

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: PIDC51

Project Name	Parana Multi-Sector Development Project (P126343)
Region	LATIN AMERICA AND CARIBBEAN
Country	Brazil
Sector(s)	Sub-national government administration (40%), General agriculture, fishing and forestry sector (20%), General education sector (20%) , Health (20%)
Lending Instrument	Specific Investment Loan
Project ID	P126343
Borrower(s)	State of Parana
Implementing Agency	Secretaria de Estado do Planejamento e Coordenao Geral
Environmental Category	B-Partial Assessment
Date PID Prepared	22-Nov-2011
Estimated Date of Appraisal Completion	08-Feb-2012
Estimated Date of Board Approval	12-Jul-2012
Concept Review Decision	

I. Introduction and Context

Country Context

Located in the south region of Brazil and with an area of 200,000 km the State of Parana has the fifth largest economy in Brazil and overall social indicators above the national average. The state economy represents 6% of the GDP of the country (R\$220 billion or US\$130 billion) and is composed of: services, 63.9 percent; industry, 26.7 percent; and agriculture, 9.4 percent. With a total population of 10.44 million, Parana is home to 5.4% of the total population of the country, with 85.3% living in urban areas. Its GDP per capita, the fifth highest in the country, is 5.9% above the national average. Overall, Parana has achieved a high level of economic and social development. Social indicators, such as income inequality, illiteracy and child mortality suggest a higher level of social development than the national average, as would be expected given the economic development of the state.

In spite of these overall achievements, the State of Parana is marked by persisting regional inequalities and a recent loss of economic dynamism, which are seen as closely associated to an inefficient and ineffective public sector. The State of Parana is characterized by major disparities amongst its regions, with lagging regions characterized by lower income levels and worst access to quality social services. Strong performances in the West, the North and the East contrast with poverty and economic stagnation in the Centre. The three above mentioned regions concentrate population, economic activity and institutional capacity. Municipalities in central region of Parana consistently lag below the rest of the State in terms of employment, income, and human development. Moreover, the metropolitan region of Curitiba, the state capital, is also marked by pockets of high poverty and low access to services in its periphery. While Parana holds the seventh and ninth position, respectively, for poverty and extreme poverty rates when compared to other states; the lagging of central region is closer to the 19th position, with 30 percent of total households considered poor. This suggests that there is still significant room for improvement in social development in the state.

Sectoral and Institutional Context

A closer analysis of the regional inequalities within Paraná reveals that social economic conditions in lagging municipalities in the state are similar to those observed for the poorest region of Brazil, the Northeast. A territorial analysis of income, health and education indicators reveals that there are statistically significant inequality patterns amongst the municipalities and that these patterns vary according to the dimension analyzed (income, education or health). Overall, there is a marked pattern of inequality between the north and the south. While the central region stands out as the lagging region in terms of income, when education and health are considered by themselves, it is suggested that the richest area of the state (metropolitan region of Curitiba) is not the most developed region and may suffer from lack of access to health and education services. A comparison of municipal development indexes for Paraná and Northeast highlights that the central lagging region of Paraná does perform slightly better than Northeast in the areas of health and education (0.82 and 0.69 against 0.70 and 0.58 in Northeast, respectively), but not when it comes to income (0.39 in central Paraná versus 0.56 in Northeast). In this context, improved public services and infrastructure provision is expected to play an important role in improving accessibility to services, markets and jobs to poor populations.

Despite continued growth over the past fifteen years, recently the economy has been losing dynamism in comparison to the national economy. Over the period 1995-2010, the state economy experienced an annual growth rate of 3.4%, above the national growth rate of 3.1% in the same period. Despite this higher long-term growth rate, it is important to highlight that recently the growth differential between the economy of Paraná and the national economy has declined. While Paraná grew faster than Brazil from 1995 to 2002 (3.1% and 2.0% respectively), from 2003 to 2010, despite experiencing an increase in respect to the previous period and growing at an average of 3.5% per year, the state economy grew at a slower pace than the national economy.

The relatively worse performance of the state economy over the period 2003-2010 may be associated with both exogenous and endogenous factors. Regarding exogenous factors, while the state benefited from food price rises, given its agribusiness tradition, this effect may have been offset by the appreciation of the Brazilian Real, which was not beneficial to the state export sector. Moreover, since the economy of Paraná is not specialized in the production of mineral and oil commodities; the increased international demand over the past years may not have benefited the economy of Paraná as much as other regions of Brazil. Regarding endogenous factors, it is important to highlight the effect of reduced public investments in infrastructure and maintenance and the high cost of logistics in Paraná as well as in Brazil in general. The maturity of private investments done in Paraná over the 1990s and the poor performance of the state in attracting new investments may have also contributed to the deteriorating economic performance. Public investment as a share of GDP was significantly reduced after 2003, achieving levels below the average of public investment seen for Brazil. The expansion of the construction sector, which may serve as a proxy for investments, also suggest that Paraná received lower investments overall when compared to other regions of Brazil. While civil construction sector in Brazil grew 24.3 percent over 2002-2008, Paraná grew only 9.1 percent.

Poor performance of the public administration may be associated with a deteriorating infrastructure and a worsening capacity to attract private investment. Despite the fact that part of the state road network has been financed through concessions, the reduction of public investments may explain the worsening condition of state infrastructure, which compromises the competitiveness of Paraná. Moreover, the previous government unfavorable disposition towards the private sector is also mentioned as having affected the investment climate in the state. Debatable regulation measures and corruption scandals in the management of the state port are seen as reasons for a reduced use of this port for the shipment of exports from Paraná. Over the period 2003-2010, the participation of Paraná's port in the total export volume of products produced in Paraná dropped from 82.6 percent to 75.1 percent, with great part of this leakage being redirected to the port in Santa Catarina, which saw the volume of exports of products from Paraná grow from 6.6 percent in 2003 to 14.8 percent in 2010. The contentious relationship with the private sector was further evident in the judicial demands against the concessionaires and the private partner of the state sanitation company, as well as in the obstruction to issuance of environmental licensing for specific investments. Finally, the worsening investment climate due to political factors is also mentioned as key reasons for companies already installed in Paraná to have decided to expand their operations in other states.

An inefficient and ineffective public administration is, therefore, associated with persisting regional inequalities and deteriorating economic performance of Paraná. Unlike what has been seen in other Brazilian states over the past fifteen years, Paraná's public administration has not yet been subject to significant modernization efforts. Since 1995, when the Federal Government launched a broad discussion on public sector reform in Brazil, and in light of their fiscal adjustment needs, several subnational governments have taken measures to restore fiscal balance and undertaken reforms as a means to improve their performance. This wave of reforming efforts, however, has not been uniform or homogeneous. In the case of Paraná while the state seems to have adopted some isolated modernization measures, it has not yet made a more comprehensive reform effort. For instance, the administrative structure of the state dates back to 1978; and the budgetary and financial management procedures are cumbersome and ineffective. Moreover, little has been done to shift the focus from input control and formalistic procedures towards achievement of results. As a result, the ability of the public administration to contribute effectively to the social and economic development of the state was undermined, as is evident from the recent path of the state economy and the persisting regional inequalities.

Seeking to transform this situation, the recently elected Government proposed an aggressive program to modernize its public sector and increase fiscal space for investment in order to promote integrated social and economic development across the state. The own diagnostics of the government recognized that its ability to promote the integrated development of the state depends on introducing significant changes to public administration. Such changes are fundamental to promote greater efficiency and effectiveness of the public sector as to increase access to quality public services, especially among the poorest groups of the population and the poorest regions of the state. Increasing fiscal space for investment and modernizing and simplifying bureaucratic procedures are also central to improve conditions for private investments in the state. Finally, fostering economic activities in lagging regions of the state, providing key logistic infrastructure and creating a better climate for investments are seen as central for the state to reclaim its position in the Brazilian economy in a socially and environmentally sustainable manner.

Relationship to CAS

The proposed operation is fully consistent with and closely linked to the objectives of the Brazil Country Partnership Strategy (CPS) for 2012-2015, currently under preparation. In the next four year period, the Bank will focus on: (i) increasing the volume and productivity of public and private investment, (ii) improving the quality of public services for low-income households, and expanding their provision through public and private channels; (iii) promoting regional economic development through improved policies, strategic infrastructure investments, and support for private sector actors in frontier areas; and (iv) further improving the sustainable management of natural resources and enhancing resilience to climate shocks while maximizing contributions to local economic development, and helping to meet rising global food demand.

The proposed SIL would advance the Bank program in the four strategic objectives of the next CPS. Regarding the first two pillars, a key focus of the program would be on increasing and improving public and private investments in Paran as well as improving the ability to provide more equal access to quality services of the government. The strategy of the government to modernize public sector management and introduce greater results orientation would contribute to improvements in the provision of public services, on the other hand, the expenditure rationality measures guarantee that public resources are shifted to where they are more productive. The measures to enhance human resources management are also closely aligned to new CPS for the Brazil, which signals the need for improved human resources management, in particular related to developing recruitment and performance management systems that emphasize the skills and experience that are required for various specific jobs. The specific strategies in the education and health sector further contribute to improving quality of services and reducing inequalities in their provision.

Regarding the third pillar, Bank involvement through this operation would be built on the experience of its long-term engagement in sustainable rural development programs in the State of Paran while focusing on lagging areas and giving more emphasis to competitiveness, entrepreneurship and economic diversification, in line with CPS priorities. Moreover, the project would focus on strategic investments in road rehabilitation and maintenance, which would contribute to enhance accessibility to markets and services, and encourage the use of result based approaches and private sector participation.

Finally, through a targeted element of the technical assistance component, the project would assist in the strengthening of the management and response capacity to disaster risk of the state, further contributing to reducing vulnerabilities that may have great impact on livelihoods and economic activity.

II. Proposed Development Objective(s)

Proposed Development Objective(s)

The proposed Project Development Objective is to modernize public sector management to improve service delivery and make access to economic and human development opportunities more equitable and environmentally sustainable in the state of Paran

Key Results

Progress towards meeting this development objective will be measured by a series of process, output and outcome indicators, to be further identified during project preparation. Moreover, the project will include Disbursement Linked Indicators (DLIs). Project Development Objectives indicators are expected to include the following: (i) Successful implementation of performance agreements; (ii) Percent of state paved roads network under results-based maintenance and rehabilitation contracts; (iii) Percentage increase in sales value for producers receiving support from the project; (iv) Improvement in learning outcomes measured; and (v) Maternal Mortality reduction rate.

III. Preliminary Description

Concept Description

The proposed project would be a US\$350 million Specific Investment Loan (SIL) that uses a sector wide approach (SWAp) to support implementation of the Government's program over a three year period. Two forms of support would be provided through two separate components:

- a. Component 1 # Technical Assistance: This component will have a total amount of USD30 million and will provide technical and financial support to the design and initial implementation of key elements of the Government's strategy would be.
- b. Component 2 # Support to the Implementation of Sector Strategies: This component, with a total amount of USD320 million will offer technical and financial support to selected sector programs (Eligible Expenditure Programs # EEPs) that are part of the strategy of the Government to foster a more equitable development in the state. As with other SWAp projects in Brazil, this component will partially reimburse government expenditures in selected programs. Reimbursements will be conditional on the achievement of disbursement-linked indicators (DLIs).

The preliminary project design represents the Government's integrated approach to promote social and economic development in the state with the ultimate goal of improving living conditions of the population. Special attention would be given to the lagging regions of the state. The strategy is organized around three broad axes:

- c. Public Sector Management: cross-cutting axis aimed at supporting actions to modernize public sector management in the state, through measures grouped around three goals: fiscal quality, institutional modernization, and more strategic and efficient human resources management.
- d. Integrated Development: axis targeted at supporting initiatives to promote green growth in the state, with a focus on reducing regional inequalities and based on social, environmental and economic sustainability.
- e. Human Development: axis aimed at supporting the improvement of access and quality of fundamental public services, with a focus on education and health. Prompt support will be given to the state in the development of its social protection program and related monitoring mechanisms.

Axis 1: Public Sector Management. While each of the pillars in this axis may be associated with a leading organization, all actions affect the public sector as a whole and are key for the fulfillment of the Government's strategy. In principle, all activities included in this axis will be supported under the technical assistance component.

Pillar 1: Fiscal quality. This pillar would support activities aimed at improving the efficiency of revenue collection, strengthening debt management and administration of fiscal risks. Moreover, it would also support the revision of the expenditure commitment and execution process and the strengthening of the internal control function. Potential activities include: (i) development of a strategic plan for the Finance Secretariat; (ii) prepare an IT master plan for the Finance Secretariat; (iii) revise and reform the tax collection process; (iv) revise and implement a digital process for administrative recourses on tax fines; (v) assess the functioning of the debt management department and devise an action plan for strengthening procedures and capacity; among others. These potential activities will be further discussed and agreed upon during preparation. As the government is currently discussing with IADB a loan targeted at strengthening IT systems in the Finance Secretariat, it is possible that only a few of the potential activities listed above are included in the project.

Pillar 2: Institutional Modernization. One of the main objectives of the strategy of the Government is to increase the effectiveness and efficiency of the public administration of the state. As part of this strategy, the government intends to undertake a functional review, identifying the key roles of its agencies and promoting a discussion on alternative service delivery modes. A first initiative under this pillar is to review the role and administrative structure of government entities. While a review of three selected secretariats has already taken place, the government intends to undertake a more comprehensive functional review, in line with the initiatives to redefine the role of each sectoral set of entities. This work would also serve as the basis for work to be carried out under the third pillar regarding the staffing needs for each sector.

Modernization efforts would also focus on the revision of administrative procedures and processes, with the aim of reducing red tape and increase efficiency. Besides the clear need to review the expenditure commitment processes, as to identify areas for simplification and strengthened controls, another area that would be subject to simplification efforts is environmental licensing. Unlike other states, Parana has not yet been able to modernize its procedures and reduce the time needed to issue environmental authorizations. This is an area of interest for government, citizens and business, and therefore, has high priority in being modernized. Another area for process revision and simplification regards administrative services provided to citizens.

Improving the environmental management processes in the state would be a key concern. The Environment Secretariat (SEMA), in partnership with the AguasParan IAP, and Policia Militar, will developed and implement an Integrated Environmental Compliance System (Sistema Integrado de Conformidade Ambiental - SICA/PR) to address rural environmental cadastre, environmental licenses procedures, water rights, strategic enforcement, monitoring process, and land use regulatory requirements. The project will support assessments to define protocols and procedures flow, design procedures flow chart, electronic system design, and technical assistance during the implementation. It will also include activities to provide appropriate training for operational and managerial staff in the various state agencies which will help ensure sustainability of the subcomponent's impacts after implementation.

Strengthening planning capacity, monitoring, evaluation and policy making will also be supported under this pillar. The new administration has already initiated efforts to revamp its planning capacity and use the multi-year plan (PPA) as an actual tool for expressing the government's policy intentions, as per the available fiscal space. These efforts have made clear that some sectors

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04	X		
Forests OP/BP 4.36	X		
Pest Management OP 4.09	X		
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10	X		
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

V. Tentative financing

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Development	350.00
Financing Gap	350.00
Total	350.00

VI. Contact point**World Bank**

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