of adjustment lending. The risk to both Bank and country funds is low."* The Program-Based SWAp approach for the proposed project to support the Federal Government's BFP will take advantage of these sound institutional and financial management systems, namely the SIAFI (Sistema Integrado de Administração Financeira) system.

I. FINANCIAL MANAGEMENT ARRANGEMENTS

All financial management aspects of the BFP are being managed by MDS staff in collaboration with staff in STN, using Brazil's systems and existing organizational arrangements. The BFP will have a specific "cost center" (*Unidade Gestora*), within the SIAFI system, where all sources – except for loan proceeds for Component 1 -- and uses of funds will be recorded and from where FMRs will be produced in a regular, timely fashion. A satisfactory Financial Management System (FMS) for the project will build on existing government arrangements and embedded internal control mechanisms and procedures, as well as collaboration with STN and its staff.

Staffing. As discussed in Annex 6, MDS oversees the implementation of the BFP including financial management aspects. In terms of staffing and supervision for the project, financial management for the Project will be managed by the PIU with the support of a financial manager and assisted by two accountants along with the staff of the Operations Department of SENARC. The PIU Coordinator will liaise with STN, oversee the preparation of the financial management sections of the Operational Manual for the project, and

train staff in the operation of the SIAFI system. The Director of Operations of SENARC (who is also the PIU Coordinator) is responsible for cash flow management, including monitoring of the BFP account with the Caixa Econômica Federal (CEF).

Financial Reporting and Supervision. The PIU Coordinator will ensure the timely production of semi-annual Financial Monitoring Reports (FMRs). These FMRs will make use of existing financial reporting information in the SIAFI system and will consolidate information for all components of the project. The content and format was agreed with the Borrower and the FMRs generally cover the following topics:

- FMR 1A - Sources⁴⁰ and Uses of Funds (by disbursement category), cumulative and for the period, including a variance analysis;
- FMR 1B - Uses of Funds by Program Activity/Component, cumulative and for the period; actual expenditures, including a variance analysis;
- FMR 2 - Physical Progress Report (monitoring indicators);
- FMR 3 – Procurement Report;

FMRs will disclose that loan proceeds will reimburse the Treasury for a percentage of conditional cash transfers, which will have the Government as sole financier.

In addition, program activities and processes will be monitored via annual Quality Control Reviews (covering Cadastro Único processes, payments, conditionality compliance), as discussed in Annex 4 (Component 3.B).

Financial management supervision will be carried out every six months and will include: (a) reviewing semi-annual FMRs; (b) reviewing of annual audit reports and management letter and following up in a timely manner on any issues; (c) participating in project supervision missions as appropriate; and (d) updating the financial management rating in the Project Status Report (PSR).

Accounting Procedures and Policies. Annual Financial Statements of the BFP will be prepared each fiscal year in accordance with consistently applied accounting standards, acceptable to the World Bank (accounting on a cash basis will be utilized for the production of both semi-annual FMRs and annual program financial statements). These statements will be audited, by independent auditors satisfactory to the World Bank (see below), in accordance with acceptable auditing standards. A section covering Financial Procedures will be included in the Operational Manual and will provide guidance with regard to financial and administrative routines, procedures and policies.

Internal and External Audits. An annual external audit will be undertaken according to Terms of Reference acceptable to the World Bank. The Auditors' report will follow the World Bank's new audit policy, as per the guidelines issued by the Financial Management Sector Board of June 30, 2003 and will express an opinion on the financial statements of the BFP. A management letter, identifying any internal control weaknesses and areas of improvement will also be produced. Second-semester FMRs' cumulative financial reports, may be accepted by the World Bank as the basis for the annual financial statements of the program on which auditors' will express their independent opinion. The auditors' report will be submitted to the World Bank no later than six months after the closing of the fiscal year. In addition, a group of permanent staff are being assigned to perform the function of a "*Coordenação Geral de Fiscalização*" of the BFP which will essentially act as an internal controls department.

⁴⁰The sources and uses of funds will identify the Government as the only source of funding for Component 1.

II. DISBURSEMENTS AND FLOW OF FUNDS ARRANGEMENTS

Flow of Funds for the Bolsa Família Program

As discussed above, the BFP is managed by MDS. Each month, the MDS sends a Program Financing Proposal (PPF) to STN for approval. This PPF is established based on the list of eligible beneficiaries from the Cadastro Único.⁴¹ Once the PPF is approved by STN, an *ordem bancaria* is issued and funds are transferred from a STN account with the Central Bank to a specific BFP account in the Caixa (CEF), see Figure 1 below. MDS monitors the balance of the BFP account in the Caixa (CEF). Eligible beneficiaries (on the payroll) then withdraw their monthly benefits from pooled BFP account using electronic benefit cards (EBCs).⁴² The EBCs are distributed to eligible beneficiaries according to the list established by the MDS. Upon entering the program, beneficiaries must pick up these cards at the nearest CEF agency (or lottery, post office or municipality). They are notified through the municipalities and must pick up their cards and withdraw funds within a 90-day period of time. Experience from the pre-reform programs shows that approximately 3-5% of Bolsa Escola beneficiaries did not withdraw their benefits within the 90-day time period, mainly due to communications or transport difficulties in extremely remote rural areas.⁴³ This share was reportedly much higher under the Bolsa Alimentação Program (up to one third of beneficiaries that did not withdraw their benefits, according to a TCU operational audit). Undisbursed amounts arising from the expiration of benefits that are not claimed within the 90-day period will be returned from the Caixa (CEF) to STN and credited to the MDS for use by the BFP. The Operational Manual will specify the number of days that the CEF has to return funds in the event that they are not claimed by the beneficiaries.

The MDS will enter into a new contract with the Caixa (CEF) where reporting requirements, as well as penalties, will be clearly spelled out, and CEF will provide a payroll-type list of disbursements made to beneficiaries under the BFP.

Arrangements for Component 1 (Conditional Cash Transfers)

Overall Financing Instrument. An additional feature of the proposed loan would be the use of a program-based sector-wide investment approach (Program-Based SWAp). A Program-Based SWAp makes sense in this instance because it would associate World Bank financing with one of the Government's highest priority programs, which involves integrating the main federal conditional cash transfer programs as a comprehensive sector policy. By taking advantage of Brazil's sound institutional and fiduciary framework, the Program-Based SWAp is expected to increase commitment, impact, and flexibility. The Bank will carefully monitor and supervise the proposed Program-Based SWAp operation, like all other investment operations.

In terms of financing mechanisms, Component 1 of the proposed loan would reimburse the Government for a small share (less than 10%) of productive expenditures on conditional cash transfers made under the BFP, which are funded with government resources that are largely earmarked for that purpose. The Brazilian Government requested that the World Bank loan, in support of Component 1, would reimburse a share of these expenses. Given the current earmarking of revenues in Brazil, government revenues would be applied to make the payments for expenditures under Component 1, and the Bank would then reimburse expenditures as specified in the legal agreement. The Bank funds disbursed would be part of the regular federal budget financing, with the Bank as one of the sources of overall funds, which are

⁴¹ As discussed in Annex 1, some of these beneficiaries include those currently receiving benefit amounts from the pre-reform programs (Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio Gas) but who are gradually being migrated to the (higher) unified benefit schedule under the BFP. They are being validated as eligible for the BFP and are subject to the same set of conditionalities as the families already on the BFP.

⁴² Beneficiaries are not required to have their own bank accounts.

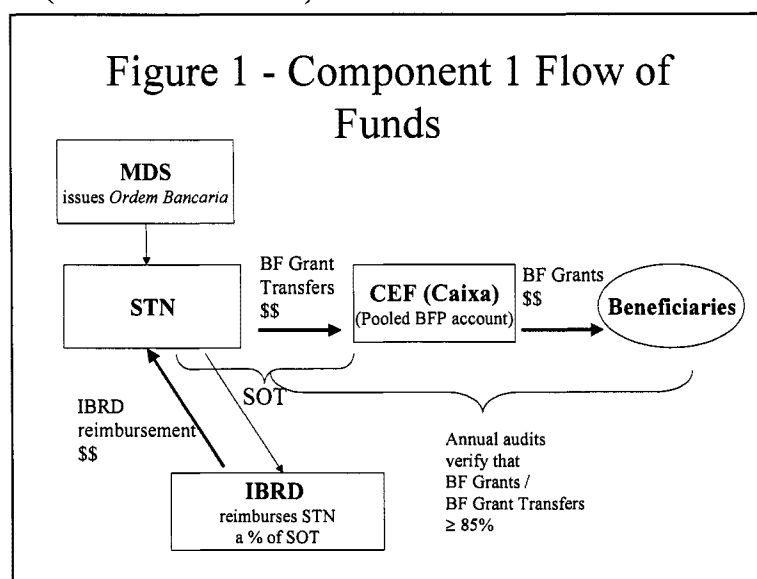
⁴³ Component 4 of the proposed project will support the development of a strategy for improving payments and operations in remote rural areas., as discussed in Annex 4.

spent consistent with federal budget policies and procedures. The Government has indicated to the Bank its intention to use the increased funds available for development priorities. Annual federal budgets are approved by the Brazilian Federal Congress and are derived from the budget plan (LD) and the Multi-Year Plan (PPA), which is a transparent four-year framework for federal expenditures, developed by the Brazilian authorities with the participation of civil society, the Bank, and other development partners. The Government engages with the Bank in a discussion of the development expenditures.

Specifically, the World Bank loan for this component would disburse against SOTs containing a list of transfers made to CEF, and verifying the disbursement percentages, funding calculations and conformity with the loan conditions. SOTs are a disbursement mechanism through which the World Bank will reimburse STN for advances made to CEF (“BF Grant Transfers”) for disbursements of the conditional

cash transfers (“BF Grants”) to beneficiaries, as shown in Figure 1. As discussed below (under Loan Disbursements and Flow of Funds, and Program Risk Assessment), the annual financial audits will contribute, among other ex-ante and ex-post control mechanisms embedded in the program design, to the verification of eligibility of expenditures using SOTs mechanism. Specifically, in their annual report, auditors will verify that all funds (“BF Grant Transfers”) received by the CEF were credited to the pooled beneficiary account and that at least 85% of these amounts were disbursed by CEF to beneficiaries in the form of BF Grants. In the event

that the annual audits reveal that the share of BF Grant Transfers that is actually disbursed to beneficiaries in the form of BF Grants is less than 85%, the World Bank may suspend disbursements against Component 1.



Government Expenditures for Component 1. As mentioned above, for Component 1, the World Bank would reimburse the Treasury for a specific share (see below) of expenses on conditional cash transfers under the BFP during the project period. Government expenditures for Component 1 in this case would be equal to total spending on conditional cash transfers by the BFP. Table 1 below presents the planned BFP expenditures for these transfers for the project period (first row).

Table 1 – Expected Government Expenditures and Expected Pace of Loan Disbursements for Component 1

	2004 (4 months)	2005	2006	Total period	Overall World Bank Share
Expected Federal Government spending on BFP Transfers, US\$ mn*	639	2,458	3,077	6,174	n.a.
Component 1 (indicative disbursement schedule, see variable cost shares below)**	156***	221	174	551	8.9% of total

*These expenditures exclude allocations in the BFP budget for administrative costs. They include amounts being paid to beneficiaries that currently receive benefit amounts from the pre-reform programs (Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio Gas) but who are gradually being migrated to the (higher) unified benefit schedule under the BFP. They are all being validated as eligible for the BFP and are subject to the same set of conditionalities as the families already on the BFP.

**The US\$551.5 million for Component 1 (grants) would be reimbursed to STN against a share of expenditures on conditional cash transfers under the BFP during the project period.

***Includes retroactive financing (see below).

Variable Cost Shares to Pace Disbursements with Technical Improvements. While the total amount of financing for Component 1 (US\$551.5 million) would represent 8.9% of the total cash transfers budget for the BFP, disbursements and cost-sharing percentages would be linked to key milestones of technical improvements. As discussed below, Component 1 of the loan would be disbursed on the basis of the transfers made by STN to the Caixa (CEF) -- upon MDS instructions and triggered by *Ordens Bancarias* issued by MDS -- to provide grants (conditional cash transfers) to the beneficiaries of the Bolsa Família Program (SOTs concept). Specifically, loan proceeds for this component (SOTs for BF Grant Transfers) would be made with increasing disbursement percentages that will increase as the actions listed in Table 2 in Annex 3 are met. The disbursements will start at the rate of 8%, will be increased to 9% when the stage 2 milestones in Table 2 in Annex 3 have been met; and will be increased to 11% when the stage 3 milestones in Table 2 in Annex 3 have been met. If stage 2 milestones are not met, disbursements would continue to be made at a 8% disbursement percentage; in the event that stage 3 milestones are not met (but stage 2 milestones have been met), disbursements will be made at a 9% disbursement percentage.

Loan Disbursements and Flow of Funds. As discussed above, for the BFP itself, funds flow from STN to the CEF upon the issuance of an *Ordem Bancaria* by MDS, with all transfers being registered in the SIAFI system. Once these transfers are made, the CEF then pays out the conditional cash transfers to a list of eligible beneficiaries established by MDS.

As discussed above, the World Bank will reimburse, on a monthly basis and upon request from STN, against statements of transfers (SOTs), recorded in SIAFI, made by the STN to the CEF ("BF Grant Transfers") upon issuance of an *Ordem Bancaria* by MDS. Once this transfer is made, this advance for the grant to be made is considered as expensed and the expenditure eligible for World Bank financing (SOT concept). When requesting reimbursement from the World Bank, STN will not be required to reconcile with actual expenditures (e.g., payments made to beneficiaries with STN transfers to Caixa; or for expenditures by beneficiaries using their transfers), given the high number and small amount of the transfers to beneficiaries.

As mentioned above, the auditors will certify in their annual report that 100% of the funds received by the CEF (BF Grant Transfers) for the BFP were credited to the pooled beneficiary account and that at least 85% of funds transferred to the CEF via SOTs were disbursed by the CEF to beneficiaries (as BF Grants). In addition, unaudited semi-annual FMRs will report on the amounts transferred to CEF through SOTs vs. actual payments to beneficiaries made by the CEF.

Existing controls over the beneficiaries NIS (Social Identification Number) and amount of the benefit allow for the tracking of individual benefits. This control is done through monthly withdrawal reports, produced by Caixa, where amounts withdrawn are compared to the monthly list of beneficiaries and respective benefits, which were the basis for the transfer to the BFP's account with the Caixa.

The technical verification of the compliance by beneficiaries of the grant conditions (health and education conditionalities) would be made on an on-going basis by municipalities and by the Federal Government via annual Quality Control Reviews for a random sample of beneficiaries (see Annex 4, Component 3.B.). These annual Quality Control Reviews will also cover payments (ensuring that payments are actually collected and received by intended beneficiaries) and Cadastro information, which will provide an additional lever for fiduciary controls. SFC, as part of their routine work, is already contributing to the overall quality of the BFP by doing spot checks of the program's internal control procedures at the municipal level. These spot checks also include meetings and verifications with small samples of BFP beneficiaries.

The Government has opted not to use a Special Account for Component 1. Monthly SOTs, supporting the withdrawal application (Form-1903), will be prepared by STN and submitted to the Bank for reimbursement purposes. The MDS will consolidate and prepare semi-annual FMRs and annual financial statements for the program (for all components of the project).

Arrangements for Components 2-5 (Technical and Project Management Components)

Disbursements under Components 2-5 will be made on the basis of transactions and withdrawal applications will be prepared and submitted by MDS (the PIU) on a regular basis (monthly) for replenishment of the Special Account (which will be established exclusively for Components 2-5).

Disbursement claims (Form-1903) will have as supporting documentation, a Special Account bank reconciliation, a Special Account bank statement, Statements of Expenditure (SOEs) and/or Summary Sheets as applicable, and for all payments made against contract above SOE/Prior Review thresholds adequate supporting documents such as invoices and/or receipts. The Borrower has opted not to use direct payments to suppliers, from the Loan Account, as stipulated in the Decree Law 4.992 of February 18, 2004.

Advances from the Special Account to UN agencies will be made against reasonable cash flow forecasts for eligible expenditures in accordance to Borrower agreements with UNDP. Further advances will only be made upon receipt of adequate supporting documentation for the previous advance.

The Borrower may request disbursements to be made using the **Statement of Expenditures** (SOE) methodology for all payments against contracts not subject to World Bank's prior review, including: (a) contracts for goods costing less than US\$350,000 equivalent; (b) contracts for consulting firms services costing less than US\$200,000 equivalent; (c) contracts for individual consultants' services costing less than US\$50,000; (d) training activities; and (e) incremental operating costs.

Retroactive financing will be available for disbursement categories 1 (Goods), 2 (Consultant Services), 3 (Training and Seminars), 4 (BF Grants) and 5 (Incremental Operating Costs) procured in a satisfactory fashion and paid after January 1, 2004 up to a maximum of 19% of the loan amount. This retroactive financing percentage is consistent with the parameters included in the New Policy Framework for Eligibility of Expenses, and consistent with the established Brazil country financing parameters. It is recommended that, once the loan is declared effective, such expenditures be immediately claimed from the World Bank, on a reimbursement basis.

In order to ensure timely provision of funds to finance the costs of the project, the Government will establish, for the purpose of this project, a **Special Account** in US dollars, exclusively for Components 2 to 5, in a commercial bank under terms and conditions acceptable to the Bank. An estimated amount equivalent to 4 months of the Bank's share of project expenditures for these components will be deposited in the Special Account. The authorized allocation for the Special Account is US\$1.5 million.

III. FINANCIAL MANAGEMENT RISK ASSESSMENT

Program Risk Assessment. The Risk Assessment Matrix below, presents the items of potential risk for the program from a Financial Management standpoint.

Table 2 – Financial Management Risk Assessment

Risk	H	S	M	L	Mitigators
<i>Inherent Risks</i>					
i. Country specific				X	
ii. Sub-national level		X			TA components quality control reviews - accuracy of (Cadastro Único); TORs for SFC
iii. Entity specific		X			New entity; World Bank assistance will be required
iv. Project specific			X		Same as for Sub-national level
<i>Control Risks</i>					
i. Implementing Agency			X		FM arrangements will rely on SIAFI and embedded controls
ii. Flow of Funds		X			Payments in remote areas; electronic benefits cards; random tests with SFC, Quality Control Reviews under Component 3.B;
iii. Staffing			X		See implementation arrangements
iv. Accounting procedures				X	
v. Internal/External Audit			X		Internal/External audits to be conducted by SFC; TORs for SFC
vi. Reporting & Monitoring			X		New entity but SIAFI will be utilized; World Bank support
vii. Information Systems			X		Same as above
H-High S-Substantial M-Moderate L-Low					

The overall Financial Management risk associated with the Project was rated as **moderate**. There are two main areas of concern and potential risks. The **first** involves controls over payments, including:

- (a) The risk that people other than the intended beneficiaries would claim the electronic benefit cards. This is a problem to some extent in any welfare program in any country in the world. The proposed project will help the BFP develop systems to limit this risk, including random-sample Quality Control Reviews (see Annex 4, Component 3.B) and a variety of social control mechanisms (including publicly disclosing lists of beneficiaries at the local level).
- (b) The reconciliation between the amounts transferred to the Caixa (“BF Grant Transfers”) and actual amounts disbursed to beneficiaries (“BF Grants”), including the issue of unclaimed benefits during the 90-day period as discussed above. This risk is mitigated by: (a) the fact that MDS monitors the BFP account in the Caixa, which will transfer undisbursed amounts back to the STN for further use by the BFP; and (b) annual audits will ensure that (i) 100% of funds received by the CEF (BF Grant Transfers) under the BFP were credited to the pooled beneficiary account; and (ii) at least 85% of the funds transferred to CEF via SOTs were disbursed by the CEF to beneficiaries (i.e., BF Grants/BF Grant Transfers \geq 85%). The Operational Manual will clearly state the number of days that CEF has to do these.

The **second** main area of concern and potential risk involves the accuracy of, and the decentralized process for collecting data for, the Cadastro Único registry that is used for identifying and selecting beneficiaries. As discussed in Annex 4, the technical components of the proposed project will greatly strengthen the accuracy of the Cadastro processes, which will help mitigate this risk. The proposed project will also support annual Quality Control Reviews of Cadastro information (reinterviewing a random sample of beneficiaries to track payments, compliance with conditionalities, and the accuracy of Cadastro information; see Component 3.B. in Annex 4).

Financial Management Assessment Conclusion. The overall Financial Management Assessment conclusion is that the program’s implementing agency (MDS), with the collaboration of STN, has satisfactory financial management arrangements in place, and meets OP/BP 10.02 minimum requirements. The financial management risk associated with the program has been assessed as moderate. The Bolsa Família Financial Management System will be able to produce timely, relevant and reliable financial information, and to support the program’s management in the planning, implementation and monitoring the Program’s overall progress towards the achievement of its objectives.

Loan Conditions Related to Financial Management

- Adoption of Operational Manual including procedures for the flow of funds and information to and from beneficiaries and financial management by effectiveness;
- MDS to retain a PIU including adequate financial management staff by effectiveness; and
- Draft Terms of Reference for external audits approved by the World Bank by effectiveness.

Annex 8: Procurement

BRAZIL: BR Bolsa Família

Procurement Institutional Arrangements

The project will consist of five components: (a) one conditional cash transfer Component (component 1), in which the Bank will reimburse US\$551.5 million to the Brazilian Treasury for expenditures under the BFP during the project period, that will not involve procurement issues; and (b) three technical components and one project management component, for which loan amount is US\$15.0 million to help improve the basic architecture of the program. Therefore, the proposed project will only require procurement for the technical and project management components. The MDS will carry out hiring of individual and consultants firms, workshops and training activities in cooperation with UNDP.

PROCUREMENT METHODS

Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits", published in January 1995, revised January/August 1996, September 1997, January 1999, November 2003 and May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published in January 1997, revised in September 1997, January 1999, May 2002 and May 2004; and the provisions stipulated in the Loan Agreement. The Bank's Standard Bidding Documents and Standard Request for Proposals will be used for the Bank-financed ICB goods and consultant services, respectively. For NCB procurement of goods, MDS will use the model standard bidding document issued by SEAIN (*Secretaria de Assuntos Internacionais*). The electronic *pregão* may be used as an alternative to shopping method for off-the-shelf items in all project components. The project procurement method for each category is summarized in Table A of this Annex.

World Bank-Financed Goods and Services

Under the technical and project management components, goods will be procured by the Ministry's procurement unit, and consist of computer equipment, peripherals, software, printing services, communication equipment, and logistics for workshops and training. The following methods will be used for this project:

International Competitive Bidding (ICB). Goods estimated to cost US\$350,000 equivalent per contract or more will be procured through International Competitive Bidding (ICB) procedures. During preparation, packages of computer equipment/software for some states and municipalities, and of printing services have been identified to be procured through ICB.

National Competitive Bidding (NCB). Goods estimated to cost more than US\$100,000 equivalent and less than US\$350,000 equivalent per contract may be procured under contracts awarded on the basis of NCB procedures. Printing and distribution of booklets to the beneficiaries of Bolsa Família Program, as well as other items that may be grouped to reach NCB thresholds, are expected to be procured through this method. Seconded services for operating the hotline, under Component 4, will be hired using NCB documents satisfactory to the Bank, as described in item Incremental Operating Costs.

Shopping. Contracts estimated to cost less than US\$100,000 equivalent each, up to an aggregate amount not to exceed US\$600,000, may be purchased on the basis of price quotations from at least three eligible suppliers. Scattered printing services, small technical services, computer equipment and peripherals,

office equipment and logistics for training events and workshops have been identified to be procured under this method.

Table A: Project Costs by Procurement Arrangements
(in US\$ thousand equivalent)

Expenditure Category	Procurement Method ¹				Total Cost
	ICB	NCB	Other ²	N.B.F.	
1. Goods	3.3 (3.3)	0.4 (0.4)	0.1 (0.1)		3.8 (3.8)
2. Consultants' Services			10.2 (10.2)		10.2 (10.2)
3. Training & Seminar			0.5 (0.5)		0.5 (0.5)
4. Conditional Cash Transfers ³			6,174.0 (551.5)		6,174.0 (551.5)
5. Incremental Operating Costs		0.2 (0.1)	0.5 (0.4)		0.7 (0.5)
Front-end-fee			5.7 (5.7)		5.7 (5.7)
Total	3.3 (3.3)	0.6 (0.5)	6,191.0 (568.4)		6,194.9 (572.2)

¹Figures in parentheses are the amounts to be financed by the Loan. All costs include contingencies.

²Includes goods to be procured through national shopping, electronic pregão, consulting services and technical assistance, training activities including logistics, hotline services, operating and maintenance costs of the management information system (MIS/SIG), and costs for managing and supervising the project, including air tickets, per diem, and sundry items.

³Bank will reimburse the Treasury for expenditures on conditional cash transfers under the BFP during the project period.

World Bank-Financed Consulting Services

The proposed project would finance consultant services by firms and individuals. It is expected that the project will finance several studies, design of information systems, data collection and analysis, focal groups, activities to the Cadastro System, manuals to the BFP, etc. The following methods apply:

Quality and Cost-Based Selection (QCBS) procedure will be used for consultant services, and training contracts. At preparation about 90% of the consultant contracts with firms under the project were identified to be procured through this method, for an amount of approximately US\$6.7 million.

Quality-Based Selection (QBS) will be used for assignments which meet the criteria specified in Clause 3.2 of the Guidelines. During preparation, only one contract was identified to be procured through QBS: the design and analysis of the impact evaluation to be financed under Component 3 (Developing a Monitoring and Evaluation System).

Individual Consultants will be hired for assignments which meet the criteria specified in Section V of the Guidelines, up to an aggregate amount of US\$2.7 million equivalent. A core group for providing technical and operational assistance for project management will be hired through this method, and includes Planning and Monitoring specialist, specialists to each area of intervention, Procurement and Financial Management specialists, and Information and Technology specialist.

Incremental Operating Costs

Incremental operating costs refers to (i) project management and supervision expenses - tickets, per diem and sundries; (ii) seconded services to operate the hotline, including staff, equipment, and communication costs (to be hired through NCB procedures), and (iii) operating and maintenance costs of the management information system (MIS/SIG). These services will be financed in accordance to bi-annual plans approved by the Bank. Identification of suppliers of sundries and minor services will be made through market inquiries in the local market as in shopping. Once the suppliers are established (generally those offering the lowest cost of lists of items), a purchase order will be issued using regular administrative procedures. The market inquiries will be updated periodically. Internal travel will be procured through administrative methods of the MDS, generally consisting of the comparison of discounts and level of services offered by travel agencies.

**Table A1: Consultant Selection Arrangements and Prior Review
(US\$ million equivalent)**

Consultant Services Expenditure Category	Selection Method							Total Cost ¹
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	6.7 (6.7)	0.8 (0.8)	- -	- -				7.5 (7.5)
Prior review	All contracts estimated to cost the equivalent to US\$200,000 or more							
B. Individuals						2.7 (2.7)		2.7 (2.7)
Prior review	All contracts estimated to cost the equivalent to US\$50,000 or more							
Total	6.7 (6.7)	0.8 (0.8)				2.7 (2.7)		10.2 (10.2)

Table A.2: Procurement Method and Aggregate Amounts

Method	Individual Contracts	Total Aggregate Amount	Aggregate Amount (Bank financed amount)
NCB Goods	Less than US\$350,000	US\$400,000	US\$400,000
Shopping or Pregão	Less than US\$100,000	US\$600,000	US\$600,000
Individual Consultants	-	US\$2,700,000	US\$2,700,000
Incremental Operating Costs	Services to operate the hotline, SIG maintenance and operating costs, and management and supervision of the project	US\$700,000	US\$500,000

PROCUREMENT IMPLEMENTATION AND SUPERVISION

Advertising. A General Procurement Notice (GPN) for hiring of international consultant services, and purchase of ICB goods must be published in the *United Nations Development Business*, no later than June 2004. Thereafter, the Notice will be updated annually for outstanding consultant services and ICB goods. In addition, detailed consultant services and assignments will be advertised, as they become available, in at least one national newspaper of a large circulation. MDS may also seek "expressions of interest" by

contacting embassies, professional organizations, or firms that it knows or that are registered in DACON (paragraph 1.15 of the *Guidelines for Selection and Employment of Consultants*). In this case, the information required would be minimum, limited to make a judgment on the firm's suitability. Sufficient time (not less than 15 days) will be provided for responses, before preparing the short lists.

Procurement Records. Detailed procurement records, reflecting the project's supply of goods and consultant services, including records of time taken to complete key steps in the process and procurement activities related to supervision, review and audits, will be maintained by the Operations Coordination at Operations Department. These records will be maintained for at least two years after the project's closing date. The records for goods will include public notices, bidding documents and addenda, bid opening information, bid evaluation reports, formal appeals by bidders and outcomes, signed contracts with related addenda and amendments, records on claims and dispute resolution, and any other useful information, including a procurement plan in a format acceptable to the Bank.

Scheduling of Procurement. A procurement plan for the tasks to be carried out during project implementation was prepared and submitted to the Bank during negotiations. The procurement plan will consist of: (i) procurement plan for the project's goods, including contract packaging, applicable procedures and process scheduling; and (ii) a consultant and training providers selection process plan for the project's training and consultant services, including contract packaging, applicable procedures, selection criteria. The procurement plans and consultant selection process plan will be updated periodically, and shall be submitted to the Bank in January of each year. Such updating shall include (i) list of contracts completed, under execution, under procurement, to be procured in the upcoming calendar semester and, tentatively, in the subsequent semester; (ii) costs of completed and under execution contracts, estimated costs for upcoming contracts; (iii) schedule of biddings. The working instructions will be in the Operational Manual which will contain standard bidding documents, request for proposal, formats for reporting on procurement, forms of contract, timetables, model of TOR and any other relevant information related to procurement.

Prior Review and Loan Agreement reference. The Bank's procurement review will be made in accordance with Appendix 1 of the *Guidelines for Procurement* and Appendix 1 of the *Guidelines for Selection and Employment of Consultants*. A review process similar to individual consultants will apply to training and workshops.

The following bidding processes will be subject to the Bank's prior review (refer to Table B below). The adoption of the alternative of specifying the said thresholds in the procurement schedule of the Loan Agreement is recommended:

- all ICB tender processes, irrespective of the estimated amount of the contract;
- all consultant contracts estimated to cost the equivalent to US\$200,000 or more. In this case the following documents will be reviewed: terms of reference, requests for proposal, short lists, terms and condition of contracts as well as evaluation reports and recommendation for award;
- all individual consultant contracts estimated to cost the equivalent to US\$50,000 or more, in which case the qualification, terms of reference, evaluation justification, and draft of the contract will be forwarded to the Bank and will be awarded only after the Bank's concurrence. A review process similar to individual consultants will apply to training and workshops.

Table B: Thresholds for Procurement Methods and Prior Review
(in US\$ thousand equivalent)

Expenditure Category	ICB	NCB	Small procurement	Bank's prior review	Ex-post Review
Works	No works expected under the project				
Goods	>350k	100-350k	Shopping or pregão < 100k	All ICB only	Regular supervision

Ex-Post Review. All bidding processes regardless of their value are subject to ex-post procurement review. All documentation included but not limited to: terms of reference, bidding document and request for proposal, bids or proposal received, correspondence on all bids either prior or following of award of contract and any subsequent amendments should be maintained until at least two years following the closing of the project.

Frequency of procurement supervision missions: The Bank will carry ex-post and supervision missions on procurement twice a year.

Participation of UN Agencies. The Government requested the Bank's accord to carry out the procurement and contracting of some of the activities of Components 2, 3, 4 and 5 through UNDP. The fees involved for these intermediation services are not eligible for Bank-financing.

PROCUREMENT RISK ASSESSMENT

There is a CPAR for Brazil dated March 2004. Government procurement at the federal level is considered robust and average risk. The review indicates that the judicial protests or *recurso* continue to be a major difficulty in government procurement. Another finding indicates that the use of *pregão* and other modern procurement methods will add efficiency and transparency to government procurement.

The overall procurement risk assessment of the Project is ranked as high as presented in the Capacity Assessment (in the project files), since the MDS was only recently created and has no significant experience with the operations of the World Bank (even though the Capacity Assessment indicates that the overall organization of the MDS is acceptable). The procurement function should be strengthened by giving MDS the resources needed as indicated in Activity No. 2 of the Action Plan below.

Table C: Proposed Action Plan

Activities		Objective	Action
1	Confirm proposed use of a UN agency with MDS	To reinforce the procurement implementing capacity.	UNDP confirmed
2	MDS to retain two procurement specialists with the following profiles: (a) full time procurement manager with at least 5 years experience in Bank-financed procurement; and (b) part time senior procurement specialist (ad hoc).	To reinforce the procurement implementing capacity	By project Effectiveness
3	MDS to draft: <ul style="list-style-type: none"> an QCBS document; and an NCB goods document, using the documents developed by SEAIN 	To provide the Borrower with a view of the complexity of Bank procurement; to ensure a quick start up on key activities; to establish a work flow within MDS	By Effectiveness as part of the Operational Manual
4	MDS to update the procurement plan prepared during project preparation	Reinforce the procurement planning capacity	Procurement Plan updated
5	MDS shows readiness to carry out Pregão Eletrônico	Ensure consistency and promote modern, transparent and efficient e-procurement	By Effectiveness as part of the Operational Manual
6	MDS to prepare filing instructions for procurement documentation, and to give guarantees that the system will allow prompt monitoring of procurement and contracts.	To improve filing of procurement documentation and to facilitate supervision	By Effectiveness as part of the Operational Manual
7	MDS to maintain and develop sections on procurement for the Operational Manual	To ensure compliance with the agreed procedures	Manual by Loan Effectiveness

Table D: Allocation of Loan Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Goods	3,500,000	100
2. Consulting Services	10,100,00	100
3. Training and Seminars	500,000	100
4. <i>Bolsa Família</i> Grants	551,478,000	8% until the first conditions have been met, 9% until the second conditions have been met, and 11% thereafter
5. Incremental Operating Costs	500,000	100% until and aggregate of US\$200,000 is reached, and 70% thereafter
Unallocated	400,000	
Front-end Fee	5,722,000	
Total Project Costs	572,200,000	

Annex 9: Economic and Financial Analysis

BRAZIL: BR Bolsa Família

OBJECTIVES OF ANNEX

As discussed in Annex 1 and elsewhere, the Bolsa Família Program provides increasing income transfer amounts to two different target groups based on household per capita income and household composition:

- Priority is given to those with monthly per capita incomes (PCI) less than R\$50 (the “extreme poor”), which represent about 14.5% of the national population. These families receive a base transfer of R\$50, regardless of composition, plus a variable transfer of R\$15 for each child between ages 0-15 years old. The maximum transfer is R\$95 per family.
- The next priority is given to those with monthly PCI between R\$50-100 (the “moderately poor”), which represents another 18.5% of the national population. These families receive a variable transfer of R\$15 for each child between ages 0-15 years old. The maximum transfer is R\$45 per family. In this group, households with no children are not eligible.

In both cases, beneficiaries must comply with certain conditionalities related to minimum school attendance of children ages 7-15 and health care requirements (visits, vaccines) for pregnant women and young children (see Annex 1 for details).

As with other conditional cash transfers, there are many potential benefits of the BFP, including:

- A reduction in immediate poverty and inequality due to the redistributive cash transfers;
- Gains in education due to both an income effect and a price effect associated with the conditionality of minimum school attendance required of school-aged children in all beneficiary families (see Annex 1); and
- Gains in health status due to both an income effect and a price effect associated with health-related conditionalities for pregnant women and young children (see Annex 1).

Conceptual and data limitations prevent the monetary quantification of many of these benefits. Conceptually, while it is possible to quantify the magnitude of poverty and inequality impacts that could result from these transfers, it is not possible (or desirable) to quantify these benefits in monetary terms. In addition, though conceptually feasible, data limitations also prevent the quantification of the impact of the program on health status. Given these limitations, a full-fledged cost-benefit or cost-effectiveness analysis is not possible.

Instead, this Annex will: (a) quantify the potential impact of the program on poverty, inequality, and educational attainment; and (b) present evidence of the impact of similar programs – both from other countries and from pre-reform programs in Brazil. The final section will also present an assessment of the financial sustainability of the program.

SIMULATING THE POTENTIAL IMPACT OF THE BOLSA FAMÍLIA PROGRAM

As discussed above, this section will attempt to quantify the potential impact of the Bolsa Família Program on educational attainment, poverty and inequality. These impacts will be estimated using ex ante simulation methods, both for the specification parameters being used in the program today and for alternative scenarios. As discussed in Bourguignon, Ferreira, and Leite (2003), “ex ante methods are valuable tools because it is easier to experiment on computers than on people. These methods are essentially prospective, since they rely on a set of assumptions about what households are likely to do when faced with the program. They also permit direct counterfactual analysis of alternative programs for

which no ex post data are available.” The methodology used involves simulations that take into account behavioral responses, following the methodologies used in Bourguignon, Ferreira, Leite (2003) for earlier ex ante evaluations of Bolsa Escola (but using the program parameters for Bolsa Família).

Data Source and Main Data Limitations

The analysis is based on the National Household Survey (PNAD 2002). Some information is also supplemented from the PNAD 2001 (which includes an extensive supplement on education). According to the PNAD 2002, 12.4 million households (54 million people)⁴⁴ would be potentially eligible for the program, which is very close to the target included in the Government’s PPA for 2007. This represents about a third of the country’s population. Around 48% of the transfers would go to households in the Brazilian Northeast, 28% in the Southeast, and the remaining 24% spread between the other three regions (North, South, and Center-West).

Some **limitations** arise due to data constraints. First, we are not able to simulate the impact of health conditionalities or health / nutrition benefits due to a lack of health and anthropometric data in the PNAD 2002.⁴⁵ Another key **assumption** in the analysis is that the program would be perfectly targeted (with no leakages to the non-poor). Also, the model ignores the issue of how the decision about a child’s time allocation is made within the household, bypassing the discussion of unitary versus collective decision-making models of the household. Moreover, the decision to send a child to school is assumed to be made after all adults within the household have made their occupational decisions, and it is assumed not to affect those decisions. The issue of siblings in the same household and the simultaneity of the corresponding decision are not addressed. Finally, the model is applied to all school age children within a household and the composition of the household is assumed to be exogenous.

Potential Impact on Educational Attainment

The rationale behind providing transfers conditional on school attendance is based on the premise that poor children are less likely to enroll in and attend school because: (a) their families cannot afford the direct costs of schooling (formal and informal fees, transport costs, uniforms, books, supplies, etc.); and/or (b) the children need to work to help supplement family income. The idea is to provide an income transfer linked to school attendance that could help compensate some of these direct and indirect costs. Data from the PNAD 2002 support this rationale.

First, enrollment rates are lower among the poor than the non-poor. While an overall 93% of Brazilian children ages 5-15 years old report enrollment in school,⁴⁶ only 89% of those in the poorest quintile report enrolling as compared with over 98% of those in the richest quintile.

Second, child labor is also more than twice as high among the poor as the non-poor. In 2002, some 12.4% of children aged 5-15 in the poorest quintile reported working, as compared with only 5% among those in the richest quintile. Most of those children who report working were also studying, however, the PNAD 2002 shows significantly lower hours per day spent at school for the poor: while the majority (72%) of students in the poorest quintile report attending school less than four hours per day, the majority (60%) of those in the richest quintile report attending more than four hours per day.

Interestingly, a significant share of those that were not studying were also not working (90% of those in the poorest quintile that were not studying also report not working). A possible explanation for this is that

⁴⁴ Considering the design of the program, another 1.5 million families (or 11% of households with per capita incomes (PCI) between R\$50-100) would not be eligible for the (variable) transfer since they have no children.

⁴⁵ Data from the POF 2002-03, which do include some of these necessary data, are not yet available for analysis.

⁴⁶ In response to the question in the PNAD 2002 “Are you studying?”

they lacked the needed income to pay for transportation, books, materials, uniforms, or other demand-side constraints (such as a lack of interest or illness). Indeed, the PNAD 2001 suggests that such demand-side constraints account for about 46% of the reasons reported for not attending school. Alternatively, a lack of available schools or space in schools could explain some of these cases. Indeed, the PNAD 2001 suggests that such supply-side constraints account for about 20% of the reasons reported for not attending school. Clearly, any demand-side program such as the conditional Bolsa Família income transfer program should be complemented by significant investments in the supply and quality of schooling in Brazil.

Third, reflecting lower enrollment rates, inadequate daily attendance, fewer hours in school, and higher repetition rates,⁴⁷ total educational achievement for poor children is far lower than their wealthier counterparts. The PNAD 2002 indicates that the average number of years completed for children in the poorest quintile is a full two years lower than the attainment of those in the richest quintile (3.4 years for the poorest vs. 5.4 years for the richest).

Using the methods explained at the end of this Annex, we simulated the potential impact of the BFP on schooling decisions and educational attainment. The results are significant (see Table 1):

- While data do not permit analysis of the impact on daily attendance, enrollment would increase by 0.59%, which is small mainly because about 89% of poor children were already enrolled (this would increase to 0.82% if the variable transfer were increased to R\$30 per child).
- The repetition rate would decrease by 6% and average years of delayed schooling (due to repetition) would fall by about 5%. These would increase to 9% and 7% respectively if the variable transfer were increased to R\$30 per child.
- The average of total years of schooling would increase by 3.4%. For those (11% of the poorest quintile) that previously were not enrolled in school, the Bolsa Família transfer would result in one extra year of schooling. Using Mincer standard regressions for adults ages 25-64 years old in the work force, an additional year of schooling could result in an 8% increase in wages earned. (The average of total years of schooling would increase by 5% if the variable transfer were raised to R\$30 per child).

Table 1 – Predicted Educational Impacts

Model estimates and changes after the Bolsa Família Transfer			
	Ln(Household income) coef.	Δ after BF transfer	Δ after BF transfer with R\$30 reais per child
Enrolment rate	0.25558	0.59%	0.82%
Repetition rate	-0.42345	-6.23%	-8.90%
Delayed School	-0.59678	-4.79%	-6.80%
Education	0.33757	3.43%	5.00%

Source: World Bank calculations, Pesquisa Nacional por Amostragem de Domicílios 2002

The impact of the Bolsa Família program is presented in the transition matrices below (Table 2). With the transfer and the imposition of conditionalities, the share of children not going to school falls by a full percentage point, from 5.2% (overall – this figure is higher for the poor) to 4.5%.

⁴⁷ The poor are more likely to repeat grades than the non-poor. Repetition rates are 37% for children ages 7-15 in the poorest quintile, as compared with 6% for those in the highest quintile. They are even higher for children ages 10-15 (54% for those in the poorest quintile, but only 8% for those in the richest).

Table 2 – Transition Matrices for Impact of BF Program on Inactivity, Work, School Enrollment (with and without the imposition of Conditionalities)

Simulated effect of the Bolsa Familia on Schooling and Working Status (7 to 15 years old; 15 reais per child) without conditionality				
	Simulated			
	Not Going to School	Going to School and Working	Going to School (only)	Total
Not Going to School	96.5%	0.3%	3.3%	5.4%
Going to School and Working	-	98.2%	1.8%	12.5%
Going to School (only)	-	-	100.0%	82.1%
Total	5.2%	12.2%	82.5%	100.0%

Simulated effect of the Bolsa Familia on Schooling and Working Status (7 to 15 years old; 15 reais per child) with conditionality				
	Simulated			
	Not Going to School	Going to School and Working	Going to School (only)	Total
Not Going to School	83.7%	2.7%	13.6%	5.4%
Going to School and Working	-	98.2%	1.8%	12.5%
Going to School (only)	-	-	100.0%	82.1%
Total	4.5%	12.4%	83.1%	100.0%

Source: World Bank calculations, Pesquisa Nacional por Amostragem de Domicílios 2002

Potential Impact on Poverty and Inequality

The potential impact of the BFP (with and without the enforcement of conditionalities) – as well as several alternative specifications – on poverty and inequality was simulated taking into account possible behavioral responses, such as children's participation in schooling. Specifically, these impacts were simulated for the various scenarios described in Table 3 below.

Table 3: Scenarios for Simulating Poverty and Inequality Impacts

Families with Household per capita income smaller than R\$100	Base transfer		Variable transfer
	0 ≤ HPIC ≤ 50	50 < HPIC ≤ 100	
Bolsa Familia: Scenario 1	R\$50	0	Can get R\$15 for each child from 0-15 years old, up to R\$45 total variable transfer.
Bolsa Familia: Scenario 2	R\$50	0	Can get R\$15 for each child from 0-15 years old, up to R\$45 total variable transfer. School aged kids 7-15 must attend school and stay out of the labor market to receive the transfer.
Scenario 3	R\$50	0	Can get R\$30 for each child from 0-15 years old, up to R\$90 total variable transfer. School aged kids 7-15 must attend school and stay out of the labor market to receive the transfer.
Scenario 4	R\$25	25	Can get R\$15 for each child from 0-15 years old, up to R\$45 total variable transfer.
Scenario 5	R\$25	25	Can get R\$15 for each child from 0-15 years old, up to R\$45 total variable transfer. School aged kids 7-15 must attend school and stay out of the labor market to receive the transfer.

The results of these scenarios are presented in Table 4 below. For Scenario 1 – the current Bolsa Familia specifications but without conditionalities of school enrollment/attendance enforced – the estimated impacts are quite impressive, particularly for the extreme poor. Under this scenario, extreme poverty would be almost *halved*, falling from 14.5% to 8.1%. Full poverty would fall by less, from 33.3% to 29.9%, mainly due to the fact that the “moderately poor” (those with household incomes per capita between R\$50-100) would receive a much smaller transfer (only the small variable transfer, which is not large enough to raise them above the poverty line) and because 11% of the moderately poor would be ineligible for this variable transfer since they do not have children. Nonetheless, the depth of overall poverty (P1) would fall significantly, as both the moderate poor and the extreme poor would see their incomes rise closer to the poverty line. Moreover, the overall severity of poverty would fall by almost a

half (from 9.4% to 5.4%). Inequality would also fall significantly, with the Gini Coefficient dropping from 0.595 to 0.578 (which is indeed significant given the resilience of Brazil's inequality over time). In fact, as shown in Table 4, these existing specifications of the BFP outperform alternative scenarios in terms of their potential impact on poverty and inequality.

The impacts of the BFP on poverty and inequality would be slightly less impressive if conditionalities were enforced (Scenario 2), since families whose children do not end up enrolling in school would be penalized (not eligible for the transfers). However, the conditionalities would generate other positive impacts, such as the reductions in child labor and the increases in educational attainment (as discussed above). The slight muting of potential impacts on poverty and inequality due to the enforcement of conditionalities could be mitigated somewhat if the variable transfers were increased (Scenario 3), or if the base transfer was reduced, but also available to the moderately poor (Scenarios 4 and 5).

Table 4 – Potential Impact of the Bolsa Família Program on Poverty and Inequality

Poverty reduction after the transfer						
	2002 - actual	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Indigence line - R\$50						
P(0)	14.5%	8.1%	8.8%	7.5%	10.0%	10.0%
P(1)	6.5%	2.5%	3.0%	2.4%	4.1%	4.1%
P(2)	4.6%	1.1%	1.5%	1.1%	2.4%	2.4%
Poverty line - R\$100						
P(0)	33.26%	29.92%	32.60%	31.40%	31.55%	31.58%
P(1)	14.60%	10.86%	11.50%	10.22%	11.86%	11.91%
P(2)	9.39%	5.37%	5.94%	5.04%	6.79%	6.81%
Inequality						
E(0)	0.7513	0.6040	0.6180	0.5985	0.6398	0.6405
E(1)	0.7219	0.6880	0.6940	0.6843	0.6982	0.6985
E(2)	2.1453	2.0842	2.0966	2.0759	2.1016	2.1021
Gini	0.5950	0.5787	0.5819	0.5767	0.5838	0.5840
Mean per capita income - R\$	327.15	331.10	330.28	331.66	329.97	329.94
Population in Millions	167.72	167.72	167.72	167.72	167.72	167.72
Total transfer per year in millions of Reals	-	7,967.72	6,308.47	9,079.81	5,682.16	5,613.72
Average transfer per household - R\$		63.13	42.12	60.62	33.84	33.44

Note:

1 Scenario 1: The amount of the transfer is fixed and not conditional of the children behaviour

2 Scenario 2: The amount of the transfer is conditional of the children behaviour

3 Scenario 3: The amount of the transfer is conditional of the children behaviour. R\$30 reais per child and ceiling equal to R\$110 (instead of R\$95) or R\$90 (instead of R\$45)

4 Scenario 4: The amount of the transfer is fixed and not conditional of the children behaviour with different ceiling and at least a transfer of R\$25 for all poor households.

5 Scenario 5: The amount of the transfer is conditional of the children behaviour with different ceiling and at least a transfer of R\$25 for all poor households.

Source: World Bank calculations, Pesquisa Nacional por Amostragem de Domicílios 2002

EVIDENCE OF IMPACT FROM OTHER PROGRAMS

Conditional cash transfer programs (CCTs) have become widespread in Latin America and the Caribbean (LAC). An interesting feature of the implementation of CCTs in LAC is that most were accompanied by rigorous impact evaluation studies in their pilot phases. In Brazil, a rigorous evaluation of the Bolsa Alimentação program suggests that a small monthly transfer of about R\$30(\$12) per family has increased food consumption by approximately 13%. The results also show significant improvements in diet quality due to a disproportional increase in beneficiaries' consumption of fruits and vegetables. Results on child malnutrition were mixed, however. While for one study subpopulation the results suggest a positive impact on child growth, for another subpopulation the estimated impact was negative. As the authors of the study conjectured, the subpopulation that exhibited negative impact on child growth entered early on in the program, when rules were still not clear, and there was still a perception that being malnourished was a precondition to eligibility. This misperception might have generated a perverse incentive to slow the growth of beneficiary children.⁴⁸

⁴⁸ Olinto, Pedro, Saul Morris, Alinne Veiga, and Rafael Flores (2004). "The Impact of the Bolsa Alimentação Program on Food Consumption, Diet Diversity and Child Growth." Mimeo.

An ex-ante evaluation of Bolsa Escola (Bourguignon, Ferreira and Leite, 2003) indicates that 60% of poor children ageing 10-15 not enrolled in school would have entered school if they had access to the program. The results indicate, however, that the impact on poverty would be a minor one. The authors predict that as conceived at the time, Bolsa Escola would reduce the incidence of poverty by approximately 1 percentage point, and the Gini coefficient would fall by just a half a point. This is because the per family transfers under Bolsa Escola were quite small (and much smaller than those under the new BFP).

In Mexico, a thorough evaluation of the PROGRESA program has indicated that the program's interventions reduced poverty by about 10%. It is also estimated that the depth of poverty was reduced by 30 percent, and the severity of poverty by 36%. In addition, PROGRESA appears to have had a positive enrollment effect for boys and girls in primary and secondary schools. At the primary school level, where enrollment rates before PROGRESA were already between 90% and 94%, the results revealed that PROGRESA succeeded at increasing the enrollment rate of boys up to 1.07% and of girls up to 1.45%. At the secondary school level, the increase in enrollment effects for girls ranged from 7.2 to 9.3 percentage points and for boys from 3.5 to 5.8 percentage points. The research findings also suggest an overall increase in educational attainment of about 10%. PROGRESA students are entering school at earlier ages, experiencing less grade repetition, and better grade progression. PROGRESA students have lower drop-out rates and higher school re-entry rates among those who had dropped out. The program is especially effective in reducing drop-out rates during the transition from primary to secondary school. The results also show reduced labor-market participation of PROGRESA children for both boys and girls. Labor-force participation for boys shows reductions as large as 15 to 25% relative to the probability of participating prior to the program. For girls, there are also significant reductions in child labor associated with PROGRESA.

PROGRESA's evaluation studies also indicate that improved nutrition and preventative care in the program's areas have made younger children more resilient against illness. PROGRESA children aged 0-5 exhibit a 12% lower incidence of illness than non-PROGRESA children. In addition, adult members in beneficiary households were found to be significantly healthier. On average, PROGRESA adult beneficiaries have 19% fewer days of difficulty with daily activities due to illness than non-PROGRESA individuals, 17% fewer days incapacitated and 22% fewer days in bed. Visit rates to clinics in PROGRESA communities grew faster than in control areas. In addition, there was a significant increase in nutrition monitoring visits, immunization rates and prenatal care. PROGRESA has also had a significant impact on increasing child growth and in reducing the probability of stunting for children in the critical age range of 12 to 36 months. Estimates imply an increase of about 16% in mean growth per year.

FINANCIAL SUSTAINABILITY OF THE BOLSA FAMÍLIA PROGRAM

With respect to fiscal sustainability, the program is expected to increase in size and resource needs. As shown in Annex 1, the program is expected to reach 11.2 million families by the end of the project period (2006), up from 3.6 million families at the start of 2004. A significant share of these beneficiaries will be converted from existing pre-reform programs, so the marginal increase is smaller than if the beneficiaries were entirely new. Nonetheless, the program will require a significant but managed increase in resources, from R\$4.3 billion in 2003 (even less for the pre-reform programs in 2002) to R\$9.4 billion by 2006. In terms of shares of total federal primary expenditures and GDP, the program will remain relatively small, rising from 1.1% of primary expenditures in 2003 to 2.5% by 2006 and from 0.2% of GDP in 2003 to 0.5% by 2006. This rise in spending needs will likely be offset by expected savings from the recently-approved pension reforms, estimated at 0.4% of GDP (or about R\$8 billion) per year during that period. The shift in resources from regressive pensions to progressive conditional cash transfers under the BFP is an important part of the Government's strategy to reduce poverty and inequality in Brazil. Efficiency gains will arise from merging the programs, and will also partially offset these higher costs (thus allowing

for greater coverage). The program is also seeking better complementarity and a pooling of resources with state and local programs for expanded coverage to further expand the pool of available resources.

Annex 10: Safeguard Policy Issues

BRAZIL: BR Bolsa Família

Indigenous and Quilombola Peoples Development Plan (Summary)

Introduction

The goal of the Bolsa Família Program (BFP) is to reach 11.2 million poor families by 2006. The program's key objective is to associate to the income transfers, conditionalities that allow access to sustainable income earning opportunities for these families. Given the scope of the Bolsa Família Program, this requires that its implementation respects that ethnic and socio-cultural specificities of different groups of beneficiaries (e.g., indigenous and quilombolas).

As part of preparing the proposed project to support the BFP, consultations were carried out with representatives of the indigenous and Quilombola (afro-descendents) peoples and a diversity of anthropologists specialized in indigenous and Quilombola issues. Representatives of the Government (including MDS) participated in the consultations with representatives of indigenous and Quilombola peoples. The purpose of the consultations was to collect recommendations on: (a) ensuring that indigenous and Quilombola groups benefit from the BFP in a culturally-appropriate way; and (b) monitoring and evaluating the potential impact of the BFP in these groups. The results of these consultations form the basis for this IPDP (summary), and the recommendations from beneficiaries and specialists are included in this document. To facilitate dissemination and disclosure, the IPDP was prepared in Portuguese, with an executive summary in English. Annexes include information on the different sets of consultations. The complete IPDP is available in project files.

Finally, one consideration that permeated the aforementioned consultations as well as project preparation, and is worth reiterating in this summary is the fact that the Bolsa Família is a flagship program of the Federal Government of Brazil. The BFP was already established by law (January 9, 2004), but the regulations (*regulamento*) for guiding the implementation of this law are currently being drafted. This context provides important parameters for both the opportunities and limitations in terms of the recommendations presented. Furthermore, it should be recognized that many of the potential issues highlighted during the consultations equally affect other groups living in remote rural areas and, as such, the recommendations made during the consultations should also benefit these groups.

Background

It is estimated that there are about 220 different indigenous groups, speaking 180 languages, and totaling 370,000 people living under diverse conditions in Brazil. As for Quilombola peoples, the statistics are far less accurate, with estimates ranging from 1,264 communities (*Fundação Palmares*) to 4,000 communities (ABA CRER) in 2003, located in rural areas of Amazonas, Maranhão, Sergipe, Bahia, Pernambuco, Mato Grosso, São Paulo, Goiás, and Minas Gerais. However, only a small sub-set of these are officially recognized communities.

Legal Framework

Indigenous Peoples. Up to the 1980s, the Brazilian Government had promoted linguistic and cultural integration of all the population into a presumed single national identity. To a large extent, the approach since the colonial period has been the establishment of a homogeneous Brazilian identity, subsuming into it all cultural specificities that came from different groups in one of the most diverse societies in the

world. This stance changed with the 1988 Federal Constitution, Article 231, which moved from considering Indigenous Peoples as an “almost extinct category” to recognizing them as a differentiated ethnic group with subgroups with their own particular social organization, language, culture, customs, traditions, and beliefs. The 1988 Constitution establishes the rights of indigenous peoples through: (a) recognizing their different social organization, customs, languages, beliefs and traditions, as well as the rights to their land; (b) delegating to the Government the obligation to protect manifestations of local culture, including that of indigenous and Afro-Brazilians; and (c) determining that fundamental (basic) education be available in their native languages.

In addition to the Constitution, indigenous rights are further established in Brazil’s Education Law (*Lei de Diretrizes e Bases*, LDB), by Decree 26/1991, in the Resolution of the National Education Council 03/99, by the National Education Plan (law 10.172/01), and in Law 10.558/2002. These laws ensure that indigenous peoples should have access to quality fundamental education that is culturally appropriate and bilingual, and that indigenous groups have the right to formulate their own pedagogical process. Finally, these laws also establish indigenous groups’ access to higher education.

Similar to education legislation, there is extensive legislation granting indigenous peoples access to culturally-appropriate health care. Law 9.836/1999 establishes a sub-system for health care under the *Sistema Único de Saúde* (SUS). A series of other Decrees and Portarias from 1999 to 2004 deliberate on the conditions of indigenous health care, and further differentiate the rights of these groups.

Finally, Brazil also has legislation granting and protecting indigenous rights to their land, as well as procedures for establishing indigenous territories.

Quilombolas. Although *Quilombos* have had a formal recognition of their cultural, economic, and historic rights, these have not been easily translated into titling of the land where they have lived and survived for several centuries. Since the Afonso Arinos Act of 1951, racial discrimination is considered a criminal act, and according to Article 5 of the Federal Constitutional of 1988, “racism is a crime for which bail is not available.” Paragraphs 1 and 2 of article 212 read that “the state shall protect all expressions of popular Indigenous and African culture as well as all of those that contributed to Brazilian civilization,” whereas Article 68 of the transitory constitutional provision states that “the definitive ownership of the descendants of the *Quilombos* to the land they are occupying will be recognized and the state shall make efforts to issue them titles to their land.” The Ministry of Policies to Promote Racial Equality (SEPPIR) and the Palmares Cultural Foundation, in the Ministry of Culture, in conjunction with other ministries (and an inter-ministerial commission), have been involved in promoting policy solutions related to *Quilombos*.

Cultural Appropriateness and Indigenous and Quilombola Participation in Bolsa Família Program

Bolsa Família is a federal program that combines four cash transfer programs –Bolsa Alimentação, Cartão Alimentação, Bolsa-Escola and Auxílio Gas—into a single conditional cash transfer program. The objectives of the BFP include: (a) reducing poverty and inequality today, through the provision of direct monetary transfers to poor families; and (b) reducing poverty and inequality tomorrow, by providing incentives and conditions for investments in human capital on behalf of beneficiary families, and by linking beneficiary families to complementary services that could help them invest and grow out of poverty in the future.

The BFP defines two target groups. The priority target group is those “extreme poor” families with per capita monthly incomes below R\$50 (US\$17). The program also targets those “moderately poor”

families with per capita monthly incomes below R\$100 (US\$34)⁴⁹ but higher than R\$50 (US\$17). These groups are likely to include a significant proportion of the indigenous and Quilombola peoples. The BFP uses the “Cadastro Único,” a national database of potentially poor households, to identify beneficiaries. Current eligibility criteria are based on per capita income of family, though these will be revised to incorporate a set of proxy indicators (*cesta de indicadores multidimensionais*) since experience shows that the use of self-declared incomes is not very accurate.

The program will provide cash transfers ranging from R\$15-95 (US\$5-33) to target families.⁵⁰ The exact transfer amount will depend on income levels and household composition. Monthly transfers are expected to average about R\$71 (US\$24) per beneficiary family. Payments are preferably made to the mothers, as per the Bolsa Família law. The transfers would be conditional on all relevant family members complying with key human development conditionalities, such as school attendance, children’s vaccinations and health care consultations, and pre-natal and peri-natal care. Important synergies are expected from the simultaneous promotion of investments in health and education within a family. In some areas (such as remote and/or indigenous and Quilombola areas), the supply of adequate or the availability of culturally-appropriate health and education services may be lacking. The BFP is developing a policy to define co-responsibility requirements in these exceptional cases.

While BFP is designed to be inclusive of all families identified under its pre-determined criteria, if not carefully considered, certain cultural differences among the indigenous and Quilombola may hinder their access to this program. Consultations with indigenous and Quilombola representatives and with anthropologists highlighted some areas for consideration in both program design and implementation. The consultations all emphasized that the Bolsa Família Program should not be considered a comprehensive solution to the problems faced by these peoples. Key structural reforms and programs are needed. In addition, with respect to the program itself, the following are the key concerns and recommendations presented during the consultations.

Concept of Family. A key aspect of the BFP is the identification of the family as a unit of eligibility as well as to determine the amount of the benefit. However, the concept of nuclear family is not necessarily culturally appropriate for indigenous and Quilombola peoples and its application should be cautiously thought out during the revision of the Cadastro Único. While “misclassification” of a family is a potential problem, a greater concern is that, due to the ceiling in the benefit per family granted by the program, some families may feel encouraged to disintegrate into smaller units so as to receive more benefits. On the basis of the consultation discussions, specific recommendations include:

- Beneficiary families should be defined as production and consumption units, not by physical residency. The nuclear family is the best reference for this definition but there should be flexibility; and
- The definition of a beneficiary family should be done based on consultations with the concerned community, community associations and/or organizations, or through specialized consultants.

Eligibility criteria. As previously stated, the current eligibility criterion for the BFP is poverty as measured by the per capita income of the family. The Government already recognizes that self-declared income is not an appropriate measure and is in the process of developing a set of proxy-means indicators

⁴⁹ Brazil does not have an official poverty line and research institutions use different poverty lines that lead to different poverty numbers. The poverty line used in the World Bank’s study is set at around R\$80 per month (US\$27) and is adjusted for each region using a regional price index. This results in a national poverty rate of 28.7%. IPEA’s extreme poverty line was established at R\$62, yielding an extreme poverty rate of 14.6%. IPEA calculates the full poverty line as twice the extreme poverty line, or R\$124, resulting in a poverty rate of 33.6%. This value is close to that being used by the Government in their documents.

⁵⁰ The US dollar amount used herein and thereafter is just as a reference and it is based on the exchange rate of US\$1 = R\$2.90.

(*cesta de indicadores multi-dimensionais*) to determine eligibility. In order to ensure cultural appropriateness of the indicators selected, it was suggested that the definition take into consideration the general situation of indigenous and Quilombola communities. For this, consultations with representatives of these groups may be appropriate and the criteria established should be transparent to all. Another issue that was raised during consultations is the prioritization of beneficiaries on the part of the Government due to limited resources during the next couple of years. Given the internal closeness of most of these communities, denying benefits to one potentially eligible family while granting benefits to another may lead to problems and even disintegration within the community. Furthermore, although others supported a criteria-based selection for all BFP beneficiaries, indigenous and Quilombola representatives defended that *all* indigenous and Quilombola families should benefit from the program. Given the aforementioned concerns, the following specific recommendations were made:

- Eligibility criteria should be broader than the family unit, and culturally appropriate to the concepts of indigenous and Quilombola populations;
- When selecting the new set of proxy-means indicators to determine eligibility criteria, the Government should consider including indicators that are more appropriate to the socio-cultural reality of indigenous and Quilombola populations;
- Priority criteria should be defined to determine which municipalities / communities will receive benefit first;
- All eligible beneficiaries within an identified indigenous and Quilombola community should receive the benefit to avoid creating divisions within a community [indigenous and Quilombola leaders defended that absolutely all families within a community should receive the benefit, regardless of eligibility]; and
- The community should be consulted, if exceptions are to be made, and all decisions should be transparent.

Cadastro Único. Under the BFP, all potential beneficiaries are registered under a national household registry (the *Cadastro Único*) which serve as the basis to determine family eligibility. The enrollment of indigenous and Quilombola families into the *Cadastro Único* raises several challenges. Currently, the Government is still in the process of fine-tuning the *Cadastro* to improve the system of identifying target populations. Municipalities generally collect and enter the data, and the Caixa Econômica Federal (CEF) consolidates the *Cadastro* database, while the SENARC in the MDS oversees the whole process. A pilot of the *Cadastro* for indigenous populations was carried out in Paraná, with the National Health Foundation (FUNASA) in charge of registering the indigenous groups. The results of that pilot are currently under evaluation.

Nonetheless, several issues regarding the *Cadastro Único* that could particularly affect indigenous and Quilombola peoples were raised during the consultations. First and foremost, there is a concern that municipal governments may taint the registration process, as indigenous and Quilombola groups are not traditional members of the local political electorate. Second, the *Cadastro* itself may not be a culturally appropriate instrument, as many of the questions in the questionnaire are based on concepts that are biased against these cultures. Additionally, many of the terms used in the *Cadastro* may not be appropriate for these cultures. In addition to the specific recommendations made to the instrument itself, detailed in the full IPDP report presented to the Government, the following suggestions were made:

- Register (*cadastrar*) all indigenous and Quilombola families in the *Cadastro* and only then, using the agreed eligibility criteria, select beneficiaries;

- Either develop a new registry instrument designed specifically for indigenous and Quilombola groups or revise the current instrument to be more culturally appropriate for these groups. Involve representatives from these groups in the process;
- Use community health agents (Agentes Comunitarios de Saúde) to register indigenous groups;⁵¹
- Use Quilombola people to carry out the registration of the Quilombola peoples;
- Provide specific training to agents responsible for registering indigenous and Quilombola families so that they not impose their own cultural references in the process;
- Disseminate information about the program, including eligibility criteria, benefits, and conditionalities to all groups including indigenous and Quilombola populations; and
- Process the *Cadastro Único* in the Indigenous Sanitary Districts (*Distritos Sanitários Indígenas*, DSEI), rather than at the municipal level.

Benefits. As discussed above, under the BFP, families receive a monthly stipend that varies between R\$15 and R\$95, depending on the family's per capita income and the number of children between 0 and 15 and pregnant family members. Payments under the BFP are made on a monthly basis. Beneficiaries withdraw benefits from a pooled account using electronic benefit cards (EBC) distributed by the CEF (the law stipulates that EBCs are preferably distributed to women in the household). In the case of indigenous and Quilombola beneficiaries, the following recommendations were made and incorporated into the project:

- The definition of the person responsible for receiving the resources should respect the family organization and traditions. This means that in many instances, it may not be the female head of household;
- Access to benefits by beneficiary families should be guaranteed, such as transportation to the city to withdraw the resources;⁵²
- Provide training to staff from *Caixa Econômica Federal* so as to improve service to Quilombola peoples and reduce discrimination of these groups; and
- Beneficiary families should have autonomy in managing their resources and there should be some flexibility as to the timeframe to withdraw resources as monthly withdrawals may be difficult in remote areas (the program currently requires withdrawals to be made within a 90-day period).

Conditionalities. The specific conditionalities for beneficiary families include: (i) children until the age of one must have seven doctor visits per year; (ii) children between 0-7 years of age must have all of their vaccines up to date; (iii) children between 7 – 15 must fulfill a school attendance requirement; (iv) pregnant women must have six pre-natal visits, one peri-natal visit, and vaccines up to date. Compliance with these conditionalities is to be verified through school enrollment and vaccination records. During the consultation process, it was agreed that the conditionalities should be maintained for all beneficiaries of the BFP, but that there should be flexibility in interpreting and enforcing the requirements for

⁵¹ In the pilot carried out in Paraná, those agents were used to collect information. The use of community health agents is also common practice for the *Cadastro Único*.

⁵² This is a problem affecting all remote rural communities and, as such, alternatives are being considered by the Government. As such, the proposed project would support the development of a strategy for operating the program in remote rural areas (including remote indigenous and Quilombola communities; see Component 4).

indigenous and Quilombola populations. This is particularly true because of supply constraints and cultural differences. The following recommendations were made:

- Beneficiaries should not be penalized for non-compliance when schools are not available or are culturally-inappropriate;⁵³
- Interpretation of pre-natal care conditionality should be culturally-appropriate without stipulating the number of visits and allowing for the choice using traditional mid-wives and ensuring that the visits include appropriate vaccines and lab tests; and
- Verification of conditionalities should be conducted by the communities themselves (or trained agents) so as to ensure culturally-appropriate interpretation in their application.

Program Strategies for the *Emancipação* of Beneficiary Households

The BFP contemplates evaluating and identifying innovations in “*emancipação*” and “bridging” approaches and service delivery. In this context, the following recommendations were made during consultations and incorporated into the project:

- *Emancipação* approaches to avoid creating dependency should be designed so as to respect the culture and organization of indigenous and Quilombola peoples, their autonomy of decision, and their environment;
- Complimentary programs and services should be planned parallel to the implementation of the BFP in a culturally-sensitive way; and
- Ensure that program eligibility and re-certification criteria are transparent and that indigenous and Quilombola communities understand them.

Conclusions

As ethnic minorities, indigenous and Quilombola peoples find themselves at a disadvantaged position at terms of opportunities and quality of life prospects. While the BFP is designed to benefit all Brazilians that fit the eligibility criteria (“the poor”), such social and cultural differences may create entry barriers for these groups and put them at a disadvantage to benefit from the program. Consultations with anthropologists and beneficiaries pointed to six general areas of concern: (i) the concept of family; (ii) eligibility criteria; (iii) *Cadastro Único*; (iv) benefits; (v) conditionalities; and (vi) program exit. While there was consensus that the overall program design is applicable to indigenous and Quilombola groups, specific recommendations were made to improve their access to the program. In addition, the consultations all emphasized that the Bolsa Família Program should not be considered a comprehensive solution to the problems faced by these peoples. Key structural reforms and programs are needed.

Proposed Project Actions to Address Recommendations

The full IPDP was presented and discussed with the Government (which also participated in consultations), which agreed to consider the recommendations while fine-tuning the Bolsa Família Program. Additionally, in the context of the technical assistance components of the proposed loan (US\$15 million), the following recommendations have been incorporated into the project:

⁵³ Indigenous peoples are entitled by law to have access to indigenous schools. However, in the case of Quilombola there is no such guarantee and regular schools are often culturally inappropriate.

- Ensure that the updating of the *Cadastro Único* will consider cultural differences, including in the selection of indicators that will be used to determine beneficiary eligibility.
- Train agents responsible for registering indigenous and Quilombola families so as to ensure cultural sensitivity and knowledge in the process.
- Ensure proper dissemination of BFP information, including eligibility criteria, operations, and conditionality, specifically tailored to indigenous and Quilombola publics;
- Continuously monitor and evaluate the BFP to ensure that indigenous and Quilombola communities have access and benefit from the program in a culturally appropriate manner and that the program does not have unexpected negative effects on the community;
- Provide technical assistance to the Government so that it develops a strategy to ensure that payments are accessible to groups living in reach remote areas, including indigenous and Quilombola communities; and
- Establish a monitoring mechanism that includes representation from indigenous and Quilombola peoples.

Specific Monitoring and Evaluation Indicators

The proposed project includes a component (Component 3) that seeks to support the whole *Bolsa Família Program* (including the Bank's contribution to it) in designing and implementing a results-based monitoring and evaluations system aimed at: (i) monitoring the effectiveness of program delivery, (ii) monitoring processes and instituting quality controls aimed at promoting public accountability and legitimacy, and (iii) monitoring outcomes and assessing the program impacts at both the territorial and household levels.

The Monitoring and Evaluation Component includes four sub-components, each with specific activities related to ensuring the appropriate participation of indigenous and Quilombola families in the program, monitoring their participation, and evaluating impact. Whenever possible, data collection and evaluation will be disaggregated by ethnic categories and qualitative research will specifically monitor implementation process by sub-groups, including indigenous and Quilombola. The following are specific monitoring and evaluation activities planned under the project, which will contemplate indigenous and Quilombola communities:

- Preparation of regular newsletters and reports with detailed information on program delivery sent to representatives of indigenous and Quilombola groups.
- Design and execution of random quality control reviews to check whether beneficiary identification for indigenous and Quilombola families follow adequate program guidelines, and whether conditionality compliance as reported is credible.
- Promotion of citizen oversight and social control through the dissemination of detailed program information to indigenous and Quilombola stakeholders.
- Design and implementation of in-depth case studies to describe and analyze specific social control manifestations.

- Analysis of territorial level outcomes, including specificities of indigenous and Quilombola areas (quantitative data will be complemented by the use of focus groups, including in these communities).
- Analysis of family level outcomes using a combination of quantitative and qualitative methods. This analysis will enhance the understanding of the impact of BFP on key culturally-appropriate social indicators and the interactions that the program has with other aspects of living conditions, specific to indigenous and Quilombola families.

Cost Estimates and Financing Plan

The *Bolsa Família Program* is estimated to cost the Government of Brazil approximately US\$6.5 billion over the proposed project period (mid-2004 to end-2006). The proposed project will finance US\$572.2 million (9.3% of the total program budget). Of this, US\$551.5 million (Component 1) will be used to reimburse the Treasury for the direct financing of the BFP (hence the expenditure category is conditional cash transfers or grants). Another US\$15 million (Components 2-5) will be used to provide technical assistance (and support to project management) to improve the effectiveness and efficiency of the program. The Bank's participation with a loan size that is only a small share of the program cost, nevertheless, will allow for a scale of impact on the content and performance of the entire program. It is in this context that the proposed project will carry out a series of activities that will contemplate indigenous and Quilombola groups, to ensure that they benefit from the BFP in a culturally-appropriate way and to monitor the program's impact on those groups so as to prevent any negative effect.

While costing out the proposed project, the preparation team identified all the specific activities (i.e. consultancies, workshops, services, etc.) which should consider and/or benefit indigenous and Quilombola communities, among other beneficiaries. From the US\$15 million in technical assistance, approximately US\$8.7 million is allocated to those activities. The itemized list is included in project files and summarized below.

Brazil Bolsa Família Project: Technical Assistance Components	
Activities that will Consider and/or Benefit Indigenous and Quilombola Communities	
	Total, US\$ Million Including Contingencies
Strengthening System for Identifying Target Population	0.8
Developing a Monitoring and Evaluation System	5.0
Institutional Strengthening for Service Delivery	2.9
Total Project Costs – Technical Components	8.7

Annex 11: Project Preparation and Supervision

BRAZIL: BR Bolsa Família

PROJECT SCHEDULE	Planned	Actual
PCN review	Dec. 18, 2003	Dec. 18, 2003
Initial PID to PIC	Jan. 5, 2004	Jan. 5, 2004
Initial ISDS to PIC	Jan. 5, 2004	Jan. 5, 2004
Appraisal mission departure	April 20, 2004	April 20, 2004
Negotiations	May 20, 2004	
Board /RVP approval	June 17, 2004	
Planned Date of Effectiveness	August 2004	
Planned date of mid-term review	Dec 2004, Dec 2005	
Planned closing date	Dec. 31, 2006	

Key institutions responsible for preparation of the project:

Secretaria Nacional de Renda e Cidadania do Ministério de Desenvolvimento e Combate à Fome, in collaboration with the World Bank, and with assistance from DFID and IFPRI.

Bank staff and consultants who worked on the project preparation:

Name	Specialty
Kathy Lindert	Team Leader / Senior Economist
Maria Madalena dos Santos	Sector Leader
Ulrich Zachau	Operations Director
Marta Elena Molares-Halberg	Lead Counsel
Joachim von Amsberg	Lead Economist
Mary Sheehan	Lead Operations Officer
Efraim Jimenez	Lead Procurement Specialist
Luiz Gazoni	Senior Procurement Specialist
Zeze Weiss	Civil Society Specialist
José Janeiro	Senior Financial Management Specialist
Regis Cunningham	Disbursement Officer
Suzana Abbott	Lead Operations Officer
Hideki Mori	Program Coordinator
Francesca Bastagli	Monitoring and evaluation
Andrea Guedes	Operations Officer
Ademildes Dantas	Operations Officer
Daniela Marques	Operations Analyst
Anemarie Proite	Procurement Analyst
Fabiana Imperatriz	Program Assistant
Marize de Fátima dos Santos	Team Assistant
Lerick Kebeck	Program Assistant
<i>Consultants:</i>	
Pedro Olinto (IFPRI)	Monitoring and evaluation
Bénédict de la Brière (DFID)	Targeting/Monitoring/Evaluation/Institutional
Tarsicio Castañeda	Targeting
Laudo Bernardes	Institutional strengthening
Andre Ramalho	Procurement Specialist
Phillippe Leite	Economic analyses, impact simulations

Bank funds expected to date on project preparation:

1. Bank resources: US\$422,000.00
2. Trust Funds: US\$0.00
3. Total: US\$422,000.00

Estimated Approval and Supervision Costs:

1. Remaining costs to approval: US\$348,000.00
2. Estimated annual supervision cost: US\$100,000.00

Annex 12: Documents in the Project File

BRAZIL: BR Bolsa Família

Full Indigenous People's Development Plan (IPDP) in Portuguese with an English Summary.

Detailed project costing tables.

Procurement Capacity Assessment (approved).

de la Brière, Bénédicte and Kathy Lindert (2003). "Reforming Brazil's Cadastro Único to Improve the Targeting of the Bolsa Família Program." draft ESW, The World Bank.

Viana, Ana Luiza d'Ávila (March 2004). "Programa Bolsa Família."

Annex 13: Statement of Loans and Credits

BRAZIL: BR Bolsa Família

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P060573	2004	BR Tocantins Sustainable Regional Dev	60.00	0.00	0.00	0.00	0.00	60.00	0.00	0.00
P049265	2003	BR-RECIFE URBAN UPGRADING PROJECT	46.00	0.00	0.00	0.00	0.00	45.54	1.54	0.00
P054119	2003	BAHIA DEVT (HEALTH)	30.00	0.00	0.00	0.00	0.00	29.70	-0.30	0.00
P070827	2003	BR-2nd APL BAHIA DEV. EDUCATION PROJECT	60.00	0.00	0.00	0.00	0.00	60.00	0.00	0.00
P058503	2003	GEF BR Amazon Region Prot Areas (ARPA)	0.00	0.00	0.00	30.00	0.00	27.50	0.00	0.00
P078310	2003	BR-CAIXA Water	75.00	0.00	0.00	0.00	0.00	75.00	3.33	0.00
P076977	2003	BR-Energy Sector TA Project	12.12	0.00	0.00	0.00	0.00	12.12	1.05	0.00
P080400	2003	BR-AIDS & STD Control III	100.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00
P074777	2003	BR-Municipal Pension Reform TAL	5.00	0.00	0.00	0.00	0.00	4.70	1.47	0.00
P057665	2002	BR-FAMILY HEALTH EXTENSION PROJECT	68.00	0.00	0.00	0.00	0.00	59.22	30.41	0.00
P057653	2002	BR- FUNDESCOLA IIIA	160.00	0.00	0.00	0.00	0.00	197.34	-22.78	0.00
P043869	2002	BR SANTA CATARINA NATURAL RESOURC & POV.	62.80	0.00	0.00	0.00	0.00	60.53	9.36	0.00
P055954	2002	GOIÁS STATE HIGHWAY MANAGEMENT	65.00	0.00	0.00	0.00	0.00	44.68	34.74	0.00
P051696	2002	SÃO PAULO METRO LINE 4 PROJECT	209.00	0.00	0.00	0.00	0.00	206.38	116.81	0.00
P074085	2002	BR Sergipe Rural Poverty Reduction	20.80	0.00	0.00	0.00	0.00	15.01	4.38	0.00
P073192	2002	BR TA Financial Sector	14.50	0.00	0.00	0.00	0.00	9.30	-1.31	0.00
P070552	2002	GEF BR PARANA BIODIVERSITY PROJECT	0.00	0.00	0.00	8.00	0.00	8.66	2.81	0.00
P066170	2002	BR-RGN 2ND Rural Poverty Reduction	22.50	0.00	0.00	0.00	0.00	18.67	3.79	0.00
P060221	2002	FORTALEZA METROPOLITAN TRANSPORT PROJECT	85.00	0.00	0.00	0.00	0.00	111.47	35.68	0.00
P050875	2001	BR Ceara Rural Poverty Reduction Project	37.50	0.00	0.00	0.00	0.00	21.82	7.57	0.00
P050880	2001	BR Pernambuco Rural Poverty Reduction	30.10	0.00	0.00	0.00	0.00	23.12	12.17	0.00
P059566	2001	BR- CEARA BASIC EDUCATION	90.00	0.00	0.00	0.00	0.00	79.01	-10.99	0.00
P050881	2001	BR PIAUI RURAL POVERTY REDUCTION PROJECT	22.50	0.00	0.00	0.00	0.00	14.66	8.57	0.00
P073294	2001	BR Fiscal & Fin. Mgmt. TAL	8.88	0.00	0.00	0.00	0.00	7.23	5.74	0.00
P057649	2001	BR Bahia Rural Poverty Reduction Project	54.35	0.00	0.00	0.00	0.00	29.23	9.06	0.00
P050772	2001	BR LAND-BASED POVRTY ALLEVIATION I (SIM)	202.10	0.00	0.00	0.00	0.00	208.53	172.30	0.00
P035741	2000	BR NATL ENV 2	15.00	0.00	0.00	0.00	2.32	6.48	8.30	7.37
P062619	2000	BR INSS REF LIL	5.05	0.00	0.00	0.00	0.00	0.36	-0.14	0.67
P039199	2000	BR PROSANEAR 2	30.30	0.00	0.00	0.00	0.00	29.21	28.21	0.00
P039200	2000	ENERGY EFFICIENCY (ELETROBRAS)	43.40	0.00	0.00	0.00	41.40	1.57	41.40	1.03
P006449	2000	BR CEARA WTR MGT PROGERIRH SIM	136.00	0.00	0.00	0.00	0.00	83.70	42.55	0.00

P050776	2000	BR NE Microfinance Development	50.00	0.00	0.00	0.00	0.00	33.11	-16.89	0.00
P047309	2000	BR ENERGY EFFICIENCY (GEF)	0.00	0.00	0.00	15.00	0.00	15.40	13.15	6.14
P058129	1999	BR EMER. FIRE PREVENTION (ERL)	15.00	0.00	0.00	0.00	0.00	6.19	6.19	2.49
P050763	1999	BR- Fundescola 2	202.00	0.00	0.00	0.00	0.00	17.58	11.75	0.00
P048869	1999	BR SALVADOR URBAN TRANS	150.00	0.00	0.00	0.00	0.00	94.23	93.40	0.00
P043874	1999	BR- DISEASE SURVEILLANCE - VIGISUS	100.00	0.00	0.00	0.00	25.00	21.71	46.71	0.00
P038895	1998	BR FED.WTR MGT	198.00	0.00	0.00	0.00	40.00	59.15	99.15	99.15
P038947	1998	BR- SC. & TECH 3	155.00	0.00	0.00	0.00	88.80	6.73	95.53	0.00
P006559	1998	(BF-R)SP.TSP	45.00	0.00	0.00	0.00	0.00	3.88	3.88	0.00
P006474	1998	BR LAND MGT 3 (SAO PAULO)	55.00	0.00	0.00	0.00	0.00	49.42	45.42	3.66
P035728	1998	BR BAHIA WTR RESOURCES	51.00	0.00	0.00	0.00	0.00	12.15	12.15	-3.42
P043421	1998	BR RJ M.TRANSIT PRJ.	186.00	0.00	0.00	0.00	17.17	118.25	135.42	0.00
P043420	1998	BR WATER S.MOD.2	150.00	0.00	0.00	0.00	125.00	20.86	145.83	0.55
P057910	1998	BR PENSION REFORM LIL	5.00	0.00	0.00	0.00	0.00	2.04	2.04	-0.14
P051701	1998	BR MARANHÃO R.POVERTY	80.00	0.00	0.00	0.00	0.00	0.64	0.64	0.00
P042565	1998	BR PARAIBA R.POVERTY	60.00	0.00	0.00	0.00	0.00	17.42	17.42	0.00
P043873	1997	BR AG TECH DEV.	60.00	0.00	0.00	0.00	0.00	18.52	18.52	18.52
P006532	1997	FED HWY DECENTR	300.00	0.00	0.00	0.00	30.00	93.63	123.63	77.29
P043868	1997	BR RGS LAND MGT/POVERTY	100.00	0.00	0.00	0.00	0.00	30.18	30.18	30.18
P006562	1997	BAHIA MUN.DV	100.00	0.00	0.00	0.00	0.00	16.99	16.99	16.99
P034578	1997	BR RGS Highway MGT	70.00	0.00	0.00	0.00	0.00	46.77	46.77	46.77
P037828	1996	BR (PR)R.POVERTY	175.00	0.00	0.00	0.00	0.00	57.52	57.52	57.52
P006210	1996	GEF BR-NAT'L BIODIVERSITY	0.00	0.00	0.00	10.00	0.00	2.44	3.24	0.20
P006554	1996	BR- HEALTH SECTOR REFORM - REFORSUS	300.00	0.00	0.00	0.00	21.12	32.64	53.76	0.00
P038882	1995	BR RECIFE M.TSP	102.00	0.00	0.00	0.00	0.00	9.23	9.23	0.00
P006564	1995	BELO H M.TSP	99.00	0.00	0.00	0.00	0.00	11.64	11.64	0.00
P006436	1995	Ceara Urban Development & Water Resource	140.00	0.00	0.00	0.00	3.00	5.23	8.23	8.23
Total:			4,718.90	0.00	0.00	63.00	393.81	2,454.29	1,637.22	373.20

BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1997/98	Guilman-Amorim	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Icatu Equity	0.00	19.60	0.00	0.00	0.00	12.48	0.00	0.00
1999	Innova SA	16.25	5.00	0.00	45.00	16.25	5.00	0.00	45.00
	Ipiranga	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1980/87/97									
1999	Itaberaba	0.00	5.34	0.00	0.00	0.00	5.34	0.00	0.00
	Itau-BBA	40.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
0/00/02									

1999	JOSAPAR	7.57	0.00	7.00	0.00	2.57	0.00	7.00	0.00
1995	Lojas Americana	8.00	0.00	5.00	0.00	8.00	0.00	5.00	0.00
1987/92/96/99	MBR	20.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00
2002	Macae	68.61	0.00	0.00	0.00	68.61	0.00	0.00	0.00
0	Macedo Nordeste	1.58	0.00	5.00	0.00	1.58	0.00	5.00	0.00
2002	Microinvest	0.00	1.25	0.00	0.00	0.00	0.00	0.00	0.00
0/02	Net Servicos	0.00	5.00	0.00	0.00	0.00	4.65	0.00	0.00
1975/96	Oxiteno NE	2.50	5.00	0.00	0.00	2.50	0.00	0.00	0.00
1994	Para Pigmentos	15.05	0.00	9.00	0.00	15.05	0.00	9.00	0.00
1987/96	Perdigao	8.75	0.00	0.00	0.00	8.75	0.00	0.00	0.00
1989/95	Politeno Ind.	1.46	0.00	0.00	0.00	1.46	0.00	0.00	0.00
1994/00/02	Portobello	0.00	1.15	0.00	0.00	0.00	1.15	0.00	0.00
2000	Puras	3.67	0.00	0.00	0.00	3.67	0.00	0.00	0.00
2003	Queiroz Galvao	40.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
1998	Randon	5.13	0.00	3.00	0.00	5.13	0.00	3.00	0.00
1990	Ripasa	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
	Rodovia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1997									
1983	SOCOCO	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1987/97/03	SP Alpargatas	30.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1994/95/97	Sadia	8.23	0.00	5.17	89.93	8.23	0.00	5.17	89.93
1997	Samarco	8.10	0.00	0.00	1.33	8.10	0.00	0.00	1.33
1998	Saraiva	6.92	3.00	0.00	0.00	6.92	3.00	0.00	0.00
2003	Satipel	25.00	0.00	0.00	0.00	25.00	0.00	0.00	0.00
0	Seara Alimentos	0.00	3.88	0.00	0.00	0.00	3.88	0.00	0.00
2000	SePETIBA	27.00	0.00	5.00	8.00	12.00	0.00	5.00	8.00
1997	Sucorrico	3.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
1999	Sudamerica	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
0	Suzano	0.00	1.27	0.00	0.00	0.00	1.27	0.00	0.00
2001	Synteko	18.00	0.00	0.00	0.00	18.00	0.00	0.00	0.00
1996	TIGRE	7.69	0.00	5.00	0.00	7.69	0.00	5.00	0.00
0/92	TRIKEM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Tecon Rio Grande	5.41	0.00	5.50	9.89	5.41	0.00	5.50	9.89
2001/03	Tecon Salvador	0.00	0.56	0.00	0.00	0.00	0.55	0.00	0.00
2002	UP Offshore	11.60	10.00	0.00	30.00	0.00	0.00	0.00	0.00
0/88/02/03	Unibanco	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1999	Vulcabras	11.67	0.00	0.00	0.00	11.67	0.00	0.00	0.00
1999	Wiest	0.00	0.00	8.00	0.00	0.00	0.00	8.00	0.00
2001	AG Concession	0.00	15.00	15.00	0.00	0.00	4.29	0.00	0.00
1996/97	Algar Telecom	0.00	8.17	0.00	0.00	0.00	8.17	0.00	0.00
2002	Amaggi	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2002	Andrade G. SA	40.00	0.00	0.00	20.00	40.00	0.00	0.00	20.00
2001	Apolo	8.00	0.00	0.00	0.00	5.50	0.00	0.00	0.00
1998	Arteb	20.00	7.00	0.00	18.33	20.00	7.00	0.00	18.33
1999	AutoBAN	27.60	0.00	0.00	23.72	27.60	0.00	0.00	23.72
1993/94/96	BACELL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	BSC	6.59	0.00	0.00	3.53	6.59	0.00	0.00	3.53
1993/96	BUNGE CEVAL	0.00	8.06	0.00	0.00	0.00	8.06	0.00	0.00
1990/91/92	Bahia Sul	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

1996/03	Banco Bradesco	10.00	0.00	0.00	60.00	10.00	0.00	0.00	60.00
1988/03	Banco Itau	25.00	0.00	0.00	175.00	25.00	0.00	0.00	175.00
1997	Bompreco	10.42	0.00	5.00	0.00	10.42	0.00	5.00	0.00
0	Bradesco-Hering	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
0	Bradesco-Petrofl	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1994/96	CHAPECO	17.85	0.00	0.00	5.26	17.85	0.00	0.00	5.26
2002	CN Odebrecht	51.78	0.00	20.00	113.57	51.78	0.00	20.00	113.57
1973/78/83	CODEMIN	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00
2003	CPFL Energia	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1992	CRP-Caderi	0.00	0.51	0.00	0.00	0.00	0.51	0.00	0.00
1995	Cambuhy/MC	1.88	0.00	0.00	0.00	1.88	0.00	0.00	0.00
	Copesul	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1997									
0/97/00	Coteminas	0.00	0.53	0.00	0.00	0.00	0.53	0.00	0.00
1980/92/93	DENPASA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1995/96/98/02	Distel Holding	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Dixie Toga	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
1987/96/97	Duratex	8.33	0.00	0.00	25.67	8.33	0.00	0.00	25.67
1999	Eliane	25.60	0.00	13.00	0.00	25.60	0.00	13.00	0.00
1998	Empesca	5.00	0.00	10.00	0.00	5.00	0.00	10.00	0.00
2001/02	Escola	0.00	0.28	0.00	0.00	0.00	0.25	0.00	0.00
2000	Fleury	7.71	0.00	6.00	0.00	7.71	0.00	6.00	0.00
1998	Fosfertil	6.82	0.00	0.00	30.68	6.82	0.00	0.00	30.68
1998	Fras-le	8.00	0.00	10.00	0.00	8.00	0.00	6.70	0.00
1994	GAVEA	3.75	0.00	5.50	0.00	3.75	0.00	5.50	0.00
0	GP Cptl Rstrctd	0.00	9.67	0.00	0.00	0.00	9.51	0.00	0.00
2001	GPC	9.00	0.00	0.00	0.00	9.00	0.00	0.00	0.00
Total portfolio:		779.52	145.67	142.17	659.91	640.42	111.04	123.87	629.91

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2003	Amazonas Water	0.02	0.00	0.00	0.00
2002	Andrade	0.00	0.00	0.00	0.10
2000	BBA	0.01	0.00	0.00	0.00
2002	Banco Itau-BBA	0.00	0.00	0.00	0.10
2001	Brazil CGFund	0.00	0.02	0.00	0.00
1999	Cibrasec	0.00	0.01	0.00	0.00
2003	Duratex IV	0.00	0.00	0.00	0.01
2002	Macaé	0.00	0.00	0.00	0.28
2002	Net Servicos 2	0.05	0.00	0.00	0.00
2002	Suape ICT	0.01	0.00	0.00	0.00
2004	TermoFortaleza	0.06	0.00	0.01	0.11
2004	UBB Swap Gte	0.02	0.00	0.00	0.00
2002	Unibanco-CL	0.00	0.00	0.00	0.15
Total pending commitment:		0.17	0.03	0.01	0.75

Annex 14: Country at a Glance

BRAZIL: BR Bolsa Família

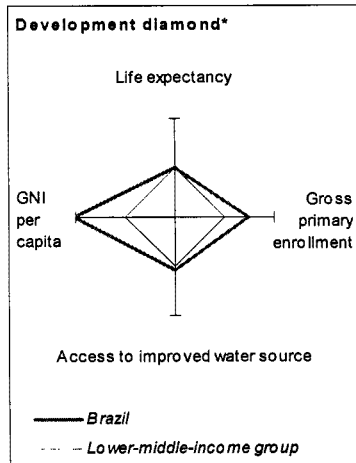
POVERTY and SOCIAL	Brazil	Latin America & Carib.	Lower-middle-income
2002			
Population, mid-year (millions)	174.5	527	2,411
GNI per capita (Atlas method, US\$)	2,830	3,280	1,390
GNI (Atlas method, US\$ billions)	494.5	1,727	3,352

Average annual growth, 1996-02

Population (%)	13	15	10
Laborforce (%)	17	2.2	12

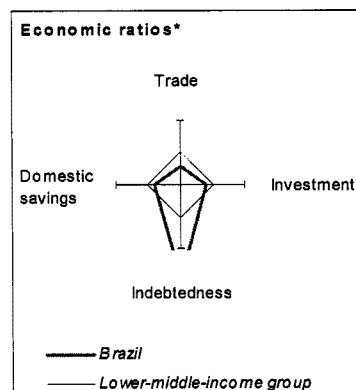
Most recent estimate (latest year available, 1996-02)

Poverty (% of population below national poverty line)	22
Urban population (% of total population)	82	76	49
Life expectancy at birth (years)	69	71	69
Infant mortality (per 1,000 live births)	30	27	30
Child malnutrition (% of children under 5)	6	9	11
Access to an improved water source (% of population)	87	86	81
Illiteracy (% of population age 15+)	12	11	13
Gross primary enrollment (% of school-age population)	162	130	111
Male	166	131	111
Female	159	128	110



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

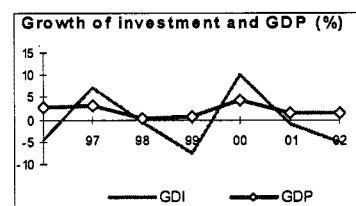
	1982	1992	2001	2002
GDP (US\$ billions)	281.7	390.6	509.0	452.4
Gross domestic investment/GDP	21.1	18.9	21.2	19.3
Exports of goods and services/GDP	7.6	10.9	13.2	15.8
Gross domestic savings/GDP	20.4	21.4	20.2	21.5
Gross national savings/GDP	15.3	20.1	16.6	18.0
Current account balance/GDP	-5.8	16	-4.6	-17
Interest payments/GDP	3.4	0.7	3.0	3.0
Total debt/GDP	33.3	33.0	48.3	51.3
Total debt service/exports	81.9	211	76.4	70.2
Present value of debt/GDP	52.6	58.4
Present value of debt/exports	334.2	..



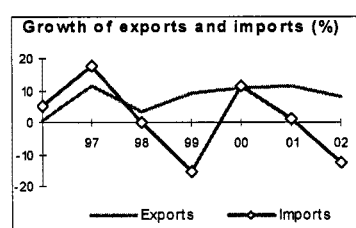
	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	2.6	2.7	14	15	3.4
GDP per capita	0.7	14	0.1	0.2	2.2

STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	9.0	7.7	6.1	6.1
Industry	45.6	38.7	22.3	21.0
Manufacturing	34.6	24.7	14.0	13.2
Services	45.4	53.6	71.6	72.9
Private consumption	69.6	61.5	60.6	59.3
General government consumption	10.0	17.1	19.2	19.3
Imports of goods and services	8.3	8.4	14.2	13.6

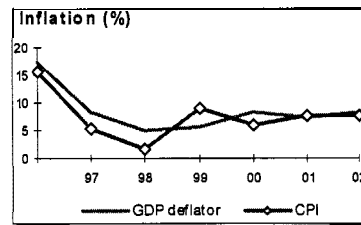


	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	2.5	3.5	5.7	5.8
Industry	1.6	2.3	-0.7	1.5
Manufacturing	0.5	18	14	14
Services	3.2	2.8	19	15
Private consumption	0.7	3.9	0.8	0.4
General government consumption	7.1	0.9	10	10
Gross domestic investment	4.1	2.1	-11	-5.2
Imports of goods and services	3.9	7.6	12	-12.8



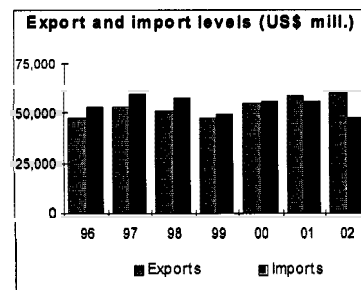
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	100.5	95.16	7.7	7.7
Implicit GDP deflator	104.8	968.5	7.5	8.5
Government finance				
(% of GDP, includes current grants)				
Current revenue	..		22.7	24.1
Current budget balance	..		3.0	3.1
Overall surplus/deficit	..		3.8	



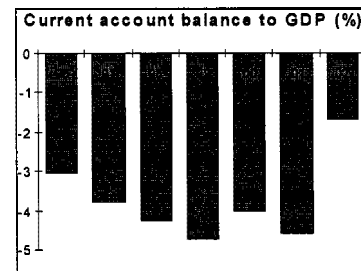
TRADE

	1982	1992	2001	2002
(US\$ millions)				
Total exports (fob)		35,793	58,223	60,362
Coffee		2,534	2,932	3,049
Soybeans		2,696	2,726	2,199
Manufactures		23,787	32,901	33,001
Total imports (cif)		20,554	55,572	47,219
Food		850	1,169	1,085
Fuel and energy		3,069	6,276	6,281
Capital goods		6,335	14,808	11,593
Export price index (1995=100)	73	92	94	95
Import price index (1995=100)	65	63	114	115
Terms of trade (1995=100)	112	147	82	82



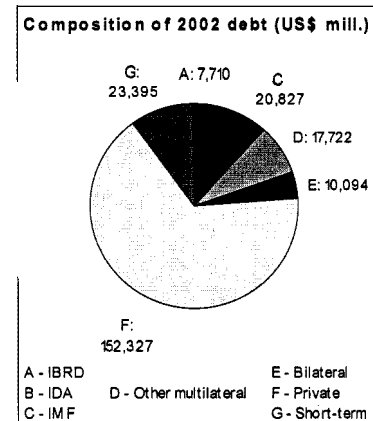
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US\$ millions)				
Exports of goods and services	21,967	38,999	67,545	69,968
Imports of goods and services	24,761	25,717	72,653	61,863
Resource balance	-2,794	13,282	-5,108	8,105
Net income	-13,510	-9,382	-19,743	-18,191
Net current transfers	2	2,243	1,638	2,390
Current account balance	-16,302	6,143	-23,213	-7,696
Financing items (net)	11,101	8,926	19,795	-3,570
Changes in net reserves	5,201	-15,069	3,418	11,266
Memo:				
Reserves including gold (US\$ millions)	3,994	23,754	35,866	37,823
Conversion rate (DEC, local/US\$)	6.52E-11	1.64E-3	2.4	2.9



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US\$ millions)				
Total debt outstanding and disbursed	93,932	129,060	245,844	232,075
IBRD	2,694	7,238	7,963	7,710
IDA	0	0	0	0
Total debt service	19,215	8,647	54,322	51,636
IBRD	411	1,913	1,362	1,518
IDA	0	0	0	0
Composition of net resource flows				
Official grants	24	38	81	0
Official creditors	966	-936	2,742	916
Private creditors	7,580	5,688	-1,781	-9,541
Foreign direct investment	2,910	2,061	22,636	0
Portfolio equity	0	1,704	2,482	0
World Bank program				
Commitments	1,090	1,344	1,624	1,276
Disbursements	623	581	1,639	1,384
Principal repayments	215	1,266	828	1,063



Annex 15: Letter of Development Policy

BRAZIL: BR Bolsa Família

(INFORMAL TRANSLATION)



Ministry of Social Development and Eradication of Hunger

Minister's Cabinet

Esplanada dos Ministérios -Bloco "C", 5º andar

70046-900 - Brasília/DF - Brazil

Phones: (55-61) 313-1690/1626

Letter 01/GAB-MDS

Brasilia, April 14, 2004

Mr. Vinod Thomas
Brazil Country Director
International Bank for Reconstruction and Development
Brasilia, DF - Brazil

Dear Mr. Thomas,

Re.: In reference to the Proposal for Support to the Bolsa Família Program

It is with great pleasure that we forward you this document on policies pertaining to the re-organization of the Federal Government's Social System.

Despite its diverse and multidimensional characteristics, and given its multiple determining factors, the social reality of Brazil is vastly marked by poverty. Two thirds of the country's population is afflicted by poverty in its several facets and to various degrees of intensity. In addition to the magnitude of such challenge, it is estimated that almost half of all families considered poor are living in conditions of extreme – approximately 11.2 million families have a *per capita* income of up to ½ of the minimum wage.

The context of social exclusion as a result of this situation stems from the accentuated levels of disparity that have historically accompanied the process of distribution of wealth and social capital in the country. Great difficulty has been faced in promoting change in this matter, even during more potentially favorable periods such as those of accentuated economic growth that could have been taken advantage of in the undertaking of measures aimed at benefiting the less-privileged populations. Not even during these more prosperous periods was the documenting of relevant re-distribution policies capable of altering the perverse notions represented by the perpetuation of social inequity possible.

In light of this deeply embedded situation, the recent years have been marked by the presence of a set of initiatives in the scope of social policies focused on the mitigation of the most dramatic challenges imposed by extreme poverty. Although the programs enacted did not have a *de per se* nature capable of eliminating misery, they have been of immense contribution in the reduction of poverty's most ominous consequences. These programs have been remarkable in developing the basic potentials of individuals (especially those of children and young adults in literacy programs), as their implementation is associated to the obligation of beneficiaries in meeting certain conditions – especially pertaining to education and health.

An important step was taken toward optimizing and improving existing cash transfer programs with the creation of the Bolsa Família Program (*Programa Bolsa Família – PBF*) in October of 2003. The Bolsa Família Program resulted in the fusion of the Bolsa-Escola, Bolsa-Alimentação, Auxílio-Gás, and Cartão Alimentação programs. This unification fostered the improvement of managerial and administrative optimization and was not aimed at revoking the permanence of programs it would befall. Instead, it aimed at striving for improved conditions in project delivery and the effective definition of objectives. Furthermore, in this case, the unification represented the effort to overcome characteristics of public policies undertaken in the country and that are both remarkable and depreciative. Some of these characteristics include: i) pulverization of resources; ii) elevated management and administrative costs; iii) overlap of target groups; iv) competition among executing agencies of different ongoing projects; and v) lack of inter-sectorial coordination and articulation.

The Bolsa Família Program is a more ample and coordinated response to poverty than those that had previously been promoted by the Federal Government to address the country's poorest families. In a similar way as the succeeding programs and to those that will shortly be replaced, the Bolsa Família Program is founded on the concept that if the worst consequences resulting from extreme poverty are combated (lack of access to basic goods and sanitation services, malnutrition, low levels of formal schooling and high rates of school evasion, perpetuation of illiteracy among the poorest adults, lack of access to basic health services, etc.), a significant step will be taken in the direction of conquering a new set of living standards marked by the principles of citizenship.

At the rate the Bolsa Família Program is moving, and if we consider the recently established goal of incorporating an additional 901 families residing in metropolitan areas by the end of June, a total number of 6.5 million families will have been reached out to by the end of 2004. Considering that the average amount of benefits has increased substantially in comparison to the standards of the previous programs and that the newly encompassed contingencies did not have access to any of the previous programs, it is estimated that R\$6.35 billion be consumed by cash transfer provisions until the end of this fiscal year.

Hence, even though the above-stated estimate is very close to the original allowance of the General Budget of the Union (*Orçamento Geral da União – OGU*) and that the difference can be supplied for by more favorable results of tax revenue in comparison to the estimates of the Budgetary Law, contracting this loan from the World Bank is both relevant and appropriate. The risks of not meeting the established milestones both in regards to increasing the number of beneficiaries as well as in regards to the average amount of cash transfers received by families (as in the case of families that were selected from rosters of previous programs) are significantly reduced through this loan.

In what concerns the description of the object of the loan request to the World Bank, it is also important to mention the importance and relevance of access to the resources that will be employed in financing the defining, planning, and implementing of a national articulate system for monitoring and evaluation of measures geared toward institutional strengthening and to the continued improvement and updating of the Bolsa Família Program's procedures for the identification and selection of target groups.

The loan request to the World Bank to support the Bolsa Família Program encompasses the 2004-2008 time period and is composed of two phases. The first phase will take place between 2004 and 2006, whereas the second phase will take place between 2007 and 2008.

This current proposal is entitled Support Project for the Bolsa Família Program and is comprised by the following components:

Component 1: supporting and increasing the Federal Government's financial capacity through disbursement of the OGU by the National Treasury so as to meet the objectives of cash transfers stated in the 2004/2006 Pluriannual Plan.

Component 2: strengthening and improving the system for identifying and classifying eligible beneficiaries. This implies a set of ample and complex measures: investments in information technology, supplying municipalities with the equipment needed to efficiently register beneficiaries, training of local managers, reformulation of the Cadastro Único questionnaire, creation of eligibility criteria of families based on a multidimensional set of poverty indicators.

Component 3: developing a Monitoring and Evaluation (M&E) System for the Bolsa Família Program. This includes three sub-components: development of the concept for the overall M&E system with the objective of increasing the effectiveness of the Program; monitor program processes to provide feedback on the quality of service delivery and program implementation with the objective of ensuring its efficacy and legitimacy; and monitor and evaluate key outcomes and the impact of the program at the family and territorial levels with the objective of gauging the possibilities of beneficiary families having access to means of earning sustainable autonomous incomes.

Component 4: Institutional Strengthening. This component's objective is to strengthen the operational institutional framework that is directly responsible for delivering the Program by strengthening program management, developing a solid communications and dissemination strategy to disseminate information on the Bolsa Família Program to managers, beneficiaries and to the society in general. This includes mechanisms to motivate and disseminate Bolsa Família Program's innovative management and its articulation with complementing programs, as well as to disclose other initiatives in combating poverty.

Component 5: Project Management. This component addresses the allocation of resources to provide support to existing institutional structures associated to the Program, and finances incremental costs related to management and supervision of Project activities.

The Program will be monitored according to schedule and to performance-based disbursement conditions.

The World Bank's supervision missions and the project's executing agency will carry out supervision of project milestones, in addition to supervision through periodical audit reports.

I close this letter with the certainty of being able to count on the World Bank's support in the implementation of such an important Program for Brazil.

Best Regards,

Patrus Ananias
Minister of State



Ministério do Desenvolvimento Social e Combate à Fome
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Carta Nº32 /GAB-MDS

Brasília, 4 de abril de 2004

Ao Senhor
Senhor Vinod Thomas
Diretor para o Brasil
Banco Internacional para Reconstrução e Desenvolvimento
Brasília, DF

Senhor Diretor

Re: Proposta de Apoio ao Programa Bolsa Família

Tenho o prazer de encaminhar a V.Sa. o presente expediente versando sobre as políticas relativas à reorganização do Sistema Social do Governo Federal.

A realidade social brasileira, a despeito da sua característica plural e multidimensional dados seus múltiplos determinantes, é marcada pela questão da pobreza que, de diferentes formas e com distinta intensidade, atinge cerca de 2/3 da população do país. Além de sua magnitude, estima-se que quase metade das famílias consideradas pobres se encontra em situação de grande pobreza: *cerca de 11,4 milhões de famílias com renda familiar "per capita" de até 1/2 salário mínimo.*

O contexto de exclusão derivado dessa situação encontra suas raízes nos acentuados graus de desigualdade que historicamente vêm demarcando os processos de apropriação das riquezas e do capital social realizados no país, cuja inflexão não se tem conseguido promover, mesmo nos períodos potencialmente mais favoráveis, quando surtos de acentuado crescimento econômico poderiam ter sido aproveitados para a realização de repartições que mais beneficiassem os de menor acesso à riqueza. Sequer nesses momentos se pode documentar a ocorrência de políticas redistributivas com relevância capaz de alterar o sentido perverso representado pela perpetuação da desigualdade.

Em face dessa situação, tão fortemente consolidada, os anos mais recentes são marcados pela presença de um conjunto de iniciativas no âmbito das políticas sociais, voltadas para a mitigação das adversidades mais dramáticas impostas pela extrema pobreza. Ainda que os programas colocados em marcha não tivessem o condão de *per se* serem capazes de produzir a eliminação da miséria, sem dúvida passaram a contribuir para a redução das suas consequências

mais nefastas, notadamente no tocante ao desenvolvimento das potencialidades básicas dos indivíduos (especialmente crianças e adolescentes em processo de aprendizagem), já que a sua implementação passou a associar o cumprimento por parte dos beneficiários de determinadas condicionalidades, em particular no que diz respeito à educação e à saúde.

A partir de outubro de 2003, com a criação do Programa Bolsa Família, que resultou da fusão de quatro programas de transferência de renda até então existentes – Bolsa-Escola, Bolsa-Alimentação, Auxílio-Gás e Cartão-Alimentação – foi dado um importante passo no sentido de racionalizar e aperfeiçoar os programas de transferência de renda até então existentes. A começar pela sua unificação, medida que se impunha em busca de uma maior racionalidade administrativa e gerencial. Não se pretendia, com isso, negar a pertinência dos programas que passaria a suceder, mas sim buscar melhores condições de execução e de efetividade no alcance dos resultados, ao lado da introdução de aprimoramentos na sua conceituação e na fixação dos objetivos almejados. Além disso, a unificação – nesse caso – representou um esforço concreto no sentido de serem superadas algumas características tão marcantes quanto desabonadoras das políticas sociais empreendidas no país: i) pulverização de recursos; ii) elevados custos administrativos e gerenciais; iii) superposição de públicos-alvos; iv) competição entre as instituições executoras dos diferentes programas em curso; v) ausência de coordenação e articulação intersetorial.

O Programa Bolsa Família se constitui numa resposta à questão da pobreza mais avançada e coordenada do que aquelas que vinham sendo anteriormente promovidas pelo Governo Federal, endereçadas aos contingentes das famílias mais pobres. A exemplo dos programas que vem sucedendo e aos quais substituirá plenamente em prazo bastante curto, o Programa Bolsa Família se fundamenta na premissa de que, ao se combater as mazelas mais odiosas que resultam da extrema pobreza (subconsumo de produtos e serviços básicos, insuficiência nutricional, baixa escolarização e alta taxa de evasão escolar, perpetuação do analfabetismo entre os adultos mais pobres, ausência de acesso à atenção básica de saúde etc.), se estará dando um passo significativo em direção à conquista de um novo padrão de existência marcado pelos preceitos da cidadania.

Na escala em que o Programa Bolsa Família já se encontra delineado – tomando-se por referência a meta recém estabelecida de que, até o final de junho do corrente, terão sido incorporadas mais 901 mil famílias residentes em áreas metropolitanas – o ano de 2004 se encerrará com um contingente de 6,5 milhões de famílias contempladas. Para a cobertura das transferências previstas, tomando-se em conta o fato de que o valor médio dos benefícios se elevou substancialmente em comparação com os padrões praticados anteriormente pelos programas que foram sucedidos, e que novos contingentes que não tinham acesso a nenhum dos programas existentes tornaram-se novos beneficiários das transferências, estima-se que deverão ser consumidos cerca de R\$ 6,36 bilhões de reais com o Programa até o final do corrente exercício orçamentário.

Assim, ainda que essa previsão esteja muito próxima da dotação originalmente inscrita no OGU e que a diferença a maior (*carente de cobertura suplementar e a exigir, portanto, recursos adicionais*), possa ser suprida mediante a realização de resultados mais favoráveis das receitas tributárias da União em comparação com as estimativas de arrecadação que constam da lei orçamentária, torna-se relevante e oportuna a contratação de um empréstimo como o ora demandado ao Banco Mundial, reduzindo-se os riscos de descumprimento das metas estabelecidas, tanto no que diz respeito à expansão do contingente de beneficiários, quanto aos valores médios das bolsas concedidas às famílias (no caso daquelas que foram absorvidas dos cadastros próprios dos programas pré-existent).

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Para completar, no que diz respeito à descrição da situação objeto da solicitação de empréstimo ao Banco Mundial, deve-se também sublinhar a importância e a relevância do acesso aos recursos que serão destinados a financiar o delineamento, planejamento e implementação de um sistema nacional articulado e integrado de Monitoramento e Avaliação, das ações voltadas para o Fortalecimento Institucional, e para o aperfeiçoamento e atualização continuadas dos Procedimentos de Identificação, Caracterização e Hierarquização de Públicos Alvos do Programa Bolsa Família.

A solicitação de empréstimo do Banco Mundial para apoio ao Programa Bolsa Família compreende o período de 2004 a 2008 e é constituída de duas fases: uma primeira, para o período de 2004 a 2006, e uma segunda, para o período de 2007 e 2008.

A presente proposta, intitulada *Projeto de Apoio ao Programa Bolsa Família*, corresponde à sua primeira fase, e é constituída pelos seguintes componentes:

Componente 1: reforço e ampliação da capacidade financeira do Governo Federal, através da execução financeira do OGU por parte do Tesouro Nacional, para o cumprimento das metas de transferência de renda estabelecidas no Plano Plurianual de Ação (PPA) para o triênio 2004/2006 pelo PBF.

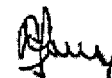
Componente 2: reforço e aperfeiçoamento do Sistema de Identificação, Hierarquização e Priorização dos Públicos-alvo a serem alcançados e incluídos no PBF. Isso implica um conjunto complexo e amplo de linhas de ação: investimentos em tecnologia de informação, prover os municípios de equipamentos necessários para cadastrar de forma eficiente as famílias, capacitação dos gestores locais; reformulação do formulário do Cadastro Único; criação de parâmetros para a elegibilidade das famílias a partir de um conjunto de indicadores multidimensionais da pobreza.

Componente 3: desenvolvimento de um Sistema de Monitoramento e Avaliação do PBF. Inclui três sub-componentes: montagem de um sistema de gerenciamento de informações com o objetivo de aumentar a efetividade da execução do Programa; monitoramento de processos e de controle de qualidade da execução do Programa com o objetivo de garantir sua legitimidade e eficácia; monitoramento de resultados e avaliação de impacto do Programa nos níveis familiar e territorial com vistas a aferir a possibilidade de as famílias terem acesso a formas autônomas sustentadas de renda.

Componente 4: Fortalecimento Institucional. Tem como objetivo fortalecer a estrutura operacional geral responsável diretamente pelo Programa, fortalecendo seus mecanismos de gerenciamento e de gestão, e desenvolvendo uma estratégia de comunicação e disseminação de informações sobre o PBF para gestores, beneficiários e sociedade em geral, criando-se inclusive mecanismos de incentivo e disseminação de formas inovadoras de gestão do PBF e de articulação com programas complementares e demais iniciativas da sociedade para o combate à pobreza.

Componente 5: Custos de gerenciamento. Alocação de recursos para dar suporte às estruturas institucionais existentes vinculadas ao Projeto, financiando custos incrementais relacionados à gestão e à supervisão do desenvolvimento das atividades nele contidas.

O acompanhamento do projeto será realizado com base em cronogramas e mediante a verificação da realização das metas neles consignadas, cotejando-as com os resultados esperados.



O acompanhamento das metas, ao lado dos relatórios periodicamente apresentados, também será objeto das missões de supervisão do Banco junto ao órgão executor do projeto.

Na certeza de poder contar com o apoio do Banco Mundial para a implementação de um Programa de elevada importância para o Brasil, despeço-me

Atenciosamente,


PATRUS ANANIAS

Ministro de Estado

MAP SECTION

