

Brazil
Third School Improvement Project - FUNDESCOLA IIIA
(Loan 7122-BR)
Proposed Amendment to the Loan Agreement

33625

1. This Memorandum seeks the approval of the Executive Directors to amend the Loan Agreement for the Third School Improvement Project on a no-objection basis. The proposed amendment would adjust the Project's design to adapt to the Government's needs to improve public education in the North, Northeast and Center-West regions of the country by financing school rehabilitation and construction of new schools.

PART I –BACKGROUND

2. The CAS 2004-2007 highlights the importance of continuing Bank assistance to the Government's program for a more equitable, sustainable and competitive Brazil, in the interest of reducing extreme poverty and providing social inclusion. According to the CAS, low educational outcomes and attainment among the poor remains the single most important obstacle to reducing poverty and inequality in Brazil. In line with this assessment, the CAS's education sector goal is to provide the opportunity for all children to complete the eight-year fundamental schooling cycle by 2007, and to improve educational attainment and academic performance in basic subjects, particularly Portuguese and mathematics. Fundescola **IIIA** project has been contributing to the attainment of these goals by promoting greater participation of parents and the broader public in the governance of schools and school systems, reducing the levels of inequality across schools, improving school and system management, increasing school effectiveness and student performance, and by monitoring progress toward obtaining these goals through project performance indicators. By targeting the three poorest regions of Brazil, and in particular the Northeast, Fundescola **IIIA** project also adheres to the CAS's geographic focus.

3. The Fundescola School Improvement Program overall concept and purpose were presented by the Government to the World Bank in October 1997 as a ten year program. Its aim is to help the Ministry of Education improve Brazil's education performance by assisting the states and municipalities in the poorest regions of the country (Northeast, North, and Center-West) to reduce the educational inequalities in their systems, and increase the effectiveness of their schools so that all children in these regions can successfully complete the eighth grade, the final year of the compulsory "fundamental" cycle.

4. The Government's overall strategy consists of three steps. The first step was designed to develop an initial set of tools needed for improving school equity and effectiveness, increasing public awareness about the need to improve school quality, and trying out these tools on a relatively small scale. The second step focused on improving and expanding the set of tools developed in the first phase, trying them out in additional schools, and more aggressively engaging the education establishment and the public sector beyond the schools in the process of school-based development. The third step aims at completing the work involved in the development of the tools and processes for

increasing school effectiveness and educational equity, and at designing and trying out strategies of going to scale with these tools. The Fundescola projects have been designed to match this strategy.

5. Fundescola I, signed in June 1998, started the program. It developed and piloted the first set of school-based tools, including especially the "School Development Plan" for improving the effectiveness of school strategic management, and "Escola Ativa" for improving the quality of instruction and learning in rural, multi-grade schools. This project inaugurated the school "minimum operational standards" model for improving school system equity; it disseminated information on these initiatives to state and municipal schools and secretariats throughout the North and Center-West regions. In addition, it launched the "priority attention zone" approach, in which neighboring municipalities, grouped in micro regions, collaborate with one another, with their state governments, and with the Ministry of Education in improving schooling in their jurisdictions.

6. Fundescola II, signed in December 1999, has greatly improved the school-based tools developed earlier, and added new tools. The first secretariat-based tool was developed and tested under Fundescola I. A comprehensive school improvement strategy was also introduced with this Project. This Project broadened the testing of these school improvement tools, including the new ones, and added an additional region into the project (the Northeast). At the same time, Fundescola II continued to support Fundescola I schools in order to promote the sustainability of the earlier interventions. Awareness of the need to improve school effectiveness and the availability of the new tools was promoted by means of seminars, workshops, research studies, and especially through the demonstration effect associated with the testing of the school improvement strategy in thousands of schools.

7. The tools, guidance, and technical assistance provided to schools and Secretariats of Education during the implementation of Fundescola I and II have proven to be effective. The Fundescola strategy has demonstrably contributed to a significant improvement in educational outcomes for learners in thousands of schools in the North, Northeast, and Center-West. Nonetheless, there are over 80,000 schools spread across 2000 municipalities in these regions. The greatest challenge facing the Ministry of Education, beyond assuring consolidation and sustainability of what has already been achieved, is to develop and introduce strategies to bring Fundescola to scale, that is, to deliver the Fundescola school improvement strategy to an even greater numbers of municipalities, including the poorest ones with the weakest institutional capacity. Clearly, the project's role should be to focus on the development of the products, processes, and strategies that will allow for large scale improvements in the schools. But beyond Fundescola itself, it is ultimately the responsibility of the Ministry take these strategies to the schools, using state and municipal secretariats as the implementing agencies.

8. Fundescola IIIA brings in the third step of the strategy by helping local governments integrate Fundescola's school improvement reforms into their structures and routines. This project has been providing some additional assistance to schools that had begun to

introduce Fundescola's schooling improvement reforms to consolidate these reforms under the responsibility and support of their Secretariats of Education. In addition, Fundescola IIIA has been helping hundreds of local governments expand these reforms into thousands of additional schools. Fundescola IIIA has also developed and has been using a new set of teaching/learning models, in addition to "Escola Ativa" and "Gestar", for different types of schools and population groups. Finally, Fundescola IIIA is building the capacity of local governments to support continuous improvement in schooling quality, and promoting the financial, administrative, and managerial permanence of these reforms through incentives and partnerships. In this way, the project will help assure the sustainability of Fundescola-based school improvement by local governments.

9. For almost two years, the implementation of Fundescola IIIA was considered "unsatisfactory" due to lack of strategic direction, continuous management changes, slow implementation, and stalled disbursements. The Bank team has been working very hard to support the Government in correcting these issues that stemmed from a change in Government in early 2003 and the subsequent changes (5 in total) of project leadership. During this period, the Bank team acted very pro-actively, conducting special supervision missions (up to 4 in a single year) to re-focus the project and re-strengthen its implementation. During this period, the Bank supervision has been very pro-actively, with special supervision missions (up to 4 in a single year) to re-focus the project and re-strengthen its implementation. A strategy consisting of disseminating the Strategic Planning for the Education Secretariats (PES), the School Development Plan (PDE) and the Escola Ativa (a teaching/learning model) has been initiated and is expected to reach all 2704 municipal secretariats of education located in the North, North-East and Center-West regions by year 2008. During the March 2005 mission, the Bank team has concluded that the key issues have now been corrected, and that project implementation is back on track. As such, the Bank team upgraded the project implementation to "satisfactory". The team is continuing to monitor the achievement of project goals and the project's disbursement rate. Budget for project implementation has been secured, at least for 2005. Fundescola IIIA is now focused on the achievement of its development objectives and the outcome indicators are likely to be achieved.

10. The Fundescola IIIA Loan, in an original amount of € 182,800,000.00 was approved by the Board on June 13, 2002 and declared effective on June 27, 2002. The project is expected to be completed by June 30, 2006. As of August 31, 2005, the Loan had disbursed € 81,331,970.28, representing 44.4% of the total amount of the Loan and there are no outstanding audits.

PART II- PROPOSED AMENDMENT

11. For the purposes described above, the Government of Brazil requested an amendment to the Loan that consists of the inclusion in Component A of the Project of a new subcomponent to support rehabilitation and construction of schools. As a consequence the following changes will apply: (i) inclusion of category of works in Schedule 1 of the Loan Agreement; (ii) inclusion of National Competitive Bidding-NCB procurement method to contract the works; and (iii) reallocation of loan proceeds among categories to

support financing of the new subcomponent. These changes are reflected in Schedule I to the Amendment, attached to this Memo.

12. In view of the inclusion of works subcomponent in the Project, the safeguard category will change from Category “C” to Category “B”. Due to this fact, the Borrower prepared an Environmental Management Plan - EMPB, which was approved by the Bank. To reflect these changes, the PID and the ISDS for the Project were also updated and approved by QAT. The introduction of the NCB procurement method was reviewed and approved by LCOPR to allow contracting of works estimated to cost from \$350,000 up to US\$5,000,000.

13. The amount of the new Subcomponent that would be financed by the loan is of €12.6m which will be reallocated from the following Categories: €2.3m (from Category 1A), €8.0m (from Category 2A) and €2.3 m (from Category 3). The reallocation from other categories will not have an effect on the prospect for the achievement of the projects’ original objectives. However, output targets now include the construction of 650 new school classrooms.

PART III – RATIONALE

14. The core of the proposed amendment is to adjust the Project in order to assure that it will continue to achieve its objectives. As a result of recent detailed School Facilities Survey (“Levantamento da Situação Escolar - LSE”) in regions of great demand, schools have been identified to be in very bad conditions or with no conditions at all of functioning. Thus the Government requested an amendment to the Fundescola IIIA Loan Agreement (Loan No. 7122-BR) to include a subcomponent to support school rehabilitation and construction. The subcomponent had been part of Fundescola I and Fundescola II, but originally eliminated from Fundescola IIIA because the Government had expressed its interest in focusing on management and pedagogical investments. Due the results of the survey, the Government reconsidered this decision and is now keen on supporting the civil works effort through this loan, which are necessary to raise of primary schools to minimum operational standards.

15. The Federal Government, through COFIEIX, has already approved this proposed amendment,

16. The Bank’s review of these proposals concluded that they appropriately reflect the new Government sector strategy. At the same time, the proposed changes fit within the essential goals of the Project, as well as on the recommendation of the CAS to continue support improvements in the policy and institutional framework for Brazil’s education sector.

17. In supporting the Government’s request for this amendment, the Bank technical team evaluated the major risks associated with it. The key risk lies in having the Government to focus on physical infrastructure as opposed to maintaining interest in improving the governance and quality of education through systemic and pedagogical reform. We

believe that the strategic focus of the program will continue to be the latter both because of the size of the investment and because of the Government's continuing endorsement of and commitment to Fundescola's strategy. However, we recognize that the systemic reforms promoted by Fundescola do in fact need to occur in an educational environment with minimum conditions conducive to effective and sustainable change. Thus, supporting some school construction makes sense given the findings of the School Facilities Survey.

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euros)</u>	<u>% of Expenditures</u>
(1) Goods (except as covered by Categories (3) and (4) below:		
(a) For the Borrower	5,100,000	100% of expenditures except for taxes
(b) For the Participating States and Participating Municipalities	10,200,000	100% of foreign expenditures and 19% of local expenditures
(2) Consultants' services and Training (except as covered by Category (3) below):		
(a) For the Borrower	14,600,000	100%
(b) For the Participating States and Participating Municipalities	3,000,000	30%
(3) Goods, works and services for Subprojects under Parts A.1, B.2, and C.2 of the Project	129,686,000	50%
(4) Administrative Expenses	4,300,000	100%
(5) Works (except as covered by Category (3) above)	12,600,000	50%
(6) Fee	1,828,000	Amount due under Section 2.04 of this Agreement
(7) Premia for Interest Rate	0	Amount due under

Caps and Interest Rate
Collars

Section 2.09 (c) of
this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euros)</u>	<u>% of Expenditures</u>
(8) Unallocated	<u>1,486,000</u>	
TOTAL	<u>182,800,000</u>	