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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$400 MILLION

TO THE

STATE OF BAHIA

WITH A GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL

FOR

STRENGTHENING FISCAL MANAGEMENT AND PROMOTING BETTER AND MORE
INCLUSIVE SERVICE DELIVERY

July 3, 2014

Poverty Reduction and Economic Management Department
Latin America and the Caribbean Region

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BRAZIL GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of July 1, 2014)

Currency Unit

Currency Unit = Real (R\$)

R\$2.20 = US\$1

ABBREVIATIONS AND ACRONYMS

BA	State of Bahia	<i>Estado da Bahia</i>
BCB	Central Bank of Brazil	<i>Banco Central do Brasil</i>
BB	Bank of Brazil	<i>Banco do Brasil</i>
BNDES	National Economic and Social Development Bank	<i>Banco Nacional de Desenvolvimento Econômico e Social</i>
CEDETER	Territorial Development Council	<i>Conselho Estadual de Desenvolvimento Territorial</i>
CIRA	Inter-Institutional Committee for Recovery of State Assets	<i>Comitê Interinstitucional de Recuperação de Ativos</i>
CODETER	Territorial Collegiate for Sustainable Development	<i>Colegiado de Desenvolvimento Sustentável</i>
CPS	Country Partnership Strategy	<i>Estratégia de Parceria com o País</i>
DSA	Debt Sustainability Analysis	<i>Análise de Sustentabilidade de Dívida</i>
DPL	Development Policy Loan	<i>Empréstimo de Políticas de Desenvolvimento</i>
EIR	Statute for Racial Equality and Combating Religious Intolerance in Bahia	<i>Estatuto da Igualdade Racial</i>
FDI	Foreign Direct Investment	<i>Investimento Estrangeiro Direto</i>
FE	Fundamental Education	<i>Educação Fundamental</i>
FIPLAN	Government Integrated Financial Management Information System	<i>Sistema Integrado de Planejamento</i>
FRL	Fiscal Responsibility Law	<i>Lei de Responsabilidade Fiscal</i>
GBV	Gender Based Violence	<i>Violência Baseada em Gênero</i>
GDP	Gross Domestic Product	<i>Produto Interno Bruto</i>
GoBA	Government of the State of Bahia	<i>Governo do Estado da Bahia</i>
IADB	Inter-American Development Bank	<i>Banco Interamericano de Desenvolvimento</i>
IBRD	International Bank for Reconstruction and Development	<i>Banco Internacional para Reconstrução e Desenvolvimento</i>
IBGE	Brazilian Institute of Geography and Statistics	<i>Instituto Brasileiro de Geografia e Estatísticas</i>
ICMS	Taxes on Goods and Services (State Value Added Tax)	<i>Imposto sobre Circulação de Mercadoria e Serviços</i>
IDEB	Basic Education Development Index	<i>Índice de Desenvolvimento da Educação Básica</i>
IMF	International Monetary Fund	<i>Fundo Monetário Internacional</i>

IMR	Infant Mortality Rate	<i>Taxa de Mortalidade Infantil</i>
INPS	National Institute of Social Security	<i>Instituto Nacional de Previdência Social</i>
IPSAS	International Public Sector Accounting Standards	<i>Normas Internacionais de Contabilidade do Setor Público</i>
JV	National Plan to fight Violence against Black Youth	<i>Juventude Viva</i>
LDO	Budgetary Guidelines Law	<i>Lei de Diretrizes Orçamentárias</i>
LGBT	Lesbian Gay Bisexual and Transgender	<i>Lésbicas, Gays, Bissexuais e Transgêneros</i>
LOA	Annual Budget Law	<i>Lei Orçamentária Anual</i>
MEC	Ministry of Education and Culture	<i>Ministério de Educação e Cultura</i>
MMR	Maternal Mortality Rate	<i>Taxa de Mortalidade Materna</i>
MP	Public Ministry	<i>Ministério Público</i>
NCD	Net Consolidated Debt	<i>Dívida Consolidada Líquida</i>
NCR	Net Current Revenue	<i>Receita Corrente Líquida</i>
PAF	Program of Fiscal Adjustments	<i>Programa de Ajuste Fiscal</i>
PENM	State Policy for Entrepreneurship among Afro-descendants and Women	<i>Política Estadual de Fomento ao Empreendedorismo de Negors, Negras e Mulheres</i>
PFM	Public Financial Management	<i>Gestão Pública Financeira</i>
PGE	State Public Attorney Office	<i>Procuradoria-Geral do Estado</i>
PNAD	National Household Survey	<i>Pesquisa Nacional por Amostra de Domicílios</i>
PPA-P	Participative Multi-annual Plan	<i>Plano Plurianual Participativo</i>
PPP	Public-private Partnerships	<i>Parcerias Público-Privadas</i>
PPV	Pact for Life	<i>Pacto Pela Vida</i>
PROCONFINS	Consolidation of First Fiscal Equilibrium for the Development of Bahia	<i>Programa de Consolidação do Equilíbrio Fiscal para o Desenvolvimento do Estado da Bahia</i>
PROMOSEFAZ	Secretariat of Finance Modernization Program	<i>Programa de Modernização da Secretaria da Fazenda</i>
PSIA	Poverty and Social Impact	<i>Impacto Social e Sobre a pobreza</i>
RPPS	State Social Security System	<i>Regime Próprio de Previdência Social</i>
SAEB	Secretariat of Public Administration	<i>Secretaria da Administração do Estado da Bahia</i>
SCD	Sickle Cell Disease	<i>Anemia Falciforme</i>
SEC	Secretariat of Education	<i>Secretaria de Educação</i>
SEDES	Secretariat of Socio Economic Development	<i>Secretaria de Desenvolvimento Econômico</i>
SEFAZ	State Secretariat of Finance	<i>Secretaria da Fazenda</i>
SEPLAN	State Secretariat of Planning	<i>Secretaria do Planejamento</i>
SPREV	Violence Prevention Superintendence	<i>Superintendência de Prevenção à Violência</i>
SEPROMI	State Secretariat for the Promotion of Race Equality	<i>Secretaria de Promoção da Igualdade Racial</i>
SE	Secondary Education	<i>Educação Secundária</i>
SESAB	Secretariat of Health	<i>Secretaria de Saúde</i>
SETRE	Secretariat of Labor, Employment, Income and Sports	<i>Secretaria do Trabalho, Emprego e Renda</i>
SISEPIR	State System for Racial Equity	<i>Sistema Estadual de Promoção da Igualdade Racial</i>

SPM	Secretary for Women Policies	<i>Secretaria de Políticas para as Mulheres</i>
SPM-PR.	Secretariat of Policies for Women of the Presidency of the Republic	<i>Secretaria de Políticas para as Mulheres da Presidência da República</i>
SSP	State Secretariat of Public Security	<i>Secretaria de Segurança Pública</i>
SUPREV	Social Security Superintendence	<i>Superintendência de Previdência</i>
SUS	Unified Health System	<i>Sistema Único de Saúde</i>
SWAp	Sector Wide Approach	<i>Abordagem Setorial Ampla</i>
TCE	State Court of Accounts	<i>Tribunal de Contas do Estado</i>
WBG	World Bank Group	<i>Grupo Banco Mundial</i>

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STATE OF BAHIA, BRAZIL

STRENGTHENING FISCAL MANAGEMENT AND PROMOTING BETTER AND MORE INCLUSIVE SERVICE DELIVERY

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**SUMMARY OF PROPOSED LOAN AND PROGRAM
STATE OF BAHIA, BRAZIL
STRENGTHENING FISCAL MANAGEMENT AND PROMOTING BETTER AND
MORE INCLUSIVE SERVICE DELIVERY**

Borrower:	The State of Bahia (BA) with a guarantee from the Federative Republic of Brazil.		
Implementing Agency:	State Secretariat of Planning (SEPLAN).		
Financing Data:	<p>IBRD Loan</p> <p>Terms: US\$ commitment linked IBRD Flexible Loan with a variable spread, with customized repayments on March 15 and September 15 of each year, with a 4.5 year Grace Period and 30 year Final Maturity, with all conversion options selected and the Front-end Fee capitalized.</p> <p>Amount: USD 400 million with a sovereign guarantee from the Federative Republic of Brazil.</p>		
Operation Type:	One-tranche stand-alone development policy operation.		
Main Policy Pillars and Program Development Objective(s):	The proposed operation will cover two pillars: (i) Fiscal Management and Territorial Planning; and (ii) Service Delivery. The Program Development Objective of this operation is to improve fiscal management and the policy framework for territorial planning and tailor selected public services to the needs of women, afro-descendants and minorities.		
Result Indicators:		Baseline 2013	Target 2015
	Revenue collected from tax payments in arrears at administrative phases (in R\$ mi)	280	320
	Savings generated by corrective measures detected by audits to the pensioners' payroll (in R\$ mi)	0	30
	Number of CODETERs fully operational	0	15
	Number of municipalities with more than 10,000 inhabitants joining the State System for the Promotion of Racial Equality	14	20
	Percentage of indigenous schools with certified indigenous teachers	0	80
	Percentage of indigenous and <i>quilombolas</i> schools adopting the new curriculum	0	50
	Number of hospitals that received training to ensure equal treatment in health services for afro-descendant populations	0	25
	Effectiveness index of maternal and neonatal services provision in 25 reference maternity hospitals	65	80
	Percentage of the police force working with vulnerable groups trained in the use of the protocols for specialized services to vulnerable groups	0	50
	Percentage of municipalities in rural areas served by mobile units providing services and raising awareness on GBV	0	50
	Number of women and afro-descendants producers organizations receiving TA to support entrepreneurship	0	800
Overall risk rating:	Moderate		
Operation ID:	P147984		

**PROPOSED STRENGTHENING FISCAL MANAGEMENT AND PROMOTING
BETTER AND MORE INCLUSIVE SERVICE DELIVERY
DEVELOPMENT POLICY LOAN TO THE STATE OF BAHIA WITH THE
GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL**

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a single-tranche stand-alone Development Policy Loan (DPL) in the amount of US\$400 million to the State Government of Bahia (GoBA).** The Program Development Objective of this operation is to improve fiscal management and territorial planning and tailor selected public services to the needs of women, afro-descendants and minorities.

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

3. **In the last decade, Bahia has improved its economic performance and achieved a remarkable track record in reducing poverty and boosting shared prosperity.** Between 2002 and 2012, average household per capita income in Bahia grew at an annual rate of 4.8 percent, well above the national average of 3.3 percent. As a result, moderate and extreme poverty declined sharply in the same period, dropping from 43.4 percent to 18.0 percent and 18.4 percent to 7.5 percent, respectively. Moreover, the income of the bottom 40 percent increased rapidly at 6.9 percent annually (2.1 percentage points higher than the growth rate of the average income), increasing their share in total income from 8 to 11 percent in 2012. Income inequality fell as well, with the Gini coefficient falling from 0.6 to 0.55 in this period.

4. **Nonetheless, Bahia still lags behind national averages and continues to be the state with the largest absolute number of poor and extreme poor in the country.** In 2011, Bahia registered a per capita GDP of US\$5,920, well below the national GDP per capita of US\$11,235. Indeed, Bahia's per capita GDP ranks nineteenth in the country. Bahia's poverty rate is almost twice the national poverty rate (18 percent versus 9.5 percent) and its extreme poverty rate is 75 percent higher than the national one (7.5 percent versus 4.3 percent). A large population and relatively higher poverty rates make Bahia the state with the largest population below the moderate and extreme poverty lines in the country, 2.6 million and 1.1 million respectively, which in both cases, corresponds to around 14 percent of the poor and extreme poor in Brazil.

5. **Bahia also performs poorly on other indicators of well-being.** At 12 percent, Bahia has the seventh highest incidence, and twice the national average, of non-monetary poverty (defined as deprivation in terms of access to basic goods and services) among states. The most important causes of non-monetary poverty in the state include precarious access to improved sanitation, water and health services and low educational levels among heads of households.

6. **While universal access to key public services is guaranteed by the Brazilian Constitution and Bahia's state laws, a large share of the population continues to face exclusion and/or discrimination in service delivery.** In particular, women, afro-descendants,

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

7. **The GoBA recognizes that social inclusion, equal treatment and fairness in service delivery and reduction of regional disparities are critical conditions for the achievement of its development objective of speeding up and ensuring sustainable poverty reduction and shared prosperity.** To that end, the Participative Multi-Annual Plan (PPA-P) for 2012-15 articulates programs to expand access to services and ensure the quality of service delivery by tailoring them to the specific needs of vulnerable groups. The PPA-P puts a special emphasis on inclusion of disadvantaged populations and the reduction of disparities across gender, race and territories.

8. **The GoBA also recognizes that the goal of inclusion in service delivery requires a sound fiscal position.** In this regard, efforts to secure adequate fiscal revenues and improve expenditure efficiency are critical to the expansion and improvement of service delivery. In particular, there is space to increase revenues through better recovery of tax arrears and to generate savings through tighter controls on pension expenses. More efficient recovery of tax arrears is expected to generate increases of 4 percent of the current tax revenues. Improvements in pension expenses are expected to reduce the pension system deficit by around 10 percent. Therefore, ensuring fiscal sustainability and broadening the fiscal space for investments are instrumental for improving service delivery and promoting inclusion.

9. **This proposed DPL seeks to assist the GoBA in strengthening its fiscal management and the policy framework for territorial planning and ensuring that selected public services are more tailored to the needs of women, afro-descendants and minorities.** The policy program supported by this operation consists of 2 pillars. The first pillar supports improvements in the GoBA ability to collect taxes, enhance controls on pension expenses and to establish an institutional framework for territorial planning. The second pillar supports actions in education, health, public security and productive inclusion sectors aimed at ensuring equal access to public services by women, afro-descendants and minorities and tailoring them to serve their specific needs.

10. **The objectives under the two policy pillars supported by the proposed operation are mutually reinforcing.** Improved fiscal management and territorial planning are expected to increase the fiscal space and improve resource allocation needed for better service delivery. Addressing exclusion through better service delivery is expected not only to reduce poverty but also to improve socio-economic stability, a necessary condition for sustainable growth, which in turn reinforces medium term fiscal sustainability.

11. **This operation follows the first DPL to the State of Bahia, the Socio-Economic Development for Inclusive Growth delivered in 2012.** The operation builds on the

enhancements on public sector management and service delivery supported by the first Bahia development policy operation, and deepens the improvement of service delivery for disadvantaged groups. Lastly, this operation aims to help maintain the momentum and ensure the sustainability of the social inclusion reform agenda that has been adopted in recent years.

12. **The proposed operation is expected to contribute positively to the World Bank Group (WBG) two strategic goals of reducing poverty and boosting shared prosperity.** The focus on policy actions aimed at tailoring public service delivery to the needs of the most disadvantaged groups, such as rural population and disadvantaged communities in the state, has clear impacts on poverty reduction. And through the support to productive inclusion of women and afro-descendants, the overwhelming majority of the bottom 40 percent, the proposed operation is expected to assist the GoBA in boosting shared prosperity.

II. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS IN BRAZIL

13. **Over the last two decades, Brazil has made significant advances in terms of economic management, poverty reduction and social development.** Brazil's three-pillared macroeconomic framework (flexible exchange rates, inflation targeting and fiscal prudence) supported macroeconomic stability. Growth in employment and labor income, price stability as well as the implementation of targeted social assistance programs have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R\$70 a month from 10.8 percent in 2001 to 4.3 percent in 2012¹ and to the reduction in inequality as reflected in a fall in the Gini coefficient from 0.60 to 0.53 over the same period.

14. **Despite considerable progress Brazil currently faces serious development challenges. The most fundamental is ensuring higher and more sustainable economic growth, with shared prosperity.** In recent years, the country's growth performance has been modest and intermittent. The Government responded swiftly to the 2008-09 global financial crisis, initiating a countercyclical fiscal impulse that took advantage of the fiscal space accumulated in the previous years of strong fiscal adjustment. The response proved highly effective: GDP growth rebounded from the negative 0.3 percent in 2009 to a robust 7.5 percent in 2010. However, this strong growth performance proved to be temporary, and economic growth slowed to an average of 2 percent between 2011 and 2013 (see Table II.1 below).

15. **The recent economic slowdown now appears as much structural as cyclical.** Initially, tighter monetary and fiscal policies in 2011 weakened domestic demand at the same time as external demand was dampened by protracted weakness and uncertainty in advanced economies and slowing growth in major emerging markets. However, as the slowdown continued throughout 2012 and 2013, policy became looser, the external environment strengthened and structural factors, such as the tight labor market and high cost of production, have become increasingly important in explaining current performance. While the slowdown was felt across the board, it was industry that slowed most (industrial production declined by 6.4 percent between mid-2011 and end-2013) due to weak domestic demand, a relatively strong real exchange rate and the structural bottlenecks referred to earlier. The poor performance of industry was also mirrored in the weakness of investment demand. Structural bottlenecks in

¹ Data from PNAD (national household survey) using the extreme poverty line of the *Brasil sem Miséria* program.

infrastructure, human capital, a burdensome tax system, a difficult business environment and poor financial intermediation appear to constrain Brazil's growth prospects.

16. **At the same time, a growing middle class is drawing attention to inefficiency of public service delivery.** Despite the improvements on poverty and income distribution fostered by renewed social policies, mass demonstrations in Brazil during June 2013 left little doubt as to the importance of good governance and effective service delivery in Brazil.

17. **Inflation remains high.** Headline inflation reached 5.9 percent in 2013, accelerating to 6.4 percent in May 2014. Inflation is higher for goods whose prices are not controlled, running at 7.1 percent (compared with 4.1 percent for regulated prices) as well as for non-tradable goods (7.4 percent). The rate of inflation reflects in part capacity constraints, and a structurally tight labor market (due to skills mismatches and changing demographics). As a result, even at low rates of growth, demand-pull factors have played an important role. Cost-push factors such as automatic minimum wage adjustment, price shocks (especially food) and exchange rate depreciation have also contributed to inflationary pressure.

18. **Overall, monetary policy has been consistent with the inflation targeting regime.** With inflation close to the 6.5 percent upper limit of the target range, monetary policy was also tightened and the interest rate has been raised by 375 basis points between April 2013 and April 2014 to 11 percent currently.

19. **Since 2009, fiscal balances have deteriorated.** The counter-cyclical fiscal policy adopted in 2009/10 to mitigate the effects of the global financial crisis has continued. In addition less favorable revenue performance was reflected in increasing fiscal deficits and the reversal of the declining trend of indebtedness observed throughout the 2000s. This policy has been extended in 2011-14 with primary surplus declining from 3.2 percent in 2011 to 1.9 percent in April 2014. Attempts to control inflation by controlling prices defined administratively, discretionary tax incentives, subsidies to energy and state-owned banks have reduced the primary surplus and led to concerns about the direction of economic policy. This in turn has complicated the task of curbing inflation. Indeed this combination of factors underpinned the downgrade by Standard and Poor's of Brazil's sovereign credit rating to the lowest investment grade in March. The overall direction of fiscal policy for 2014 remains uncertain as authorities have signaled a fiscal retrenchment in February 2014 with the announcement of cuts of close to 1 percent of GDP to meet a primary surplus target of 1.8 percent of GDP (as indicated in Table II.1), but then they announced in May an increase in cash transfers and adjustments in income tax brackets and the maintenance of containment of energy administrated prices.

20. **External sector accounts mirrored fiscal balances and have exerted pressures on the exchange rate.** The current account deficit widened to 3.6 percent of GDP in April 2014 from 3.1 percent in the same month of 2013. At the same time FDI failed to fully cover the gap reaching 2.9 percent. The difference was covered by portfolio investment which has reached 1.5 percent of GDP. The beginning of the tapering of monetary policy by the Federal Reserve has led to additional pressures on the exchange rate (as in other emerging markets). The Central Bank of Brazil responded with a foreign exchange repurchase program. While these interventions contributed to limiting exchange rate volatility, they also left the authorities with a non-deliverable short position² with a notional value of US\$89 billion as of April 2014. This

² The BCB's short position in the derivatives market reduces its reserve assets for the purpose of exposure - the degree to which it stands to gain in local currency terms from a BRL depreciation relative to the US\$. However it

compares to a stock of reserves of US\$367 billion. However, increases in domestic interest rate and apparent improvements in external markets sentiment regarding the emergent economies and a brightened environment in developed countries have resulted in resumption of capital inflows and reverted exchange rate depreciation.

Table II.1: Brazil: Selected Economic Indicators and Projections: 2007–17

Indicator	2007	2008	2009	2010	2011	2012	2013	Projections			
								2014	2015	2016	2017
National Accounts											
	(annual real percent change)										
Real GDP Growth	6.1	5.2	-0.3	7.5	2.7	1.0	2.5	1.5	2.7	3.1	3.5
	(in percent of GDP)										
Gross domestic investment	18.3	20.7	17.8	20.2	19.7	18.2	18.2	17.9	18.1	18.9	19.2
External Sector											
Current account	1.6	-28.2	-24.3	-47.3	-52.5	-54.2	-81.5	-82.3	-84.5	-85.1	-91.5
Merchandise trade balance	40.0	24.8	25.3	20.1	29.8	19.4	2.3	4.1	9.1	12.6	10.7
Exports (fob)	160.6	197.9	153.0	201.9	256.0	242.6	242.4	259.4	274.5	296.4	315.9
Imports (fob)	120.6	173.1	127.7	181.8	226.2	223.2	240.1	255.3	265.4	283.8	305.3
Nonfactor services, net	-13.2	-16.7	-19.2	-30.8	-37.9	-41.0	-47.5	-47.5	-51.1	-53.8	-55.3
Income and current transfers, net	-25.3	-36.3	-30.3	-36.6	-44.3	-32.6	-36.4	-38.9	-42.5	-44.0	-46.8
Direct investment, net	27.5	24.6	36.0	36.9	67.7	68.1	64.0	60.0	61.7	64.8	68.0
Portfolio equity, net ₁	24.8	-7.3	39.7	43.9	16.0	3.3	2.7	3.4	3.5	3.5	4.2
Gross international reserves	180.3	193.8	238.5	288.6	352.0	373.1	358.9	369.9	371.8	374.5	377.9
Current account (% of GDP)	0.1	-1.7	-1.5	-2.2	-2.1	-2.4	-3.6	-3.9	-3.8	-3.6	-3.6
General Government											
	(in percent of GDP)										
Total Revenues and Grants	35.7	36.9	34.9	37.2	36.6	37.2	37.2	36.9	37.2	37.1	37.2
Total Expenditure	38.4	38.2	38.0	39.9	39.1	40.0	40.5	39.8	39.3	38.9	38.6
Current Expenditure	36.6	36.0	35.8	35.9	36.7	37.5	37.7	36.9	36.4	36.0	35.6
<i>of which: Net Interest payments</i>	6.1	5.5	5.3	5.2	5.7	4.9	5.2	4.7	4.7	4.1	3.5
Capital Expenditure	1.8	2.2	2.2	4.0	2.5	2.6	2.8	2.9	2.9	2.9	3.0
Primary Balance	3.5	4.1	2.2	2.5	3.2	2.1	1.9	1.8	2.7	2.3	2.1
Overall Balance	-2.7	-1.4	-3.1	-2.7	-2.5	-2.8	-3.3	-2.9	-2.1	-1.8	-1.4
Gross Public Sector Debt	65.2	63.5	66.8	65.0	64.7	68.0	66.3	64.5	61.8	59.1	56.0
<i>of which: Domestic Currency</i>	60.6	58.4	63.2	62.1	62.2	65.4	63.2	61.3	58.5	55.6	52.7
<i>of which: Foreign Currency</i>	4.6	5.1	3.7	3.0	2.7	3.1	3.1	3.2	3.4	3.5	3.3
Prices											
	(annual percent change)										
GDP Deflator	5.9	8.3	7.2	8.2	7.0	4.9	7.5	5.7	5.2	4.7	4.5
Consumer Price Index (eop)	4.5	5.9	4.3	5.9	6.5	5.8	5.9	6.5	6.0	5.3	5.0
Memorandum items:											
Nominal GDP (in R\$ billions)	2661.3	3032.2	3239.4	3770.1	4143.0	4402.5	4837.2	5189.6	5606.9	6052.4	6546.1
Total External Debt (% of GDP)	17.5	15.9	17.4	16.4	16.2	17.9	18.8	21.6	22.0	23.0	22.6

Note 1: Portfolio equity does not include debt securities
Source: IMF, BCB, IBGE, EIU, WB Calculation

21. **Brazil's financial system has remained sound and resilient.** Following a period of rapid credit growth, asset quality indicators broadly stabilized during 2012 and recently reported some improvement. As of April 2014, around 4.4 percent of household loans and 1.9 percent of corporate loans were classified as non-performing. A moderated increase in delinquency cannot be ruled out as interest rates in Brazil are rising. The banking system appears to be well-cushioned to withstand losses, with loan loss provision coverage at 170 percent of nonperforming loans as of December 2013, compared with 160 percent recorded last June as nonperforming loans fell. Moreover, the solvency ratio remained considerably above the

does not constitute an actual loss or commitment of reserve assets for the purpose of foreign currency liquidity, as the derivative contracts are to be settled in local currency.

11 percent minimum regulatory requirement, at 16.6 percent in November 2013. However, rising private sector external debt levels, largely reflecting increased issuance of bonds by corporates and banks, have raised concerns about the capacity of some companies to carry their debt.

B. BRAZIL'S MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **The growth prospects for the Brazilian economy remain muted, with 2.5 percent growth recorded in 2013 and a lower growth rate expected for 2014 with a gradual increase to 3.5 percent thereafter.** Growth expectations for 2014 are lower following the results of the first quarter (annualized growth of 0.6 percent). Industrial production, which recovered at the beginning of the year receded in March and April and is currently 2 percentage points below the average level of 2013. Consumer and business confidence indicators have dropped sharply in recent months, reaching the lowest levels since 2009. Investment, which rebounded in 2013 growing by 5.1 percent, fell in the first quarter of 2014 at an annualized rate of 8 percent, completing 3 quarters of significant negative investment growth. Net external demand, which had a negative contribution to growth in the first quarter, will likely remain dampened given global developments as well as the current crisis in Argentina, which is an important market for Brazilian manufactured exports. Overall, the near term outlook is bleak with further weak data expected for the second quarter, but a modest recovery can be expected for the second half with impulses from the upcoming election as well as investment stimulating growth.

23. **Inflation is expected to remain a challenge.** A key factor is the role of the labor market which remains tight. It is characterized by low unemployment (4.9 percent in March), scarcity of skilled workers and labor hoarding due to low flexibility caused by structural issues affecting mobility and wage setting (such as indexation of the minimum wage to inflation and GDP growth). Government efforts to address skills gaps should help address some of these concerns in the medium term, although more will be needed to raise labor market flexibility. Other factors that may contribute to inflation include the pass-through of exchange rate movements and also the end of restraint of administrated prices as fuel prices are brought near to world market levels and energy subsidies are phased out. On the other hand, the recent monetary policy tightening will help subdue inflationary pressures. Inflation expectations also remain high, standing at 6.0percent for the coming 12 months in early June.

24. **The external environment continues to pose a risk to Brazil's outlook for near-term growth.** A slowdown in emerging markets may translate into lower external demand for Brazil's exports. Like other emerging market economies, Brazil also remains vulnerable to market sentiment, posing a continued risk to FDI and especially portfolio flows, particularly given the relatively high share of some Government bonds held by non-residents and the possible impact of the unwinding of unconventional monetary policy in the US. Nonetheless, Brazil's vulnerability to external events is likely to remain moderate due to its high reserves (US\$ 367 billion), the low share of short-term debt in total external debt (around 21 percent), the large role of foreign direct investment (2.9 percent of GDP in April 2014) in financing the current account (-3.6 percent of GDP in April 2014).

25. **Downside contingencies and social pressures for improved public services also pose risks to the fulfillment of fiscal targets.** The achievement of primary surplus targets are in jeopardy if the growth rate of current expenditures is not curtailed and if activity turns out more sluggish than expected. Other potential fiscal risks include Government efforts to stimulate the

economy through specific incentives for particular sectors, the subsidy to energy prices which cost around R\$ 20 billion in 2013, sporadic tax relief for selected industries, and quasi-fiscal activities by the National Bank for Economic and Social Development (BNDES), which received R\$ 39 billion in transfers from the National Treasury Secretariat (STN) in 2013 and another R\$ 30 billion this year. More generally, pressures for improved public services and mandatory payments for Congressional Budget Amendments may also create stronger expenditure pressures. Also, political tensions between Congress and the Executive and the coming election year pose further risks of pressures to the fiscal stance.

26. **In spite of these risks and challenges, Brazil’s overall macroeconomic framework is currently adequate, for the purposes of this operation.** Brazil’s policy framework continues to provide some flexibility to respond to economic crises. While the continuation of inflation pressures and the recent deterioration of fiscal outturns have raised concerns, the authorities remain committed to inflation control and fiscal prudence. Despite difficulties in maintaining fiscal balance in the face of large investment needs and popular pressures for improved service delivery, better revenue performance, reduction in subsidies and reduced pressures for salary increases are expected to improve primary balances from 2015 onwards. Under this scenario, gross public sector debt is expected to decline in the future. Moreover, flexible exchange rates and relatively large foreign reserves provide Brazil with a buffer to shifts in market perceptions and an associated turn-around in capital flows – as the recent episode of market turbulence has suggested.

27. **Brazil’s medium to longer-term outlook will critically depend on its ability to tap into a large unrealized growth potential and remove structural bottlenecks.** These bottlenecks include: the supply of qualified human capital; a high tax burden; low effectiveness of public spending; infrastructure bottlenecks; and a cumbersome business environment that discourages internal competition and external competitiveness. Addressing these bottlenecks would lay the foundations for productivity increases as a basis for higher and more sustainable growth.

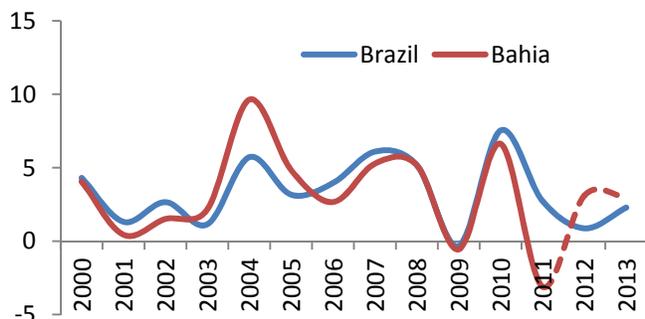
C. RECENT ECONOMIC DEVELOPMENTS IN BAHIA

28. **In the 2000s, Bahia’s economic growth performance followed a similar pattern to that of Brazil as a whole.** Between 2000 and 2012, the annual average growth of state GDP was 3.6 compared to 3.4 nationally. Output fluctuations in Bahia have followed those at the national level. After modest GDP growth in the early 2000, favorable global economic conditions and the improved macroeconomic environment in Brazil, supported strong growth in Bahia. From 2003 to 2008, Bahia’s economy averaged an annual growth rate of 4.9 percent, while Brazil GDP grew at 4.2. Bahia and Brazil’s growth were slowed down in the latter part of the decade by the global financial crisis. However, GDP growth performance was especially weak in Bahia which experienced a second and stronger recession in 2011. Official GDP numbers for Bahia in 2012-13 are not yet available. However, preliminary information from the Secretariat of Planning (SEPLAN) suggests that Bahia’s GDP grew at around 3 percent. Overall, average growth for the post-global crisis period (2009–13) for Brazil was 2.6 percent while Bahia’s GDP grew at just 1.8 percent (see Figure II.1).

29. **Bahia has a diversified economic structure.** It has a strong and dynamic primary sector, being the main producer and exporter of cacao in Brazil and possessing considerable mineral and petroleum wealth. Recently, soybean production in the western part of the State has experienced

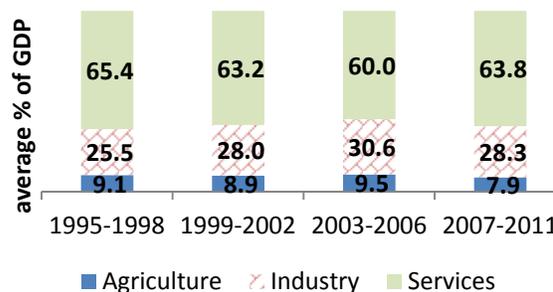
strong expansion. Driven by the development of a number of new industrial sectors (automobile and tire industries, petro-chemical industry, textiles, furniture, food and beverages, cosmetics and perfumes, information technology and naval development), industry has expanded continuously. Indeed, the share of the industrial sector in the state GDP increased from an average of 25 percent in the 1990s to nearly 30 percent in the 2000s. Services have maintained their share representing around 64 percent of the state GDP (see Figure II.2 below).

Figure II.1: Brazil and Bahia GDP Growth, 2000-13
(%)



Source: IBGE. SEI (estimations) for Bahia's GDP 2012-13

Figure II.2: Bahia's GDP Structure, 1995-2011 (%)



Source: IBGE.

30. **Nonetheless, economic activity has been geographically concentrated.** Industrial activities are concentrated in the metropolitan area of the State capital, Salvador, which accounts for 24 percent of state GDP, and in *São Francisco do Conde-Camaçari*, where the petrochemical and automotive clusters are located. Agribusiness export activities are developed in three main poles: the poles of cellulose and cocoa in the extreme south, grains (mostly soybeans) in the west (*Luis Eduardo Magalhães*), and fruits in the north of the State (*Juazeiro*). Most of Bahia's rural area, especially in the semi-arid landlocked zone which covers almost 70 percent of Bahia's territory, has experienced little growth. Agriculture remains dominated by subsistence farming, as arid conditions, frequent droughts and geographic isolation prevent commercial activities. Indeed, the *Semi-Árido* region is the poorest and the least developed region of the State.

31. **Throughout the 2000s, the GoBA has established a prudent fiscal approach which was based on a strong revenue performance and strict controls on current spending to simultaneously increase the fiscal space for investment and reduce indebtedness.** Enhanced own revenue collection and slow growth of personnel expenditures enabled the Government to generate increasing gross operating balances to finance investments which amounted in average 9 percent of net current revenues from 2000 to 2010. Primary surpluses have resulted in net consolidated debt to net current revenues falling from 182 percent in 2002 to 46 percent in 2011, well below the Fiscal Responsibility Law (FRL) ceiling of 200 percent (see Table II.2 below).

32. **A large share of the GoBA's revenues are own tax revenues, but Bahia dependence on transfers from the Federal Government is still significant.** Tax revenues and other own revenues represent 70 percent of total revenues. At around 10 percent, GoBA's tax collection as a share of GDP is lower than the national average of 11 percent and reflects the sizeable fiscal incentives on the state value added tax (ICMS) granted to industrial activities and the inability to recover tax arrears from the ICMS. In this regard, this operation supports improvement in this specific area of tax administration.

33. **Personnel expenditures are the most important spending item.** They have fluctuated in the 50-55 percent interval of net current revenues, below the FRL ceiling of 60 percent. High personnel spending reflect the fact that public services provided by state governments are highly labor intensive. Education, health and public security represent more than 75 percent of the GoBA's payroll. Minimum levels of spending defined at the federal level and other mandatory spending exert strong pressure on the GoBA fiscal accounts. In particular, social security obligations consume an increasing share of the budget and future pension obligations are a major source of fiscal risks. The proposed operation supports measures to tighten controls over this expenditure item.

Table II.2: State Government of Bahia's Fiscal Accounts, 2008–17 (millions of Reais of 2013)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
I. REVENUE	27,077	27,076	30,229	31,392	33,486	34,226	37,302	40,658	44,285	48,242
Taxes	14,359	13,707	15,373	15,898	16,802	18,477	20,179	22,078	24,139	26,393
ICMS	12,606	11,825	13,316	13,632	14,293	15,682	17,129	18,751	20,516	22,446
IPVA	577	629	656	703	762	835	912	998	1,092	1,195
Others	1,175	1,253	1,401	1,563	1,747	1,960	2,138	2,329	2,531	2,752
Social Contributions	1,355	1,551	1,653	1,792	1,916	2,107	2,296	2,491	2,694	2,913
Transfers	8,340	8,755	9,470	10,009	10,642	9,843	10,695	11,585	12,543	13,583
Current Transfers	8,182	8,227	8,771	9,603	9,903	9,337	10,145	11,035	11,992	13,033
FPE	5,566	5,377	5,472	6,329	6,165	6,261	6,803	7,400	8,042	8,739
Other Current Transfers	2,616	2,851	3,299	3,274	3,738	3,076	3,342	3,635	3,951	4,294
Capital Transfers	158	528	699	406	738	507	550	550	550	550
Other Current Revenues	3,023	3,063	3,733	3,693	4,126	3,799	4,131	4,504	4,909	5,352
II. EXPENSE	23,865	24,747	27,106	28,642	30,369	31,734	34,681	37,826	41,131	44,708
Compensation of Employees	12,463	13,355	13,776	14,480	15,455	16,139	17,587	19,075	20,630	22,311
Interest Payments	745	664	609	564	546	498	538	582	567	524
Other Current Expenditures	9,216	9,417	11,286	11,937	12,674	13,253	14,544	15,973	17,539	19,258
Transfers to Municipalities	3,627	3,413	3,850	3,999	4,078	4,454	4,865	5,325	5,826	6,375
Goods and Services	5,589	6,004	7,435	7,938	8,596	8,800	9,680	10,648	11,712	12,884
III. GROSS OPERATING BALANCE (I - II)	3,212	2,329	3,123	2,750	3,116	2,492	2,621	2,832	3,154	3,534
% of NCR	17.1	12.6	15.1	12.8	13.6	10.8	10.4	10.3	10.6	10.9
IV. TRANSACTIONS IN NON-FINANCIAL ASSETS	1,867	1,991	2,738	2,418	2,407	2,687	2,831	2,802	3,050	3,268
Investment in Non-Financial Assets	1,605	1,680	2,443	1,964	1,945	2,037	2,264	2,193	2,389	2,603
Investment in Financial Assets	261	310	296	453	462	650	567	609	661	665
V. NET LENDING / BORROWING (III - IV)	1,345	338	385	333	709	-195	-210	30	104	266
VI. PRIMARY BALANCE (V + Net Interest Payments)	1,806	759	710	536	928	35	54	329	377	487
% of NCR	9.6	4.1	3.4	2.5	4.1	0.2	0.2	1.2	1.3	1.5
VII. TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES	-1,641	-266	-157	-405	992	1,167	2,244	-401	-1,142	-892
New Loans	176	1,249	779	503	1,964	2,657	4,056	1,269	603	809
Amortizations, net	-1,833	-1,521	-951	-918	-988	-1,511	-1,812	-1,669	-1,745	-1,701
Asset sales	16	6	15	9	15	20	0	0	0	0
VIII. GROSS FINANCING NEEDS (Net Debt Service - VI)	488	1,182	566	585	279	1,741	2,076	1,968	2,018	1,921
% of NCR	2.6	6.4	2.7	2.7	1.2	7.5	8.3	7.2	6.8	5.9
VIII. OVERALL BALANCE (VI + VII)	164.9	493.0	553	130	1,919	1,202	2,299	-72	-765	-405
<i>Memo Items:</i>										
Net Current Revenue (NCR)	18,778.6	18,550.7	20,740	21,552	22,902	23,081	25,155	27,418	29,864	32,532
Non-Financial Investment / NCR	8.5	9.1	11.8	9.1	8.5	8.8	9.0	8.0	8.0	8.0

Source: State Secretariat of Finance, SEFAZ, Bahia; World Bank staff calculations.

34. **Investments have increased from an average of 8 percent of net current revenues in 2006-2008 to an average 9.5 percent of NCR between 2009 and 2013.** The state of Bahia is

undertaking a large modernization and construction program, including: (i) renovation of main highways crossing Bahia; (ii) construction of the west-east railway; revamping of Salvador’s airport and port and of *Aratu* port, as well as construction of a new airport and port. The state has also counted on private participation through five Public Private Partnership (PPP) projects.

35. **Since 2009, GoBA fiscal balances fell and debt increased moderately.** The Government’s primary balance fell from an average of 1.5 percent of GDP in 2006-08 to 0.3 percent of GDP. The gross operating balance (revenues less current spending), fell from an average of 2 percent of GDP in 2006-08 to 1.5 percent of GDP in 2009-13, as the fiscal expansion was driven by equivalent increases in public investment and current spending. This has two important implications on GoBA’s fiscal sustainability. First, the fiscal expansion was based on capital spending which normally has more positive effects on medium to long term growth as compared to consumption spending. Second, as investment spending is more discretionary, the Government has more scope to undertake adjustments in the level of spending if needed. In any case the increase in debt was marginal as consolidated debt passed from 46 percent of net current revenues in 2011 to 47 percent in 2013.

36. **Overall, the GoBA has a comfortable fiscal position and this is reflected in Bahia’s compliance with the FRL requirements and its good performance on the Program of Fiscal Adjustments (PAFs) agreed with the STN.** Personal expenditure as a share of Net Current Revenue (NCR) increased from 52 percent in 2006 to 55 percent in 2013, but remains within the 60 percent limit established by the FRL. Net consolidated debt has fluctuated around 49 percent in the last four years, well below the 200 percent FRL limit. GoBA’s fiscal accounts also comply with other limits imposed by the FRL (see Table II.3 below).

Table II.3: Fiscal Responsibility Law – Main Indicators for Bahia (millions of Reais and in percentage)

	FRL Limit		2006		2010		2011		2012		2013	
	Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR	Value	% NCR
Personal Expenditures	60		5,906	52.0%	9,128	52.5%	10,359	53.9%	11,694	54.1%	12,692	55.0%
Net Consolidated Debt	200		11,616	102.3%	9,057	52.1%	8,918	46.4%	10,617	49.1%	10,877	47.1%
Guarantees	22		129	1.1%	95	0.5%	92	0.5%	92	0.4%	92	0.4%
Credit Operations	16		386	3.4%	654	3.8%	449	2.3%	1,855	8.6%	2,657	11.5%

Source: State Secretariat of Finance, Bahia SEFAZ.

D. BAHIA’S DEBT SUSTAINABILITY OUTLOOK

37. **A Debt Sustainability Analysis (DSA) prepared by the Bank team indicates that the trajectory of public debt is sustainable.** This assessment is based on: (i) the GoBA’s comfortable fiscal situation; (ii) the existing stock of debt and repayment profile; and (iii) underlying assumptions for the evolution of main the fiscal variables. Table II.2 presents the projections up to 2017.

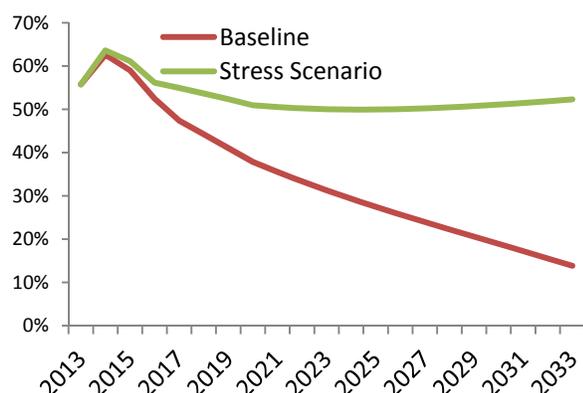
38. **Projections under the baseline scenario,³ indicates a solid fiscal position reflected in a declining trend of indebtedness. Projected improvements in primary balances and gross**

³ Assumptions for the main fiscal variables in the baseline scenario are as follows. State tax revenue will follow the state’s GDP, transfers from the federal government will follow national GDP. On the expenditure side, the payroll is projected to growth at a real rate of 3 percent, which accounts for its vegetative growth. Transfers to municipalities will increase in line with the growth of GOBA’s tax revenues. Investments are projected to reach 9 percent of NCR

financial needs results in declining debt. Consolidated debt to net current revenues will initially rise to just over 60 percent by 2014 and then start declining. In this scenario, Bahia would be compliant with the guidelines established by both the FRL and PAF.

39. **Under adverse circumstances, GOBA’s debt is sustainable.** In a stress scenario depicted by a lower GDP growth (one-percentage points lower than in the baseline scenario) and higher exchange rate depreciation (six-percentage points higher than in the baseline scenario), debt levels stabilize at around 50 percent of net current revenue (approximately 6 percent of GDP in 2020) (see Figure II.3: Debt Trajectory under Baseline and Stress scenarios Figure II.3 below)

Figure II.3: Debt Trajectory under Baseline and Stress scenarios



Source: World Bank staff calculations.

governments are prohibited and none has been registered in the last 15 years. State governments’ fiscal accounts are under rigorous scrutiny of the National Treasury Secretariat. Revenues and Expenditures assignment are broadly matched with gaps being covered by specific transfers by the Federal Government mostly on education and health. The current debate over intergovernmental finance reforms is not expected to change these characteristics in the next few years.

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

E. IMF RELATIONS

41. **The IMF has not had a program with Brazil since 2005.** The latest Article IV staff report was discussed by the IMF Board of Directors in July 26, 2013. The Bank and Fund teams work very closely on the overall Brazil program. This is consistent with the Joint Management Action Plan (JMAP), which requires for Bank and Fund staff to consult at least annually in the preparation of their work programs.

in 2014 and stabilize at 8 percent of NCR afterwards. Projections for debt service are based on the outstanding debt stock, planned disbursements for 2015-18 and projected fiscal balances afterwards.

42. **Since the International Monetary Fund (IMF) does not work directly with state governments there has been no direct collaboration with the IMF on this specific operation.** However, this DPL complies with the guidelines for coordinating with the IMF on development policy lending set forth in the JMAP. A satisfactory letter of assessment was received from the IMF on March 18, 2014.

III. THE GOVERNMENT'S PROGRAM

43. **The GoBA's current development strategy was set forth in the State's Participatory Multi-Annual Plan (PPA-P) for 2012-2015.** This multiannual plan builds on important strategic documents including the current administration's Government Program and the Bahia: Strategic Vision prepared by the State Secretariat of Planning in 2011. Starting from the premise that sustainable and inclusive growth cannot be achieved without a robust broad-based growth agenda, the Strategic Vision aims at enabling a competitive integration of Bahia with the national and global economies by taking advantage of the favorable external scenario for its commodities and diversifying the state's productive base.

44. **While aligned with the Strategic Vision, the PPA-P for 2012-15 puts greater emphasis on inclusiveness through a fourfold strategy.** First, broadening the access to social service delivery by vulnerable groups and minorities; second, enhancing affirmative policies; third, strengthening economic opportunities for women and afro-descendants; and fourth, reducing regional disparities.

45. **This strategy is reflected around three strategic pillars:**

- i. **Social Inclusion and Affirmation of Rights:** This pillar encompasses policies and programs aimed at including the socially deprived and vulnerable groups, reducing inequalities and combating all forms of discrimination.
- ii. **Sustainable Development and Infrastructure for Development.** This pillar seeks to promote sustainable and inclusive economic growth ensuring appropriate infrastructure services and preserving natural assets.
- iii. **Democratic Management of the State.** This pillar aims at enhancing transparency, efficiency and accountability in the design and implementation of public sector policies.

IV. THE PROPOSED OPERATION

A. LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATIONAL DESCRIPTION

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

47. **The design of this operation is based on a number of lessons learned from the Bank's experience on subnational DPLs in Brazil.** A first lesson is the need for strong coordination with the Federal Government. The Fiscal Responsibility Law (FRL) and the Fiscal

Adjustment Programs (PAFs), agreed between the STN and subnational governments, have established a critical role to the Federal Government in the approval of lending operations to state and municipalities. Moreover, a close coordination with the Federal Government is advisable to both reinforce Federal Government's policies and programs implemented at the state level ensuring national ownership and to avoid the inclusion of reforms that depend on federal legislation. A second general lesson is the importance in exploring synergies with the Bank's investment operations in the states. DPLs and investments have been mutually supportive, helping push the reform agendas at the sector level.

48. **This operation is informed by and represents a continuation of the first DPL to the State of Bahia, the Bahia Socio-Economic Development for Inclusive Growth (P126351) delivered in 2012.** Whereas the first DPL supported overall improvements in the quality of service delivery, the proposed DPL focuses on policies to ensure equal treatment and more tailored service delivery for vulnerable groups. Furthermore, while the first DPL assisted the Government in implementing reforms in cross-cutting areas of public finance management (budgeting, planning, human resource management), this operation supports improvements in more specific areas of fiscal management such as tax arrears recovery and pension expenses.

49. **Lessons from the first DPL to the State of Bahia suggest the need for realism, focus and technical assistance.** The implementation of reforms supported by the first DPL demonstrated that the GoBA's public sector capacity constraints are considerable and are particularly challenging in the education, health and public security sectors. Realistic program design calls for the selection of ongoing policy actions that are feasible to be completed in the short term and are likely to be sustained through continuous technical support. In this regard, the implementation of the first DPL to Bahia indicates that progress on technical capacity building is possible, but requires a longer term engagement as detailed implementation programs, monitoring and technical assistance may be needed to help the GoBA track progress.

50. **To ensure appropriate and sustained technical assistance, the proposed operation emphasizes building on ongoing initiatives supported by other Bank operations in Bahia which provide timely technical support for their implementation.** As a stand-alone DPL, this proposed operation would be unable to provide the support needed for the full implementation of the policy program. Therefore, the policy reforms included in this proposed operation are expected to be supported by technical assistance components in other operations, including the Bahia Sustainable Rural Development Project (P147157), the Bahia Entrepreneurship and Autonomy among Women and Afro-descendants (P133759), which are being prepared simultaneously with this operation, and the Bahia Integrated Health and Water Management Project (P095171).⁴

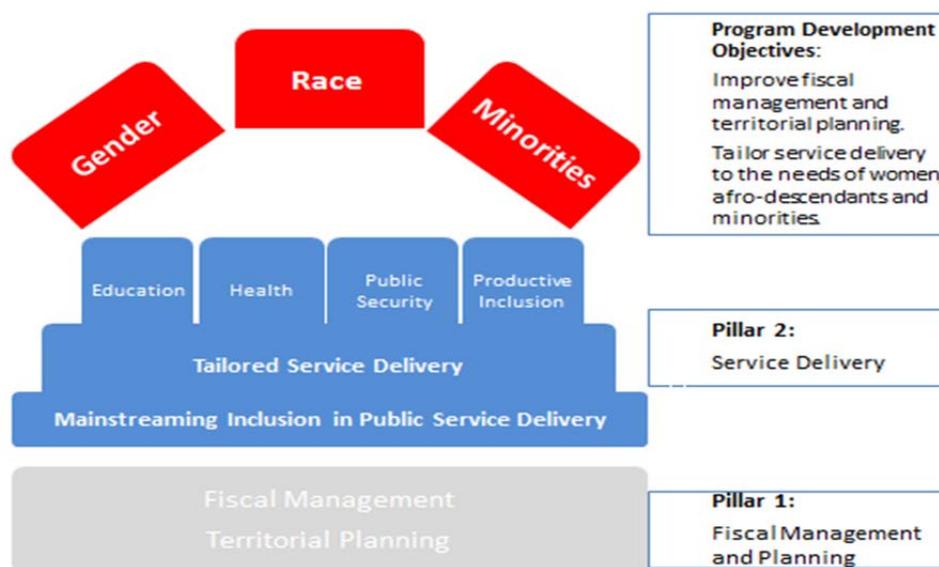
B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

51. **The proposed operation is structured in two programmatic pillars: (i) Fiscal Management and Territorial Planning and (ii) Service Delivery.** The Program Development Objective of this operation is to improve fiscal management and the policy framework for territorial planning and tailor selected public services to the needs of women, afro-descendants

⁴ Details on the synergies among these projects and the technical assistance to be provided can be found in Sections IVB and C below.

and minorities. The two policy pillars supported by the proposed operation are complementary. Improved fiscal management and territorial planning are expected to increase the fiscal space and improve resource allocation needed for better service delivery. Addressing exclusion through better service delivery is expected not only to reduce poverty but also to improve socio-economic stability, a necessary condition for sustainable growth, which in turn reinforces medium term fiscal sustainability.

Figure IV.1: Structure of the Proposed Policy Program



Pillar 1: Fiscal Management and Territorial Planning

52. **This pillar supports policy actions directed to increasing fiscal space by raising tax revenues, tightening controls over pension expenses and improving the GoBa's ability to design and implement territorial planning.**

(a) Tax Revenues

53. **The strong performance of revenues has been a critical factor to ensure the GoBA robust fiscal position.** Like most of the Brazilian state governments, since the 2000s, the GoBA has been modernizing its tax administration. Results have been satisfactory so far and the modernization of the state tax administration was reflected in the continuous increase of revenues.

54. **Nonetheless, an unresolved issue is the excessive accumulation of tax arrears which reflects the inability of the tax administration to collect part of the taxpayers' obligations in a timely manner.** The stock of tax payments in arrears in December 2013 is estimated at R\$10.2 billion or 55 percent of the tax revenue collection in this year. About 90 percent of this stock corresponds to credits on the ICMS paid by firms. The average recovery of tax payments arrears is less than 25 percent of tax arrears generated in one year, or just 2.8 percent of the total stock of tax payments in arrears. As the new flows of arrears that enter each year are much higher than the amount recovered, the consequence is a mounting stock of tax arrears.

55. **While, the slowness of the judicial system to process tax arrears is an important reason for the poor performance in this area, inefficiencies in the administrative phase of tax arrears recovery also explain the accumulation of tax arrears.** Lack of early communication with taxpayers, short periods for the regularization of tax payments, lack of flexibility in the payment arrangements and high fines are causes that explain the accumulation of tax arrears at the initial administrative phase. In addition, delays in the judicial resolution of tax arrears disputes make it more attractive to defer tax payments, which also explain the low rate of recovery in the early phases.

56. **The GoBA is taking several measures to expedite the collection of tax arrears in the administrative phases and avoid judiciary processes.** The GoBA's strategy in this area has been spelled out in the Tax Credit Recovery Program (*Programa de Recuperação de Créditos Tributários – RECRET*) which consists in a three-pronged approach: (i) facilitate early collection in the administrative phase; (ii) adopt firmer actions against taxpayers who deliberately and consistently avoid their tax obligations; and (iii) pursue a more strategic approach for recovery of tax arrears.⁵

57. **The first component provides more flexible arrangements for the regularization of tax arrears at an early stage.** The concession of incentives for early collection is based on the recognition that the older a tax arrears becomes, the more difficult and expensive it is to collect. In this regard, the GOBA has established arrangements enabling automatic installment payment arrangements (*parcelamento de créditos tributários*). In addition it extended the period for the regularization of tax payments and reduced the penalties for payments in the administrative phases. These measures are expected to increase the recovery of tax arrears in the administrative phase as they improve the incentives for early payments by taxpayers.

58. **The second component aims at reducing the incentives for deferring tax payments and the judicialization of tax arrears recovery by imposing harsher penalties for defaulters.** The GoBA has created the Inter-institutional Committee for the Recovery of Assets (*Comitê Interinstitucional de Recuperação de Ativos - CIRA*) which includes the tax administration, the public prosecutor office (*Ministerio Publico - MP*), the state general attorney (*Procuradoria Geral do Estado – PGE*), the secretary of public security and the judiciary, and to impose firmer actions against systematic tax avoidance and more effective recovery at the judicial phases. In particular, the Government adopted a mechanism to obtain liens on a tax debtor's assets (*arrolamento de bens*) to ensure the settlement of tax arrears when the final judicial decision is taken, preventing the sale of assets before the final judicial decision which may makes the tax arrears irrecoverable. This action applies only to non-compliant taxpayers whose tax debt exceeds thirty percent of their liquid assets, and are higher than five hundred thousand Reais (BRL500,000).

59. **The third component, the strategic recovery treatment, differentiates taxpayers' debts depending on the value of tax arrears and the circumstances of tax payers.** Previously a standard recovery process for all debts was used regardless of the type, size of tax arrears and risks of non-payment. The GoBA is adopting a more strategic approach, discriminating the treatment of small and low risk tax arrears that can be processed through automated systems, from high value and more difficult cases, which require stronger efforts and coordination with

⁵ While the proposed operation supports actions under the first and second components, reference to the third one above is needed to understand the overall GoBA's strategy to improve tax arrears recovery.

other government entities and the judiciary in particular.⁶ This in turn, is expected to reduce the number of tax arrears processes and the time for resolution in the courts.

Prior Action 1: The State Government of Bahia has adopted administrative procedures to: (a) enable taxpayers to pay their respective tax arrears in instalments, and (b) place a lien on assets and rights of Selected Taxpayers to cover the amount of those taxpayers' liabilities.

60. **Expected results.** The measures supported by this operation have been adopted by other Brazilian states with positive results. Authorities project an increase in the recovery of tax arrears from BRL240 million observed in 2013, to BRL320 million in 2015, increasing the recovery rate of the annual flow of new tax arrears from the current 25 percent to 35 percent.

(b) Pension expenditures

61. **While less critical than in other Brazilian states, the deficits of the civil service pension scheme (the *Regime Próprio de Previdência Social - RPPS*) are the main source of fiscal disequilibrium and risks.** The RPPS in Bahia has been running deficits of BRL1.4 billion, about 0.8 percent of the state's GDP or 6 percent of its net current revenues. Projections for contributions and benefits indicate that this deficit will widen in the future. Indeed, according to World Bank estimates, the implicit pension debt is estimated at 108 percent of the state GDP. To a great extent, the financial situation of the civil service pension schemes in Bahia and other states is the result of generous benefit rules and eligibility criteria. The basic parameters of the system-- including eligibility criteria, benefit formula, pension indexation, retirement age, and contribution rates-- are established in federal laws, thus, the GoBA's ability to introduce critical parametric changes and reduce pension expenditures and deficits is limited to administrative measures and wage policies which have effects on pension expenditures.

62. **The GoBA has taken actions that are under its control-- such as improving the collection of contributions from other contributory systems, cancelling benefits and correcting irregularities in the concession of pension benefits.** On the revenue side, the GoBA has improved the recovery of social security contributions (*Compensação Previdenciaria*) made by retired and current state employees to the private sector workers social security system, the National Institute of Social Security (*Instituto Nacional da Previdência Social – INPS*) from BRL30 million in 2009 to BRL178 million in 2013. On the expenditure side, since 2012, the Superintendence of the Civil Service Social Security System (SUPREV) is requesting the annual registry of RPPS beneficiaries, cross checking databases with other pension systems (INPS and the Federal Government's RPPS) to identify irregular duplications and improving internal procedures for the payment of benefits. The full operation of the new ITS human resource management system is expected to enable better control of personnel expenses and pensions. While these actions will not address the structural imbalance of the system, the expected benefits of all these initiatives are far from negligible. The mandatory annual registering and the cross checking with other systems resulted in the cancellation and correction of around 2,000 benefits with an estimated annual savings of BRL110 million.

⁶ As some of the actions under this third component depend on the Judiciary branch which is an autonomous entity, the prior action in this policy area supports actions that exclusively depend on the Executive which correspond to the first and second components of the GoBA's strategy to improve tax arrears recovery.

63. **Further improvements in internal audits on the payment of benefits are being adopted.** In December 2013, the SUPREV established a working group that prepared an action plan to enhance control capacities and to perform audits on specific groups of beneficiaries. In the first three months of the year, the group reviewed higher pension benefits and found 200 irregular benefits (pensions above the State ceiling, inclusion of gratifications and bonuses into the benefits among other irregularities). The correction of these irregularities is expected to generate annual savings amounting BRL10 million. Moreover, to improve its audit capacities, SUPREV has signed with the State Court of Accounts (*Tribunal de Contas do Estado – TCE*), the external control entity, a cooperation agreement that will enable SUPREV to use the TCE’s Public Accounts Audit system, called the Public Accounts Observer System (*Sistema Mirante*), an IT audit system developed by the TCE in its annual audits to the public sector accounts. The *Mirante* system will enable more systematic and effective audits of pensioners’ payroll. The agreement also includes the provision of technical assistance by the TCE.

Prior Action 2: The State Government of Bahia has strengthened control of its pensioners’ payroll by:

- (a) carrying out an internal audit of the State Government of Bahia’s integrated human resources system, with particular focus on the pension benefits administered by SUPREV, and implementing measures to address the audit’s findings; and
- (b) accessing *Mirante* to facilitate SUPREV’s auditing of the payment of pension benefits.

64. **Expected results.** The measures supported in this area are expected to enhance the GoBA ability to perform audits and exert tighter controls on the payroll for retired civil servants and pensioners and prevent the payment of irregular benefits for the new retirees and pensioners. According to SUPREV, the expected savings from the ongoing audits and follow up corrective measures on irregular benefits could amount to BRL30 million.

(c) Territorial Planning

65. **Due to the strong regional disparities, the high fragmentation of public resources and the weak integration of federal, state and local policies and programs, the establishment of territorial planning arrangements is a priority for the GoBA.** As described in Section 2, Bahia has extreme regional disparities in a range of socio-economic development indicators which reflects the high concentration of economic activities in the metropolitan area of the state capital, Salvador, and other coastal areas. As a consequence, the incidence of poverty is concentrated in the rural areas in the interior of the state. Comprising more than one-fourth of the State population, rural population in the semi-arid zones of the State continues to be overrepresented among the poor due to the heavy reliance on livelihoods based on low productivity and rain-fed agriculture in drought prone areas. Living in small municipalities with low governmental capacity, rural people also lack access to basic public infrastructure and services.

66. **Administrative fragmentation and lack of coordination affect the efficiency of service delivery at the local level.** The state is highly decentralized into 417 municipalities, which enjoy full autonomy for the design and implementation of public policies. With 80 percent of municipalities having less than 30,000 inhabitants, the financial, institutional and technical capacities of local governments are also unevenly distributed. As there is no an intermediate level of government between the State and the municipalities, local development strategies are not integrated, sector policies implemented by the federal, the state and the local governments

implemented in each territory are not coordinated, public resources are fragmented and scale economies are not explored.

67. **To address these limitations the GoBA is developing territorial planning arrangements.** Territorial planning is expected to simultaneously foster better coordination of sector policies being implemented by the three levels of government, improving resource allocation at the territorial level and to improve GoBA's own planning capacity as the State's development strategies will be informed by territorial needs, objectives and plans.

68. **To that end, the GoBA has progressively established territorial and governance arrangements.** From 2005 to 2009, the GoBA defined 27 territorial planning units (*territórios de identidade*) which groups municipalities with similar economic and cultural characteristics. In 2010, the GoBA created the Territorial Development Council (*Conselho de Desenvolvimento Territorial – CEDETER*), a consultative forum composed by GoBA's entities and the civil society representatives which provides advice for the design of the state policies and development plans in the territories. In 2011, the GoBA established the Territorial Collegiate Bodies for Sustainable Development (*Colegiados Territoriais para o Desenvolvimento Sustentavel - CODETERs*) in each of the 27 territorial planning units to articulate federal, state and municipal policies within these territories and to identify needs and discuss policy proposals at the territorial level. Finally, in 2012 for the first time, the main planning instrument, the State's Participatory Multi-Annual Plan (PPA-P), was designed on a territorial basis and its implementation is monitored by a geographic information system based on the 27 territories.

69. **Nonetheless, these territorial and participatory arrangements face important constraints to their functioning and effectiveness.** The CEDETER does not have a clear mandate and the participatory arrangements are ill defined. The CODETERs are very heterogeneous in terms of their structure, objectives, and technical capacities and the lack of clear internal rules and definition of their advisory or executive roles limit their proper operation. In addition, some CODETERs do not ensure a wide participation and representation of the various actors in their geographical area. Furthermore, some CODETERs have not been active in presenting territorial plans, pursuing sectoral policies to promote economic development, or monitoring the implementation of the PPA-P in their territories. For this reason, SEPLAN is seeking to standardize the structure, internal rules, and representative composition of the CODETERs and to strengthen their role and responsibilities in preparation, implementation and monitoring of the State PPA-P. SEPLAN is also providing capacity building activities to improve CODETERs' ability to design and implement and coordinate territorial development plans.

70. **This proposed operation supports the GoBA efforts to strengthen the existing institutional framework for the governance of territorial policies.** The GoBA submitted to the legislative assembly a draft law establishing the State Policy for Territorial Development (*Política de Desenvolvimento Territorial do Estado da Bahia*) that addresses some of the weaknesses of the governance framework. In the case of CEDETER, the new draft law indicates its competencies and member composition, including representation of civil society. The draft law supports a process of certification of the territorial CODETERs for standardization of their structures, internal rules, and functioning. Furthermore, the draft law states that the three main planning – budgeting instruments, namely the PPAs, the Budgetary Guidelines Laws (*Lei de Diretrizes Orcamentarias – LDO*), and the Annual Budget Laws (*Lei do Orcamento Anual – LOA*) should be informed by the territorial development plans prepared by the CODETERs and

their execution needs to be reported in a territorial basis. Furthermore, the draft law enables SEPLAN to provide technical, administrative, and financial assistance to territorial councils so that they can play a role proposing public policies or programs support territorial development.⁷

Prior Action 3: The State Government of Bahia has submitted to its Legislative Assembly, for approval thereby, a draft law, in form and substance satisfactory to the Bank, to establish the legal framework for the *Política de Desenvolvimento Territorial do Estado da Bahia*.

71. **Expected results.** While the Government has taken decisive steps towards the practical implementation of territorial planning, there is a need to ensure its sustained application by strengthening the legal basis to existing territorial organizations, such as CEDETER and CODETER. The expected outcome is to ensure an adequate functioning of the CEDETER and the territorial CODETERs, and assist them in building technical capacity to prepare their territorial development plans, strengthening the territorial focus of GoBA's main planning instrument, the PPA. By 2015, it is expected that at least 20 out of the 27 CODETERs will have their structure, internal rules consistent with the legal framework defined by the law.

Pillar 2: Service Delivery

72. **Within the overall objective of the first DPL and this proposed operation to Bahia, Pillar 2 focuses on reforms aimed at improving the quality of public services provided to afro-descendants, women, and other minorities.** To that end, this pillar combines mainstreaming and tailored policies to ensure: (i) equal access and treatment for the provision of public services; and (ii) that public service delivery takes into account the needs of afro-descendants, women and other minorities.

73. **Ensuring equal access to public services for afro-descendants and other minorities is a central GoBA priority.** Afro-descendants in Bahia have higher poverty rates (34 percent compared to whites at 18.9%) and lower levels of human capital. Fewer afro-descendants than whites have a college degree (5 percent compared to 11.6 percent of whites) and more have not completed primary education (49.3 percent compared to 42.9 percent of whites). In comparison to whites, households headed by afro-descendants have 40 percent lower per capita incomes and are also slightly more deprived of safe water (13.2 percent vs. 9.9 percent) and sanitation (50.9 percent vs. 48.8 percent). Furthermore, afro-descendants also face discrimination and Afro-Brazilian culture, history and religion are not thoroughly recognized by the educational system and their cultural expressions are often prohibited in schools and hospitals.

(a) Equal Opportunities

74. **In order to promote equal opportunities for afro-descendants across several policy areas, the GoBA has recently approved a law establishing the Statute for Racial Equality and Combating Religious Intolerance (*Estatuto da Igualdade Racial e Combate à Intolerância Religiosa na Bahia – EIR*).** The Statute, aimed at ensuring equal rights and opportunities to afro-descendants, the protection of individual and collective civil rights, and addressing discrimination and other forms of religious intolerance, establishes guidelines for the

⁷ The Bahia Sustainable Rural Development Project (P147157) will finance technical assistance to CODETERs for the preparation of their territorial development plans that should inform the forthcoming PPA for 2016-19.

enhancement of service provision and the introduction of mainstreaming and targeted actions across several policy areas such as health, education, culture, labor and income, land entitlement, justice and public security, among others. For example, the Statute mandates the establishment of specific measures to enhance the quality, availability and accessibility of health care for afro-descendants and other minorities and combat institutional racism in public health providers. In the area of education, it foresees an equal opportunity program to be established in public schools for afro-descendants and indigenous population at all educational levels as well as the inclusion of African and afro-Brazilian history as part of the regular curriculum. The state will also take measures to facilitate the process of recognition of land ownership of *quilombola* communities (descendants of former slaves who escaped from slave plantations that existed in Brazil until abolition in 1888). It establishes a quota system (minimum of 30 percent for afro-descendants) for the selection of all public employees as well as priority in the participation of labor and income generation programs. In public security and access to justice, the state will assess service provision to Afro-descendants and take measures to reduce police violence against the group, especially the youth.

75. The Statute will create an institutional framework to facilitate the formulation, implementation, financing and monitoring of policies and programs promoting racial equality at state and municipal levels. The law establishing the Statute also proposes the creation of the State System for the Promotion of Racial Equality (*Sistema Estadual de Promoção da Igualdade Racial – SISEPIR*) and the System for Financing Policies Promoting Racial Equality (*Sistema de Financiamento das Políticas de Promoção da Igualdade Racial*). SISEPIR is a legal framework to enhance vertical coordination between the state and municipalities and as well as to increase social accountability. Municipalities can join SISEPIR upon having established a Council (composed of government and civil society) for the formulation and monitoring of policies promoting racial equality at the local level. Upon joining, municipalities formally adhere to the guidelines laid out by the Statute and become eligible to receive funding from the *Sistema de Financiamento das Políticas de Promoção da Igualdade Racial* for the implementation of programs and projects for the promotion of racial equality. For the purpose of capacity building, municipalities are encouraged to join the Forum for Public Managers in the Promotion of Racial Equality, a knowledge sharing network of government officials at municipal level. In order to strengthen the monitoring capacity of the state, the Statute also foresees the improvement of data collection mechanisms and the inclusion of race-sensitive indicators in governmental programs in the State’s PPA.

Prior Action 4: The State Government of Bahia has established the legal framework for the *Estatuto da Igualdade Racial e de Combate à Intolerância Religiosa do Estado da Bahia – EIR*.

76. Expected results. This action is expected to enable the establishment and functioning of the institutional and financial systems for the promotion of racial equality. Progress towards this result will be measured by the number of municipalities joining the State System for the Promotion of Racial Equality and the number of public programs in the PPA for 2016-19 with monitoring indicators disaggregated by race.

(b) Education

77. The GoBA seeks to promote educational inclusion by making education services more relevant for indigenous populations and *quilombolas*, one of the priorities of “Todos

pela Educação” (All for Education) program, the State adopted in 2011. In recent years, Bahia has made sizeable progress in education even if it still lags behind other states in Brazil. Of the adult population (25 years or older), the average years of schooling (6.1 years) is now slightly higher than the Northeast. The illiteracy rate for the population aged 15 years and older decreased to 14 percent in 2011 from 23 percent in 2001. The net attendance rate for children between 7 and 14 years in Fundamental Education (FE) grades 1-9 increased to 95 percent in 2011 from 91 percent in 2001. Although still low, the net attendance rate in Secondary Education (SE) grades 10-12 for children between 15 and 17 years doubled between 2001 and 2011 to reach 41 percent. Bahia's scores on the Basic Education Development Index (*Índice de Desenvolvimento da Educação Básica* - IDEB) for FE for initial grades (1-5) and final grades (6-9) and SE improved between 2005 and 2011 and are now slightly above the Northeast average.

78. **Minorities groups, particularly indigenous populations and *quilombolas*, have benefited less from the recent progress in education service delivery.** The size of the school-age indigenous populations and *quilombolas* is small. In 2013, Bahia counted 7,688 indigenous students enrolled in FE in 49 schools and 1,416 indigenous students enrolled in SE in 11 schools. For *quilombolas*, it was estimated that 42,839 students within 444 schools were enrolled in FE and 7,374 students within 20 schools were enrolled in SE. However, education indicators show a gap in terms of access and performance for indigenous and *quilombolas* students compared with the State average. The net attendance rate for indigenous populations is several points lower than the State average (in 2012 it was estimated at 84 percent in FE and 35 percent in SE). The indigenous and *quilombolas* schools face low education standards, not adapted to socio cultural practices and local languages, as well as poor student achievement. Only four percent of the indigenous population (5 years or older) speaks an indigenous language. It is among the ten lowest in Brazil (37 percent) and is lower than the Northeast average (14 percent). The 2011 IDEB for indigenous in grade 5 and 9 were 3.3 and 2.8 compared with 4.2 and 3.3 for the State average, respectively (scores on the standardized tests in Portuguese and Math are even lower for indigenous populations). The illiteracy rate for indigenous populations was 17 percent in 2010, compared with 9 percent for the Brazilian average (Census 2010).

79. **To address the inequality of education standards, the GoBA adopted in 2013 a new regulatory framework for the indigenous education aimed at improving the relevance and performance of its schools.** This framework defines the operational guidelines for indigenous education in basic education (grades 1-12). It supports the adoption of a curriculum referential framework adapted from the national standards promulgated by the Ministry of Education (MEC) for indigenous education. The GoBA also promotes the production, publication and distribution of intercultural instructional and didactic materials.

80. **Another key challenge is the poor quality and limited pool of indigenous teachers.** Teachers in indigenous schools are often selected by the indigenous communities independently of their academic and professional certification. Their career prospects are limited as they do not belong to the State civil service. They do not have access to professional development either. The lack of attractiveness of the teaching career produces a lot of turnover among indigenous teachers. To address these issues, the GoBA instituted a personnel category for indigenous teachers that belongs to the State civil servant staff of the Secretary of Education (SEC). In 2013, the SEE launched an official competition (*concurso público*) to recruit a first batch of 390 indigenous teachers. The results from this competitive selection have been announced in early May 2014, the effective recruitment of indigenous teachers will begin shortly and indigenous

teachers are expected to begin to teach in 2015. The SEE instituted a requirement on intercultural education to take the exam. Newly recruited teachers (*concurgado*) will have access to professional development and those who without a teaching degree will have access to university to obtain a certification. By strengthening indigenous teacher effectiveness, the SEC will be able to begin raising performance in indigenous schools.

81. **Simultaneously, the SEE has developed territorial policies and a regulatory framework to make education more relevant for *quilombolas* communities.** The GoBA has institutionalized the *quilombola* education modality in the 2000s. However, the learning environment of many *quilombola* schools has remained inadequate. They are far from the students' and teachers' residences and are usually built of straw or wood with mud. They have shortages of drinking water and inadequate sanitary facilities. More importantly, the SEE lacks a curriculum adapted to *quilombola* populations and few communities have educational units covering the complete basic school cycle. To address these shortcomings, the SEC and the State Council for Education have approved a curriculum which takes into account the particularities of *quilombolas* populations school regulations for *quilombolas* schools which aligned with the guidelines of the MEC. This regulatory framework promotes *quilombola* culture in the traditional curriculum for state and municipal schools.

Prior Action 5: The State Government of Bahia, through SEC, has:

- (a) adopted new curriculum guidelines for *Quilombolas* and indigenous people's schools in the State Government of Bahia's territory; and
- (b) carried out public selection and recruitment of indigenous people teachers.

82. **Expected results.** The implementation of these measures is expected to improve educational services provided for indigenous and *quilombolas* minorities. It is expected that by 2015, the percentage of indigenous schools with certified indigenous teachers will increase to more than 75 percent. In the same direction, it is expected that the more than 50 percent of indigenous and *quilombolas* schools will be applying the new curriculums.

(c) *Health*

83. **Despite recent improvements in health care coverage, differences in access to preventive and health care services persist across race and gender.** Difficulties in accessing health services affect the overall health of afro-descendant populations. They are also at increased risk for self-selecting pathologies. The state of Bahia has the largest prevalence of Sick Cell Disease (SCD), with 1 in 650 people affected, and 1 in 17 being carriers. The high prevalence is correlated to the large Afro-descendent and mixed race population in the state. The afro-descendent population who suffers from SCD is largely unaware of the existence of the disease, cannot easily access high quality medicine, and many are misdiagnosed with leukemia.

84. **The State of Bahia has approved the State Policy for Health Services to the Afro-descendent Population (*Política Estadual de Atenção Integral a Saúde da População Negra*) establishing the principles, directions and actions to promote, protect and recover the health of afro-descendant population in the State Government of Bahia's territory.** The State Policy for Health Services to the Afro-descendent Population has been approved by decree and supports the strengthening in the treatment of afro-descendants, inclusion of racial training to public health care providers, and increased scientific and epidemiologic knowledge pertaining to illnesses that disproportionately affect this group, as is the case of SCD. The policy will allow the

creation of operational arrangements to ensure the full compliance with the spirit and specific mandates of this legal norm. The GoBA will support the training of health care professionals on improving access of Afro-descendants to health services, improving quality of care for diseases that disproportionately affect Afro-descendants, and changing the culture surrounding institutional racism. In addition, the state will increase the coverage of neonatal testing to facilitate the early detection and treatment of SCD, which is most prevalent in the black population.

Prior Action 6: The State Government of Bahia has adopted the *Política Estadual de Atenção Integral à Saúde da População Negra*.

85. **Expected results.** The implementation of these measures is expected to increase the quality and access to health services by afro-descent population. In particular, increased coverage of neonatal heel prick test will allow for earlier detection and treatment of sickle cell disease. Progress towards the expected results will be monitored through the number of hospitals that received anti institutional racism training and the coverage of neonatal heel prick test for the early detection of SCD.

86. **Stubbornly high maternal and infant mortality rates are one of the most serious health challenges in Bahia.** It is estimated that 90 percent of maternal deaths could be prevented through timely delivery of quality health care (maternal and prenatal). Bahia's maternal mortality ratio (MMR), at 50.3 per 100.000 live births in 2000, has worsened in recent years to 89.4 in 2009 and subsequently falling to 69.5 in 2012. This increase in the MMR may be a result of increased epidemiological surveillance of maternal deaths and improvements in information system. However, the rate is still high when compared with the estimated national average of 64 and disproportionately high when compared to other Brazilian states. Maternal health care is also key in reducing Infant Mortality Rate (IMR) and in particular early neonatal mortality (children less than a week old), which contributes to 74.5 percent of all child deaths in the State in 2012. The neonatal mortality rate increased in Bahia as a consequence of the high occurrence of low-weight at birth cases, a problem directly related to youth pregnancies.

87. **The high adolescent pregnancy rate significantly contributes to maternal and infant deaths in the State.** Brazil has a high adolescent fertility rates, with 72 pregnancies per 1,000 adolescents for ages 15-19 in 2011, just above the Latin American and Caribbean average of 70 per 1,000. The high adolescent fertility is partly attributed to parenthood seen as a sign of social status among poorer strata of society and early sexual activity in Brazil, among the earliest in the region. Teen pregnancies are more likely to result in pre-term delivery and low weight at birth, negatively impacting maternal and infant mortality. In Bahia, between 2007 and 2012, nearly 23 percent of pregnancies occurred in females between the ages of 10 and 19, and maternal mortality affected 15 percent of pregnant adolescents.⁸

88. **Adolescent pregnancy is a major policy challenge as the GoBA tries to reduce maternal and neo-natal mortality rates.** To this end, the GoBA has institutionalized coordination and multi-sectoral solutions to prevent the risks related to adolescent pregnancy. A multi-sector approach is necessary since pregnancy socially and economically impacts young

⁸ Supported by the ongoing Bahia Integrated Health and Water Management Project (P095171), the Bank and the GoBA will conduct two case-control studies to assess the impact of interventions increasing student's knowledge on sexual and reproductive health and provide evidence on agency as it pertains to adolescent pregnancy in the state of Bahia.

women's educational attainment, achievement, and future earnings. A joint regulation signed by the Secretariats of Planning (SEPLAN), Health (SESAB), and Education (SEC) establishes a multi-sector coordination mechanism to implement a statewide action plan in the State Government of Bahia's territory to prevent teenage pregnancy and provide childbirth care in case of teenage pregnancies, including improved monitoring and common surveillance, and commitment to clear accountability with the involvement of civil society.

Prior Action 7: The State Government of Bahia, through SEPLAN, SESAB and SEC, has institutionalized multi-sector efforts in implementing a statewide action plan in the State Government of Bahia's territory to prevent teenage pregnancy and to provide childbirth care in case of teenage pregnancies by assigning these secretariats the joint responsibility for planning and promoting the actions necessary to implement said action plan, including the carrying out of joint meetings, the preparation of an annual report, and the fostering of dialogue among the relevant expert and technical teams working to implement the action plan.

89. **Expected Results.** The multi-sector coordination arrangement is expected to enhance GoBA's ability to support the reduction of youth pregnancies and improve the quality of maternal and neonatal services offered to pregnant adolescents. Expected results will be monitored through the effectiveness index on the provision of maternal and neonatal services in 25 reference state maternity hospitals⁹. The multi-sector coordination is also expected to raise awareness to the magnitude of the adolescent pregnancy problem in the state. This will be monitored through number of statewide situation rooms, mass media campaigns, and baseline evaluation of school sexual and reproductive health programs on adolescent pregnancy.

(d) Public security

90. **Violent crime has been rising in the past decade, which calls for increased efforts in this area.** Homicide rates increased from 11.9 to 40 homicides per 100,000 inhabitants between 2001 and 2012, making Bahia the fourth most violent state in the country, with homicide rates well above the national average (25 per 100,000 in 2012).

91. **Violence is also a concentrated phenomenon both geographically and demographically.** Two thirds of all homicides are concentrated in 20 municipalities in Bahia. Homicide rates, in Bahia and elsewhere in Brazil, are also higher among Afro-descendants than among white people, and this gap seems to be increasing. The homicide rate among the former reaches 42 per 100,000 inhabitants, whereas it equals 16 among the latter. In the last decade, this rate has increased by 156 percent among the Afro-Brazilians and by 128 percent among white people. As expected, figures are higher among the youth. The homicide rate is 36.3 among the white youth and 65.5 among the young Afro-descendants. Violence affecting lesbian, gays, bisexual and transgender (LGBT) population is also on the rise. Between 2009 and 2012, registered murders of GLBT population increased from 198 to 338 (around 77 percent) and from 20 to 29 (around 45 percent) in Brazil and Bahia respectively. Bahia ranks third in the absolute number of GLBT murders among Brazilian states.

92. **A core objective for the GOBA is to improve its capacity to prevent and control crime and violence against these vulnerable groups.** To reinforce the prevention of crime and violence, the GoBA created at the State Secretariat of Public Security (SSP), the

⁹ For details on the effectiveness index see Annex 2 on results framework indicators.

Superintendence for Violence Prevention Superintendence (*Superintendência de Prevenção à Violência*, SPREV). SPREV is divided in two main departments: Community Policing and Human Rights. The first is in charge of providing training on community policing principles and of coordinating the planning, implementation, monitoring and evaluation of the Community Bases established in at risk communities. The Human Rights division is in charge of providing training to security officers in this area and on coordinating social prevention interventions with other state agencies. SPREV has identified the need to develop specific protocols for officers to treat specific vulnerable groups. In this regard, the SSP has created a multi-sectoral working group responsible for the design, implementation and training activities for specialized crime prevention against black youth, women, LGBT population and the elderly. Coordinated by SPREV, the group will disseminate community policing and human rights approaches with public security officials, including how to treat and approach groups at higher risk of victimization (e.g., black youth). The group is already preparing specific protocols and providing training activities to the police staff on specialized treatment affecting these four vulnerable groups.

93. **Given the high victimization rates of youth afro-descendants, the GoBA joined the National Prevention Plan on Violence against Afro-descendant Youth – *Juventude Viva (JV)* in December 2013.** The National Plan aims at supporting state and municipal governments to better target social violence prevention programs towards afro-descendant youth. The plan encompasses preventative actions aimed at reducing youth vulnerability to violence by creating opportunities for social inclusion and autonomy in areas that concentrate high levels of homicide. In this context, this DPL supports the establishment of a management committee responsible for coordinating activities to be developed under *Juventude Viva-JV*, including leading the design and implementation of the JV State Plan. The management committee includes representatives from SPREV, representatives of the other secretaries that are part of the Pact for Life program (*Pacto pela Vida –PPV*), the Social Prevention Chamber and the municipalities of the metropolitan area of Salvador. The management committee will exert a leading role in coordinating actions from different government levels and agencies to implement social violence prevention interventions focused on youth afro-descendants.

Prior Action 8: The State Government of Bahia has:

- (a) established a multi-sectoral group within *Secretaria da Segurança Pública* to assess the service needs of selected vulnerable groups, and to design preventive procedures, training for professionals, and skilled interventions aimed at benefiting selected vulnerable groups; and
- (b) established a management committee responsible for coordinating activities to be developed under *Juventude Viva-JV*.

94. **Expected results.** The establishment of one multi-sectoral group is expected to strengthen the ability of the State security sector to prevent and tackle violence against vulnerable groups and provide tailored services to victims. The implementation of the *Juventude Viva* Action Plan will support multi-sector and integrated violence prevention policies and enable better coordination for the design of interventions focused on Afro-descendant youth.

95. **Homicide of women in Bahia has significantly increased in past decade, ranking the state as 6th worst in Brazil.**¹⁰ Moreover, women in Bahia are at far greater risk of domestic violence (e.g., forms of physical and psychological violence by an intimate partner or someone they know). Between 2009 and 2010, over 800 women have been victims of rape – an increase of 30 percent - and about 65,000 were threatened and more than 38,000 suffered from bodily injuries.¹¹

96. **The reduction of all forms of gender-based violence and the improvement of the service delivery to gender violence victims are key aspects for improving the situation of women in the Bahia.** Bahia DPL I supported the creation of the Secretariat for Women Policies (*Secretaria de Políticas para as Mulheres*, SPM) in 2011 and its increased cooperation with other sectors. SPM has launched several awareness raising campaigns to inform women and men on the issue of domestic violence, including changes in law enforcement and the range of services available to victims (special police stations, social assistance centers, women centers) throughout Bahia's 27 territories. However, the recent rise in incidents of gender based violence in the state suggests the need to increase efforts in this area, particularly through the expansion and coverage of the service network to victims, which remains fairly small in Bahia in comparison to other states.

97. **Women in rural areas are particularly vulnerable to gender based violence but the existing network of services, largely concentrated in urban areas, may not be adequately addressing their needs.** Perova, Reynolds and Müller (2013) argue that women in rural communities in Brazil may be unable to use the services due to lower anonymity in rural communities as well as the fact that longer distances and lack of transportation to the services may make them simply inaccessible in a timely manner. To improve the provision of services to rural women, the GoBA has created the Permanent Forum to Combat Gender Based Violence (GBV) in Rural and Forest Areas (*Fórum Estadual Permanente de Enfrentamento à Violência contra as Mulheres do Campo e da Floresta da Bahia*), a network of government and civil society representatives which will be responsible for the coordination of mobile units to be used in the provision of victim support in all territories in a more accessible manner.

Prior Action 9: The State Government of Bahia has established the *Fórum Estadual Permanente de Enfrentamento à Violência contra as Mulheres do Campo e da Floresta da Bahia*.

98. **Expected results.** The forum and the operationalization of the mobile units are expected to address one of the key bottlenecks in service provision to victims of GBV which is the difficulty in accessibility to security services in rural areas. Results will be measured by the number of women in rural areas covered by mobile units against gender-based violence.

(e) Productive inclusion

99. **Women and afro-descendants in Bahia make most of the poor and have labor market outcomes that contribute to their lower incomes.** As mentioned above, they are overrepresented in the poor, extreme poor and bottom 40 percent populations. Furthermore, women and afro-descendants face weaker labor market outcomes such as higher unemployment

¹⁰ Waiselfisz, Julio J: Mapa da Violência 2012 – Caderno Complementar 1: Homicídio de Mulheres no Brasil. Instituto Sangari: São Paulo, 2012.

¹¹ Data from Secretaria da Segurança Pública and Disque 180.

(11.6 percent and 8.8 percent, respectively, versus 6 percent and 7.1 percent for men and whites), lower incomes (female/male and black/white income ratios are 0.73 and 0.60, respectively), and occupational concentration in less productive, traditional sectors and unpaid activities.

100. **Women and afro-descendants face additional challenges as entrepreneurs that limit the sustainability of their businesses.** Afro-descendant and female-owned businesses tend to be smaller, more informal and concentrated in less productive sectors, generating significantly lower incomes and suffering a higher mortality rate. Female and afro-descendant entrepreneurs also lack business and soft-skills as well as human and financial resources. Furthermore, discrimination and a stronger risk aversion largely caused by disempowerment also limits their access to labor, consumer and credit markets as well as mainstream networks. The combination of all these factors restraints their ability to growth and pass the “glass ceiling” of individual micro-entrepreneurship. For example, although afro-descendants account for 80 percent of individual entrepreneurs, they only represent 61.9 percent of owners of businesses with up to 5 employees and 49.2 percent of owners of firms with more than 5 employees.

101. **Although the GoBA currently provides significant support to entrepreneurial activities among vulnerable groups through program *Vida Melhor*, it recognizes that promoting entrepreneurship among women and afro-descendants requires the design of specific instruments tailored to the particular needs of these groups.** In addition to this, lack of clearly defined coordination mechanisms, roles and responsibilities for the purpose of designing, implementing, monitoring and evaluating still pose challenges to efficient and effective gender and race mainstreaming of productive inclusion policies.

102. **The proposed DPL will support the establishment of an institutional framework to expand and catalyze initiatives supporting entrepreneurship to better serve women and afro-descendants.** To this end, the GoBA submitted to the State Legislative Assembly the State Policy for Entrepreneurship among Afro-descendants and Women (*Política Estadual de Empreendedorismo Negro e de Mulheres – PENM*). The PENM establishes specific guidelines and mechanisms for the expansion of gender and race-focused socio-productive inclusion interventions and their integration with Bahia’s largest socio-productive inclusion program *Vida Melhor*. The law also establishes the creation of a three-level policy governance structure where a social policy committee oversees political governance, the State Secretariat for the Promotion of Race Equality (*Secretaria de Promoção da Igualdade Racial -- SEPROMI*) and SPM lead strategic governance and a committee composed of implementing agencies across sectors is responsible for operational management.

103. **The PENM supports a variety of interventions tailored to the needs of women and afro-descendants.** Apart from traditional instruments, such as business training, technical assistance, facilitated access to credit and conditional productive grants, the policy also foresees a number of non-traditional interventions, such as gender and race sensitive training methodology emphasizing individual and community empowerment, soft skills training, mobile and group-based day care to enable the participation of mothers of small children, among others. These interventions will be further complemented by awareness raising campaigns on racism and sexism to promote the profile of female and afro-descendant entrepreneurs with the general population.

Prior Action 10: The State Government of Bahia has submitted to its Legislative Assembly, for approval thereby, a draft law, in form and substance satisfactory to the Bank, to establish the legal framework for the *Política Estadual de Fomento ao Empreendedorismo de Negros e Mulheres – PENM*.

104. **Expected results.** The PENM will contribute to the socio-economic inclusion of empowerment of women and afro-descendants in Bahia with specific interventions aimed at increasing the number, the incomes and the sustainability of businesses owned by women and afro-descendants. Results will be measured the number of female and afro-descendants productive groups receiving specialized technical assistance by the GoBA.

C. LINKS TO THE CPS AND OTHER BANK OPERATIONS

105. **The proposed operation is fully consistent with the World Bank Group's Brazil Country Partnership Strategy 2012-2015 (Report # 63731-BR) discussed by the Executive Directors on November 1, 2011.** More specifically, the proposed operation will contribute to macroeconomic stability by supporting enhancements in fiscal management and to more inclusive growth by assisting authorities to ensure and equal and tailored service delivery for afro-descendants, women and minorities.

106. **As mentioned above, the proposed DPL builds on and complements other Bank investment operations.** Amounting more than US\$1 billion, the Bank portfolio in Bahia is the largest in the Northeast Region and include projects focused on social and productive inclusion. In particular, this operation is closely related to three ongoing investment operations. The first is the Bahia Integrated Health and Water Management Project (P095171), which is designed to assist the GoBA in addressing maternal and infant mortality through combined water, sanitation, and health sector interventions. The implementation of prior actions on the health component, will receive technical assistance from this project. In particular, the Bank through this project, will provide technical assistance to conduct two impact evaluation studies on teenage pregnancy to inform the design of health and education policies. In the other direction, the establishment of multi-sector cooperation to address issues related to teenage pregnancy has been identified as a necessary condition for the achievement of the development objectives of the project on reduction of maternal and infant mortality.

107. **The proposed DPL is also closely related to the Bahia Sustainable Rural Development (P147157) and the Bahia Entrepreneurship and Economic Autonomy among Women and Afro-descendants (P133759).** Both are expected to finance technical assistance for the capacity building of territorial councils and the mainstreaming of productive inclusion policies. Improving territorial planning and supporting policies to ensure more inclusive and adapted service delivery, are expected to ensure the sustainability of the interventions included in this investment operation. Finally, this proposed operation aims at consolidating the progress achieved by the first DPL. In particular, as shown in Table IV.1, this operation focuses on specific aspects of the reform agenda supported by the previous DPL.

Table IV.1: Areas and Objectives of Bahia DPL I and II

Area	Objectives	
Pillar 1: Public Sector Management	Bahia DPL I	Bahia DPL II
Tax administration	Increase the state revenue performance	Reinforce fiscal sustainability through enhancement measures of tax arrears recovery
Financial and Human Resources Management	Efficient and transparent management of financial and human resources	Tighten controls on pension expenses
Planning and Budgeting	Strengthening of multi-annual plans and cross sectoral approaches to public policy	Establish institutional framework for territorial planning
Pillar 2: Service Delivery		
Race and Gender	Promote gender equality as means of increased social inclusion and equitable growth	Ensure afro-descendants equal treatment on the provision of public services in health, education and public security, improved health care for mothers and protection from GBV
Health	Improve the quality and expand the coverage of primary health care in priority areas focused on maternal mortality reduction	Equal and tailored health services provided to Afro-descendant population Improve health care for teenage pregnancy and reduce teenage pregnancies
Social and Productive Inclusion	Foster economic development in the lagging regions and improve the access to and the quality of social services to the extreme poor	Foster entrepreneurial activities among women and afro-descendants
Crime and Violence	Improve the State Government's capacity to respond to violence	Strengthening Violence Prevention focused on vulnerable groups
Education	Improve accountability for results between the State and the Municipalities	Improve learning environment for underserved populations (indigenous and <i>quilombolas</i>)

108. **The proposed operation is based on a number of analytical studies and technical assistance activities produced by the Bank over the last years.** These studies provide a solid analytical foundation for identifying prior actions supported by this DPL (see Table IV.2).

Table IV.2: Analytical Underpinnings and Prior Actions and Triggers

ESW, NLTA, Policy Notes	Contribution to the Program
Brazil Intergovernmental Finances. Impacts and implications of recent and potential changes to Brazil's subnational Fiscal Framework. (Araujo, J and Barroso, R.,). World Bank. 2013. Poverty, Equity and Shared Prosperity Notes: An Overview for the State of Bahia.	Overall program. Prior Action 1.
Brazil: Towards a Sustainable and Fair Pension System (2006). World Bank. Brazil: Programmatic Fiscal Reform Loan—Social Security Reform (2005). World Bank.	Prior action 2
Achieving World Class in Education: The Next Agenda. Brazil Country Study. World Bank, 2011. De Ferranti, D. M. (Ed.). Inequality in Latin America: Breaking with History? World Bank. 2004 Kostner, Markus (Ed.). Indigenous peoples and afro descendants in Latin America and	Prior Action 5

the Caribbean: 2004-2014 review. World Bank. 2014	
Gragnotati, M., Lindelow, M., and B. Couttolenc. Twenty Years of Health System Reform in Brazil: An Assessment of the Sistema Único de Saúde. World Bank, 2013 Bahia: Health Sector Report. World Bank. 2011. Azevedo, J.P. et al. Teenage Pregnancy and Opportunities in Latin America and the Caribbean: On Early Child Bearing, Poverty and Economic Achievement. Teenage pregnancy summary, vol 1. World Bank 2013.	Prior action 6 and 7
“World Development Report 2012: Gender Equality and Development. World Bank. 2012 Perova, E, S. Reynolds and M. Müller. Towards a more Comprehensive Domestic Violence Policy in Brazil. World Bank. 2013.	Prior actions 9, 10
Crime, Violence, and Economic Development in Brazil: Elements for Effective Public Policy. Poverty Reduction and Economic Management Sector Unit: Latin America and the Caribbean Region. Washington, DC: World Bank. 2006 Making Brazilians Safer: Understanding the Dynamics of Violent Crime. 2012. Washington, DC: World Bank	Prior action 8

D. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

(i) Consultations

109. **The actions supported by this DPL are part of the GoBA’s PPA-P which was prepared in a participatory manner.** To support strong and enduring ownership of the strategy, SEPLAN organized consultative forums in the 27 administrative territories in the state. The participatory process included public consultations through the internet for the definition of thematic areas. Participation in the thematic groups was open to civil society organizations, private sector, unions, municipalities, regional councils and other stakeholders. Technical staff from the different state secretariats and representatives of other GoBA agencies participated actively in the technical discussions. After final consolidation and validation, the PPA was submitted to the State Assembly in August 2011 and officially adopted in December 2011.

110. **In addition, specific consultations have taken place for the preparation and approval of the prior actions.** The reforms to mainstream policies to promote racial equality and the policy actions to tailor education, public security and productive inclusion services to the needs of women, afro-descendants and minorities, were produced through numerous consultations with stakeholders and internal governmental discussions. Policy reforms on the health sector followed a highly participative preparation process which is defined by the national Unified Health System (SUS), which encompasses health councils at the local, state and federal levels. Interviews with stakeholders during the preparation of the PSIA demonstrated strong sense of stakeholders’ ownership and that authorities have taken into consideration the feedback received in these consultations.¹²

(ii) Collaboration with Development Partners

111. **The major international financial institutions operating in Bahia are the Inter-American Development Bank (IADB) and the Bank.** Amounting US\$1.2 billion, the IADB

¹² SEPLAN provided a detailed report of the public consultations held for the approval of most of the prior actions included in the policy program. Annex 4, section C reports on these consultations that were taken by the Government for the preparation of the main prior actions. SEPLAN’s report is available upon request.

has the largest portfolio in the state. In 2009 and 2012, the IDB First and Second Consolidation of Fiscal Equilibrium for the Development of Bahia (PROCOFINS *I and II*) which supported fiscal and public sector management reforms. In addition, the IADB has provided technical assistance through Modernization Program of the State Secretariat of Finance (PROMOSEFAZ) which supports the enhancement of the Government's public financial and human resource management systems, and the tax administration office.

V. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

112. **The World Bank team carried out a poverty and social impact analysis (PSIA) to assess the potential distributive effects of the policies supported by this DPL operation,** with a particular focus on identifying possible direct and indirect impact that could lead to a more inclusive growth across regions and social groups (for more details see ANNEX 4: POVERTY AND SOCIAL IMPACTS ASSESSMENT).

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

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

114. **The overall conclusion of the PSIA is that the policies supported by this operation address some of the causes of the socioeconomic inequalities that have marked the development of Bahia and will have pro-poor outcomes.**

B. ENVIRONMENTAL ASPECTS

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

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

116. **A robust legal framework provided for in the Constitution and other laws serves as the basis for Brazil's Public Financial Management (PFM).** The legal framework provides for a strong PFM mandate at the sub-national level. The framework provides for a clear definition of the responsibilities and institutional arrangements of Federal and sub-national entities. In addition, the Court of Accounts in the States (*Tribunal de Contas do Estado - TCE*) is charged with responsibility for external scrutiny, and the state assembly plays an external oversight role. The budget classification system is governed by Federal rules that are consistent with international standards. The State has largely met deadlines for the preparation of key budget documents and for submitting them to the legislature for consideration and approval.

117. **Bahia's PFM system features strong internal rules and controls and a clear definition of responsibilities and institutional arrangements.** Amongst these, SEPLAN is responsible for the upstream processes of planning and budget preparation while SEFAZ is responsible for managing treasury and downstream accounting and reporting processes. There is generally a high level of transparency with respect to financial information in Brazil. This is made possible through the use of the internet and other public media channels to disseminate information on plans and budgets, regular financial reports and annual financial statements. The budget is easily accessible as it is available online and through hard copies.

118. **The GoBA's commitment to a strong PFM system is evidenced by the strong focus on PFM improvements under the Pillar Democratic Management of the State in its multiannual plan for 2012-15.** The document recognizes transparency, accountability and the increased efficiency of public expenditures as key elements necessary to ensure equitable economic growth in the State. To achieve these, the GoBA has undertaken reforms to enhance efficiency, transparency and accountability in the use of public funds. These reforms are expected to strengthen linkages between strategic planning and the budget preparation process and increase capacity for the accounting and internal audit functions.

119. **The State has consistently been able to prepare detailed financial statements within stipulated deadlines.** The obligations relating to the preparation of these financial statements are clearly described in relevant laws and regulations, and the State's internal controls generally ensure that these are adhered to. Key contributing factors include the clarity with which the law

describes obligations in relation to the preparation of these financial statements, and the diligence with which they are applied.

120. **Strong progress on the adoption of international public sector accounting standards (IPSAS) has been observed and Bahia will likely begin to use these standards by 2015.** The State of Bahia has adopted decisive steps to meet the requirements for the full application of the new accounting rules. Training programs were provided to ensure the acquisition and dissemination of the knowledge required. Moreover, the State has in place a new Integrated Financial Management Information System (FIPLAN) which provides the electronic platform for the adoption of IPSAS. This new system facilitates the introduction of the new accounting regulations while enhancing the capacity of the state's information systems to collect, maintain, generate and analyze the financial data necessary for the preparation of financial statements and managerial information.

121. **The control environment governing the Central Bank's operations within which the loan's foreign exchange would flow are sound.** This conclusion is based on reviews of the Central Bank of Brazil (BCB) undertaken by both the IMF and the Bank. The Bank's review was based on an examination of the audited Financial Statements for the years ended December 31, 2006 to 2012, and a report of the independent audit carried out by an international firm of auditors. The latter contained an unqualified opinion on the financial statements for all years. The conclusions of the Bank's review are consistent with an IMF Safeguards Assessment, which concluded that the foreign exchange environment is sound and ensures the safeguarding of Fund resources.

122. **Disbursement.** The proceeds of the loan will be disbursed against satisfactory implementation of the DPL program, the maintenance of an adequate macroeconomic policy framework by the Federal Government, and the maintenance of an appropriate expenditure program, sustainable debt and adequate fiscal arrangements with the Federal Government by the GoBA. Once the loan is effective, disbursements of the loan will be made by the Bank into an account maintained by the State in *Banco do Brasil* (BB) in New York. BB is a commercial bank that is deemed acceptable to the World Bank as it is: (a) financially sound; (b) authorized to maintain the account in the currency agreed between the World Bank and the State; (c) audited regularly, and has received satisfactory audit reports; (d) able to execute a large number of transactions promptly; (e) able to perform a wide range of banking services satisfactorily; (f) able to provide a detailed statement of the account; (g) part of a satisfactory correspondent banking network; and (h) charges reasonable fees for its services. The account is denominated in foreign currency and does not form part of the country's foreign exchange reserves. However, the Central Bank will be informed of the deposit of this amount. The State will ensure that upon the deposit of the loan proceeds into said account, an equivalent amount will be credited in the State's budget management system.

123. **Auditing.** The State will provide a confirmation to the Bank that: (i) the loan proceeds were received into the foreign currency denominated account, and (ii) an equivalent amount was credited to the account that finances budgeted expenditures. Such a confirmation will be sent to the Bank within 30 days after payment. If the proceeds of the loan are used for ineligible purposes as defined in the Development Loan Agreement, the Bank would require the State to refund the amount. Due to the conclusions related to the adequacy of the State's public financial management environment, no additional fiduciary arrangements will be required.

D. IMPLEMENTATION, MONITORING AND EVALUATION

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

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

VI. SUMMARY OF RISKS

126. **This risk assessment suggests that this operation entails an overall moderate level of risks.** The most relevant risks that can affect the achievement of the PDOs defined for this operation are: political and governance, macroeconomic, sector strategies, technical design, and institutional capacity for implementation.¹³

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

128. **Macroeconomic risks are considered moderate.** Adverse shocks to the national economic activity have inevitable impacts on the state economy and the GoBA revenues. Declining revenues could negatively affect the implementation of the measures to improve service delivery. While the global scenario is still uncertain and Brazil's vulnerabilities have been recently exacerbated, the recovery of the global economy seems to be underway and the

¹³ This operation has been selected to participate in the pilot for the Bank's new Framework for Operations Risk Management (FORM) and Standardized Operations Risk-rating Tool (SORT). According to the SORT, risks can be classified under nine categories: political and governance, macroeconomic, sector strategies and policies, technical design of program, institutional capacity for implementation and sustainability, fiduciary, environment and social, stakeholders, and others. The team considers that the later four represent low risk for the achievement of the PDOs.

solid macroeconomic fundamentals of the Brazilian economy make it resilient to external shocks. In addition, the GoBA comfortable fiscal position enables the adoption of policies to mitigate the effects of adverse external shocks on Bahia's economy without putting under risk fiscal sustainability.

129. Risks associated with sector strategies, technical design, and institutional capacities are also moderate. The limited number and concentration of technical staff within core ministries poses significant risks for the implementation of reforms at the line secretariats level. The adoption of cross-sectoral reforms is particularly challenging, as the required coordination processes that are not routine for the line secretariats and can potentially constrain the effectiveness of public service delivery in health, education, public security and social and productive inclusion, and gender programs. However, the prior actions supported by the proposed DPL include measures that are technically feasible. Furthermore, the program reinforces the support to sector strategies backed by the previous DPL and other ongoing Bank's investment operations that will provide timely technical assistance, which are expected to substantially improve the policy implementation environment. The Bahia Integrated Health and Water Management (P095171) will support the implementation of the policy actions on the health sector aimed at ensuring equal treatment for afro-descendants and the adoption of integrated policies to reduce teenage pregnancy. In addition, the strengthening of territorial planning will be favored by the Bahia Sustainable Rural Development Project (P147157) which will provide capacity building for the institutional enhancement of the territorial councils. Finally, the implementation of the State Policy for Entrepreneurship among Afro-descendants and Women will be supported by the forthcoming Bahia Entrepreneurship and Economic Autonomy among Women and Afro-descendants (P133759). In summary, the risks associated to technical and institutional implementation capacities are expected to be attenuated by these operations.

ANNEX 1: POLICY AND RESULTS MATRIX

Component	Prior Actions	Expected Outcomes	Results Framework	2013 Baseline	2015 Target
Pillar 1: Fiscal Management and Territorial Planning					
	<p>1. The State Government of Bahia has adopted administrative procedures to (a) enable taxpayers to pay their respective tax arrears in instalments, and (b) place a lien on assets and rights of Selected Taxpayers to cover the amount of those taxpayers' liabilities.</p>	Increased revenues from recovery of tax arrears	Revenue collected from tax payments in arrears at administrative phases (in R\$ mi)	280	320
	<p>2. The State Government of Bahia has strengthened control of its pensioners' payroll by:</p> <p style="margin-left: 20px;">(a) carrying out an internal audit of the State Government of Bahia's integrated human resources system, with particular focus on the pension benefits administered by SUPREV, and implementing measures to address the audit's findings; and</p> <p style="margin-left: 20px;">(b) accessing <i>Mirante</i> to facilitate SUPREV's auditing of the payment of pension benefits.</p>	Reduced number and value of irregular social security benefits granted by RPPS	Savings generated by corrective measures detected by audits to the pensioners' payroll (in R\$ mi)	0	30
	<p>3. The State Government of Bahia has submitted to its Legislative Assembly, for approval thereby, a draft law, in form and substance satisfactory to the Bank, to establish the legal framework for the <i>Política de Desenvolvimento Territorial do Estado da Bahia</i>.</p>	Institutional arrangements for territorial planning in place.	Number of CODETERs fully operational	0	15
		Forthcoming PPA-P informed by territorial strategic plans.	Number of <i>Territorios de identidade</i> with strategic plans	0	10

Component	Prior Actions	Expected Outcomes	Results Framework	2013 Baseline	2015 Target
Pillar 2: Service Delivery					
	<p>4. The State Government of Bahia has established the legal framework for the <i>Estatuto da Igualdade Racial e de Combate à Intolerância Religiosa do Estado da Bahia – EIR</i>.</p>	Institutional and financial frameworks for promoting racial equality in place	<p>Number of municipalities with more than 10,000 inhabitants joining the State System for the Promotion of Racial Equality</p> <p>Number of social public programs in the multi-annual plan 2016-19 with race-disaggregated indicators</p>	14 0	20 5
Education	<p>5. The State Government of Bahia, through SEC, has:</p> <p>(a) adopted new curriculum guidelines for <i>Quilombolas</i> and indigenous people's schools in the State Government of Bahia's territory; and</p> <p>(b) carried out public selection and recruitment of indigenous people teachers.</p>	Educational services adapted to the needs of indigenous and <i>quilombolas</i> minorities	<p>Percentage of indigenous schools with certified indigenous teachers</p> <p>Percentage of indigenous and <i>quilombolas</i> schools adopting the new curriculums</p>	0 0	80 50

Component	Prior Actions	Expected Outcomes	Results Framework	2013 Baseline	2015 Target
Health	6. The State Government of Bahia has adopted the <i>Política Estadual de Atenção Integral à Saúde da População Negra</i> .	Increased awareness to combat institutional racism.	Number of hospitals that received training to ensure equal treatment in health services for afro-descendant populations	0	25
		Increased number of early diagnosis of SCD	Percentage of newborn children who received the neonatal heel prick test in Bahia	82	90
	7. The State Government of Bahia, through SEPLAN, SESAB and SEC, has institutionalized multi-sector efforts in implementing a statewide action plan in the State Government of Bahia's territory to prevent teenage pregnancy and to provide childbirth care in case of teenage pregnancies by assigning these secretariats the joint responsibility for planning and promoting the actions necessary to implement said action plan, including the carrying out of joint meetings, the preparation of an annual report, and the fostering of dialogue among the relevant expert and technical teams working to implement the action plan.	Strengthened quality of care in 25 selected state maternities	Effectiveness index on the provision of maternal and neonatal services in 25 reference State maternity hospitals. ¹⁴	65	80
		Increased awareness on teenage pregnancy	Mass media campaign to selected audiences on youth pregnancy prevention	0	2

¹⁴ The effectiveness index is composed of 10 indicators that capture the availability of services such as breast milk banks and intensive care units for neonates and mothers. These services are especially relevant to the comprehensive care of pregnant adolescent given the increased risk associated with these pregnancies. In addition, the effectiveness index will be tailored to include indicators that directly capture the provision of health care services to pregnant adolescents.

Component	Prior Actions	Expected Outcomes	Results Framework	2013 Baseline	2015 Target
Public Security	<p>8. The State Government of Bahia has:</p> <p>(a) established a multi-sectoral group within <i>Secretaria da Segurança Pública</i> to assess the service needs of selected vulnerable groups, and to design preventive procedures, training for professionals, and skilled interventions aimed at benefiting selected vulnerable groups; and</p> <p>(b) established a management committee responsible for coordinating activities to be developed under <i>Juventude Viva-JV</i>.</p>	Strengthened institutional capacity for prevention of violence against vulnerable groups	Percentage of the police force working with vulnerable groups trained in the use of the protocols for specialized services to vulnerable groups	0	50
			Percentage of municipalities in the metropolitan area of Salvador joining the JV program	0	50
	<p>9. The State Government of Bahia has established the <i>Fórum Estadual Permanente de Enfrentamento à Violência contra as Mulheres do Campo e da Floresta da Bahia</i>.</p>	Improved service coverage to victims of gender based violence in rural and remote areas of the state of Bahia	Percentage of municipalities in rural areas served by mobile units providing services and raising awareness on GBV under the rural women forum framework	0	50
Productive Inclusion	<p>10. The State Government of Bahia has submitted to its Legislative Assembly, for approval thereby, a draft law, in form and substance satisfactory to the Bank, to establish the legal framework for the <i>Política Estadual de Fomento ao Empreendedorismo de Negros e Mulheres – PENM</i>.</p>	Increased outreach of financing and TA programs for businesses led by women and/or afro-descendants	Number of women and afro-descendants producers organizations receiving tailored TA to support entrepreneurship	0	800

ANNEX 2: LETTER OF DEVELOPMENT POLICY



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In this heterogeneous space occupied by these various ethnic groups with different individual and collective skills, different forms and patterns of use and occupation have solidified over time. These differences, along with discriminatory public policies, have led to a state with inequalities, with a high concentration of economic and social activity in the metropolitan region of Salvador (which accounts for 50 percent of GDP and is home to 25 percent of the population) and a few pockets of affluence on the south coast, in the western part of Bahia, and the northern part of the state. Over time, our rich diversity has morphed into our history of inequality, which is manifested in poverty.

The Government of Bahia is willing to tackle and eliminate the main obstacles to development by promoting social inclusion. To this end, it has been implementing a series of key social, economic, and territorial development policies aimed at identifying thematic priorities determined on the basis of the local situation, with the aim of achieving balanced and sustainable development in the regions. Initiatives include a territorial development policy which, from the outset, recognized the existence of 26 *Territórios de Identidade* as a unit for planning purposes, reflected in the regional approach to the multi-year plans for 2008-2011 and 2012-2015 (with the latter having 27 *Territórios de Identidade*). Both were prepared in a participatory manner. In addition, other instruments were introduced to develop this policy, such as support for the functioning of *Colegiados Territoriais* (political area and equal territorial representation in all territories), support for the formation of public intermunicipal organizations, creation of a State Council for Territorial Development (CEDETER), and the drafting of ecological/economic zoning, among others.

In 2011, the Government of Bahia implemented PROINCLUSÃO I, financed by the IBRD and focused on twelve themes that were consolidated into three components: (i) social and productive inclusion, covering the topics of education, health, social and productive inclusion, gender, crime and violence; (ii) infrastructure for sustainable development, covering the topics of transport and logistics, housing and urban development, and disaster risk management; and (iii) strengthening planning and public management, covering the topics of public management, financial management and human resources, tax administration, and public private partnerships (PPPs).

The results were positive—in the area of education for example, the goals in the Agreement concluded with Municipalities (*Pacto com os Municípios*) were met one year ahead of schedule. Currently, 373 municipalities in Bahia are participating in the Agreements. In the area of health, the state policy related to basic care was published and produced tangible results in the reduction of infant mortality and strengthening of the state system of regulation and investments in training and communication for more than 400 professionals working in the areas of gynecology, obstetrics, and neonatology. In the areas of productive inclusion, the *Vida Melhor* program, which is aimed at promoting productive inclusion and operates in a coordinated and decentralized manner, covered more than 200,000 family farmers—one-third of persons engaged in family farming in Bahia, with assistance being provided to gain access to such programs as the PAA (food acquisition



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program) and the PNAE (National School Feeding Program). In terms of gender, the establishment of the Technical Board for the State Agreement to Combat Violence Against Women represents a step forward and with that the strengthening of the State Network to Combat Violence Against Women. In the area of public security, the implementation of the anti-crime program (*Pacto pela Vida*) led to a new model of citizen-focused policing. In addition to infrastructure investments, the public security model now covers such issues as the payment of public security workers, equipment, guidance, technical and psychological training, and the information network that will guide citizen-focused police training and guarantee human rights.

The progress made with implementation of PROINCLUSÃO I, particularly in the areas of education, health, gender, and crime and violence prevention is encouraging us to continue the activities implemented aimed at expanding this process and, seeking the assistance of the World Bank as a partner in implementing activities targeting social and productive inclusion, developing social, physical, and institutional infrastructure with the aim of achieving sustainable growth and strengthening public sector planning and management, specifically, the fiscal strengthening of the state by improving fiscal management, achieving efficiency in public expenditure, and improving the management of the special social security system for public workers, strengthening the gender and racial equality promotion policy, and bolstering the territorial development policy.

Assistance is being sought through the granting of a Development Policy Loan (DPL) in the amount of US\$400 million and possible technical project assistance.

The main policies and programs for which assistance is being sought are set forth in Bahia's 2012-2015 multi-year plan and are as follows: (i) 101: *Bahia Saudável* (healthy Bahia), (ii) 102: strengthening basic education; (iii) 112: *Vida Melhor*; (iv) 113: anti-crime program (*Pacto Pela Vida*); (v) 117: promotion of racial equality; (vi) 118: traditional peoples and communities (TPC); (vii) 119: combating violence against women; (viii) 120: independence of women; (ix) 142: planning and strategic management; and (x) 141: fiscal management. These are presented in two pillars that cover the following areas:

Policy Area 1 – Public Management

This area targets the democratic management of the multi-year state plan. To this end, we are seeking to implement a public sector reform program focused on fiscal sustainability and strengthening the policies of transparency, efficiency, and participation in developing and implementing public policies and programs. In this regard, the lines of action are (i) fiscal management, (ii) public sector management reforms, (iii) establishment of a framework for planning and territorial governance, and (iv) affirmative action policies to promote opportunities for access by women and afro-descendants to public services.



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I) Fiscal Management

In the area of fiscal management, state modernization has enhanced transparency. The innovations introduced include the Law on Access to Information that took effect in May 2012, providing citizens with streamlined access to information on state operations. The general Ombudsman received close to 7,500 requests and responded to 97 percent of these, and the tracking and description of expenditures proved decisive in guaranteeing improvement in the delivery of services and active work on the part of the state. Through the *Compromisso Bahia* program, R\$883 million was saved over a six-year period. Regularity and fiscal balance served to guarantee improvements in credit capacity for new investors in the state.

However, development must be accompanied by improvements in the legal system. State revenue needs to be increased and the state's fiscal space expanded to finance the improvement in public services and to improve the critical analysis done of budget execution, audit systems, and revenue forecasting.

Given the importance of the initiatives to support fiscal sustainability, the Government of Bahia has selected the Tax Credit Recovery Program (*Programa de Recuperação de Créditos Tributários RECREDE*) for assistance under PROINCLUSÃO II.

II) Public Sector Management Reform

In the past seven years, the Government of Bahia has improved its management. In terms of public service, this includes the (i) expansion of its public service network (SAC) by 87 percent and guaranteed coverage in smaller municipalities. Between 2007 and 2012, 59 million persons received service; (ii) public competitions were held for positions in the areas of security, education and health, and 27,181 public workers were hired between 2007 and 2012; (iii) personnel policy was strengthened, the salaries of public workers were realigned and 17 public service occupational/career groups were restructured; and (iv) social security management was reorganized through the implementation of a new centralized model. The Government of Bahia created a social security management unit—the Office of the Superintendent for Social Security (SUPREV). It restructured the former Public Workers' Social Security Financial Fund and created a new Social Security Fund known as BAPREV. These two funds had a budget of R\$4.7 billion in 2013 covering 108,000 beneficiaries in the State Social Security Fund, including insured persons and dependents.

However, much remains to be done. In the area of social security, decision-making processes need to be developed by implementing increasingly rigorous mechanisms to monitor payments to pensioners and economically inactive persons and to identify different recurring errors. Also, the improvement in salary negotiation mechanisms is an area that needs to be regulated. In the area of personnel management, the regularization of indigenous teachers was an obstacle. To address this, in 2011, the indigenous teacher



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career for Bahian public teachers was created (Law 12.046). Among other things, it assigned indigenous teachers to indigenous school districts, guaranteed their right to participate in the preparation of specific curricula and programs for indigenous schools and to provide bilingual instruction by teaching the ethnic language of students as a second language in communities where Portuguese is used as a first language. With the establishment of the career path, the obstacles related to the turnover in and skills deficiency of indigenous teachers, reflected in instruction quality scores for minorities, should be minimized. Furthermore, this will create a meaningful professional career path for indigenous teachers, with continuing education that will have a positive impact on the quality of indigenous education. Additional complementary strategies for the implementation of these policies include the development of key activities to assess school infrastructure, contextualized teaching materials, Internet access, and a program leading to an indigenous intercultural diploma.

In addition, the state undertook discussions on the adoption of worker performance criteria. In this regard, a Police Performance Award (*Prêmio por Desempenho Policial PDP*), linked to the achievement of state goals agreed upon in the context of the anti-crime program, was introduced. These goals pertain to the reduction, throughout the state, of intentional lethal violent crimes (ILVCs). This is awarded only if the state exceeds the goal. This initiative seeks to encourage improvement in the public services provided to citizens by incentivizing public security workers.

This, taken together, encouraged the Government of Bahia to put forward the following actions for assistance under PROINCLUSÃO II: (a) establishing regulations governing indigenous teacher careers and hiring indigenous teachers; (b) improving the management of the social security system through technical cooperation with the State audit office as well as the implementation of payroll auditing with the aim of eliminating recurring errors identified.

III) Territorial Planning

In the area of territorial planning, the state councils are fully functional, especially with a view to establishing the State Council on Territorial Development (CEDETER) which, along with the 27 Territorial Development Organizations (*Colegios de Desenvolvimento Territorial* CODETERs), is responsible for managing territorial policy, establishing spaces for agreement, making proposals, building consensus, and monitoring, from a social standpoint, public policies in the *Territórios de Identidade*. However, institutional weaknesses in the territorial entities that represent civil society and the absence of the legal framework governing territorial policy are being detected. Both CEDETER and the CODETERs need to be more representative (incorporate important civil society groups that are not included) and active, primarily in supporting the multi-year plans (PPAs) in the territories in such a way as to relay information on the execution of front-line programs and thus contribute to the State Planning System and the improvement of public policies.



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With regard to multi-year plan BA 2012-2015, government planning tools are included in the Planning and Strategic Management Program. Its aim is to ensure the effectiveness of public policies by fostering sustainable development and increasing trust and social participation. This program is aimed at strategic approaches related to (i) planning that involves social participation, (ii) promoting territorial development through territorial planning, ecological/economic zoning, and strategic environmental assessment, (iii) promoting the establishment of public municipal organizations, and (iv) promoting national and international technical cooperation partnerships and attracting public and private investment. Its responsibilities include (1) planning and coordinating state policy on zoning and sustainable territorial development with a view to expanding the mechanisms for social participation in the management and integration of public policies, (ii) strengthening municipal management for the gradual improvement in quality and productivity with respect to meeting the demands of the population, expanding the effective scope of public policies, and (iii) promoting dialogue and citizen participation in the formulation of the multi-year plan and in policy monitoring.

The understanding that the planning and territorial governance process must be implemented and institutionalized led the Government of Bahia to select the Draft Law of Planning and Territorial Governance for assistance under PROINCLUSÃO II. The hope is that this will strengthen territorial development policy and that the territorial issue will figure more prominently in the 2016-2019 plan and will be established on the basis of the local situation. Added to this is the hope that local linkages will be strengthened with a view to reducing regional inequalities.

IV) Affirmative Action Policies

The promotion of affirmative policies that foster equity in order to reduce development disparities is of critical importance in a state such as Bahia. Despite the fact that Blacks account for 80 percent of the population, they have the lowest levels of access to education, health, water and sanitation, and justice services. They are also the victims of religious intolerance and racial discrimination.

This difference in access can be expressed quantitatively (PNAD/IBGE, 2012) in (i) education—5 percent of Blacks are college educated while 11.6 percent of non-Blacks are; and in the case of the completion of basic education, the figure for Blacks stands at 29.1 percent and for non-Blacks, at 31.9 percent; (ii) water—82 percent of Black residences are covered while non-Black coverage is 82.9 percent; and (iii) in parliament—Blacks are significantly underrepresented; only 2.9 percent of the positions are filled by Blacks while they account for 51.9 percent of the Bahian population.

The multi-year plan BA 2012-2015 sets forth the affirmative action policies developed by the government through programs aimed at implementing targeted activities that complement universal policies with a view to addressing and minimizing the social



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inequalities, discrimination, and prejudice that still persist. These include (1) Promotion of Racial Equality and the Protection of Rights, the aim of which is to reduce racial inequality and improve living conditions by expanding and implementing policies geared toward inclusion and equal opportunities for Blacks. The commitment is to (i) manage policies aimed at promoting racial equality in a state context; (ii) combat racism and religious intolerance by establishing intersectoral links between public entities and civil society organizations; (iii) promote and link intersectoral strategies to support implementation of the comprehensive health policy for the Black Bahians; (iv) promote anti-racist education in public schools; (v) promote access by the Black population to new information and communication technologies; (vi) approve and implement the State Statute to Promote Racial equality and Combat Religious Intolerance; and (vii) encourage the municipalization of public policies aimed at fostering racial equality; (2) Sustainable Development of Traditional Peoples and Communities, aimed at reducing racial inequalities and improving living conditions by expanding and implementing policies aimed at inclusion, sustainability, and equal opportunities for traditional peoples and communities. The commitment is to (i) promote sustainability and improve the quality of life of the traditional peoples and communities (TPC) targeted, with emphasis on the recognition, strengthening, and guarantee of their territorial, social, environmental, economic, cultural, and religious rights; (ii) empower the remaining Quilombo communities by creating conditions for the development of policies and projects that benefit these communities through the promotion of partnerships and dialogue with political and financial entities; (iii) expand access by the remaining Quilombo communities to social and infrastructure public policies; (iv) promote the socioeconomic and cultural development of PCTs by expanding and implementing policies aimed at achieving their inclusion, sustainability, and equality, while safeguarding and expanding the benefits of biodiversity, with emphasis on the production of scientific knowledge and the valuing of traditional knowledge; (v) promote improvement in the living conditions of the traditional peoples while respecting their ethnic characteristics and cultural diversity; (vi) promote, preserve, and value African-inspired religions; (3) Confront Violence Against Women with a view to combating all forms of violence and the trafficking in women and guaranteeing comprehensive care for women who are victims of violence. The commitment is to (i) promote comprehensive care for women in situations of violence; (ii) promote the full protection of women with weak or broken support systems, so as to help defend their rights and protect them from threats and assault; (iii) promote the dissemination and strengthening of the instruments to protect the rights of women in situations of violence; (iv) foster respect for sexual rights and address sexual exploitation and the trafficking in women by encouraging the debunking of the myths, stereotypes, and repression associated with this harmful conduct; (v) ensure respect for human rights and better conditions for women in the prison system; and (4) Women's Independence, which is aimed at promoting the economic and financial independence of urban and rural women through their productive and social inclusion, so as to expand citizenship participation through access to rights and to goods and services. The commitment is to (i) promote the eradication of the



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feminization of extreme poverty in Bahia by actively seeking female-headed households that are still excluded in order to facilitate their access to the Consolidated Register [CadÚnico] of the *Bolsa Família* Program and to the tools that promote their food and nutritional security and social protection; (ii) promote the autonomy of women, taking into account gender, class and racial inequalities by developing actions that contribute to changes in the current gender division of labor, with emphasis on poverty eradication policies; (iii) encourage the socio-productive inclusion of women in rural, urban, and periurban areas who live in a state of poverty; (iv) strengthen the policy of comprehensive health care for women, seeking to improve their health conditions and protect their specific identities linked to issues of race, ethnicity, generation, sexual orientation, and women with disabilities; and (v) promote the establishment of an integrated state management system for women, in order to guarantee intragovernmental linkage and encourage social participation with the aim of supporting government decisions.

The understanding that affirmative action policies must be implemented and institutionalized in various public policy areas led the Government of Bahia to select the Statute on Racial Equality and Combating Religious Intolerance in Bahia (*Estatuto da Igualdade Racial e Combate à Intolerância Religiosa na Bahia* EIR) for assistance under PROINCLUSÃO II.

The EIR seeks to guarantee Blacks effective equal opportunities, defense of individual, collective, and various rights and actions to combat discrimination and other forms of racial and religious intolerance. Through this instrument, it is hoped that Blacks will be guaranteed equal opportunities for access to such services as health, education, culture, work, and justice, among others. Its structure entails specific topics and establishes guidelines in different areas. For example, in the health area for the Black population, a system is being established to measure the incidence of the most prevalent diseases among Blacks and to combat institutional racism. In education, a system of equal opportunity has been established for young Blacks in public schools, including technical training, and also includes the guarantee that the history of Africa will be a regular part of the school curriculum.

These initiatives strengthen the actions underway, such as implementation of the Network to Combat Racism and Religious Intolerance, which is aimed at publicizing cases of racism and religious intolerance, in addition to offering legal support to victims. Of the network's members, the mission of the *Centro de Referência de Combate ao Racismo e à Intolerância Religiosa Nelson Mandela* (Nelson Mandela Referral Center for Combating Racism and Religious Intolerance) (Pelourinho-Salvador) is to receive, consider, manage, and refer all racial discrimination and/or religious intolerance complaints.

Policy Area 2 – Social and Productive Inclusion

The focus of this pillar is to address access inequalities by Blacks and women to the social and productive inclusion policies. These inequalities were created and have been



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perpetrated for a long time. To this end, policies and projects that are considered pivotal were selected for assistance.

I) Education

Bahia has made progress in education over the last decade. For example, under the program All for Literacy [*Todos pela Alfabetização* TOPA] more than 1 million people learned to read between 2007 and 2013. However, despite this improvement and success in meeting the targets set by the National Institute of Education Studies and Research [*Instituto Nacional de Estudos e Pesquisas Educacionais* INEP], its Basic Education Development Index [*Índice de Desenvolvimento da Educação Básica* IDEB] is still below the desired level. Education development has been impeded by a number of factors: the state's size, its regional differences, the number of its people living in poverty and extreme poverty, its large population of traditional peoples and communities (TPC), and the absence of curriculum guidelines that take indigenous and Quilombola cultures into account, together with insufficient promotion of these cultural values in the traditional curriculum.

The indigenous population numbers more than 37,000 (IBGE, 2010) and comprises 22 different ethnicities. Of Bahia's indigenous people over 10 years of age, 17 percent are illiterate, almost double the national average for Brazil as a whole (9 percent), and only 4 percent speak their native language—compared with a national average of 37 percent. A total of 7,562 of state's indigenous households are on the rolls of the *Bolsa Família* program, and more than 80 percent of them are living in extreme poverty. The state and municipal networks have allocated 102 school places specifically for indigenous students. Bahia has the largest Quilombola population in Brazil. The *Bolsa Família* program has enrolled 29,621 Quilombola households in Bahia, of which 80 percent are living in extreme poverty.

The education policy implemented by the Bahia government places priority on improving the quality of education, which is the subject of four programs under the multi-year plan BA 2012-2015: (1) The first of these programs is Basic Education Strengthening, with emphasis on guaranteeing student access, keeping them in school, and ensuring that they learn, while at the same working to reduce failure, dropout, and truancy rates. The program is committed to: teaching all children up to 8 years of age to read and write and eliminating school illiteracy; (ii) strengthening basic education while at the same time guaranteeing that subjects related to African, Afro-Brazilian, and indigenous history and culture are taught, as well as issues related gender and sexuality, ethnic-racial identity, special needs, and human rights; (iii) expanding access to integral education and increasing the time and space devoted to education; and (iv) placing value on education professionals and promoting their training in a range of areas. (2) The second program, Young Adult and Adult Literacy and Education, focuses on reducing illiteracy and providing education for young people and adults. The commitment is to: (i) expand literacy activities for young people, adults, and the elderly based on the conviction that literacy is a right that does not expire with age; and (ii) ensure schooling for those who were not able to study at the usual age. (3) The third program, Professional Education, seeks to strengthen and expand the availability of professional education in order to keep pace with the socioeconomic and environmental development of Bahia's territories and promote the insertion of citizens into society and the workforce. The commitment is to: (i) guarantee the preparation of young



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people for their integration into society as citizens and their incorporation into workforce through mid-level technical and professional training integrated into subsequent mid-level education programs; (ii) ensure education for those who could not study at the usual age through professional training courses integrated into the basic and intermediate curriculum in coordination with federal and state programs aimed at generating work, employment, and income; (iii) strengthen educational inclusion through professional education for workers and populations traditionally deprived of this opportunity; and (iv) expand access to integral education through professional training programs. (4) The fourth initiative is Higher Education in the Twenty-first Century, designed to strengthen the higher education system through the implementation of public policies that promote scientific, technological, and cultural development, including its incorporation in ethnic identity-based territories. The commitment is to: (i) guarantee the effectiveness of purpose-directed activities in state universities through qualified management, thus ensuring that the institutions uphold standards of scientific and academic excellence; (ii) expand and strengthen extension programs and activities in state universities; (iii) promote scientific, technological, and cultural development; and (iv) guarantee that the population of Bahia has access to quality higher education by increasing the number of places available at the undergraduate and graduate levels, among other approaches.

These programs are intended to guarantee the right to learn for everyone. With this goal in mind, they seek to improve the quality of education at the different levels, with emphasis on the importance of preparing professionals in the fields of education, finance, and democratic governance, while at the same time creating the conditions that will ensure that students in public education institutions remain in school.

The understanding of the need to develop a specific strategy for reaching out to the indigenous and Quilombola populations led the state of Bahia to identify policies for strengthening indigenous and Quilombola education, to be supported under PROINCLUSÃO II. To improve the quality of indigenous and Quilombola education, it will be necessary to adopt an education regulatory framework for these peoples and define specific curricular matrices that recognize their cultural activities. In order for these people to preserve their identity, it is essential to incorporate elements of their culture into the formative process as the basis for the development of specific curricula and education programs.

In addition, it is essential to regularize the career path for indigenous teachers and to select indigenous teachers to fill positions in indigenous schools. This will make it possible to structure a program that will guarantee a meaningful professional career path, including continuing education, with benefits that will improve the quality of indigenous education. Additional complementary strategies for the implementation of these policies include the development of key criteria to assess school infrastructure, contextualized teaching materials, Internet access, and a program leading to an indigenous intercultural diploma.

II) Health

The last ten years have seen progress in Bahia in the area of health. The life expectancy of the Bahia population rose from 65.8 years in 2000 to 71.97 years in 2010, with an increase in the population of older persons from 6.99 percent to 8.7 percent. These indicators reflect the health policy implemented by the Government of Bahia.



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The aim of this state-level universal health policy is to provide basic, intermediate, and high-complexity health care with quality and equity for all citizens. Under Bahia's multi-year plan BA 2012-2015, health is provided within the framework of the *Bahia Saudável* [Healthy Bahia] program. This program proposes integrated, cross-cutting public health policy measures that go beyond the prevention, care, and recovery of patients.

Commitments under the plan include: (i) expanding efforts to promote and protect health and prevent disease and other health challenges within the Unified Health System [*Sistema Único de Saúde* SUS]; (ii) strengthening basic care; (iii) ensuring and qualifying access to medicines through progress in fulfilling SUS policy on pharmaceutical care; (iv) promoting integrated care throughout the life cycle by implementing services that address the needs identified in generational health policies in the SUS; (v) promoting equity and the humanization of SUS health care for people who have historically been excluded, discriminated against, and/or stigmatized; (vi) expanding the population's access to quality intermediate and high-complexity services within the SUS with prompt resolution of cases; (vii) implementing the maternal and child care service network in SUS-Bahia, with measures that effectively contribute to improved living conditions and the reduction of mother and child morbidity and mortality; (viii) promoting integrated care for persons with mental illness and/or users of crack, alcohol, or other drugs in SUS-Bahia; (ix) expanding, qualifying, and humanizing the emergency and urgent care network in SUS-Bahia; (x) strengthening SUS-Bahia through greater social engagement in health issues, democratic and participatory management, and expansion of channels for dialogue with society; (xi) improving quality in SUS-Bahia by modernizing and strengthening management mechanisms and expanding its scientific, technological, and productive foundation; and (xii) reinforcing policies on work management and health education with a view to qualifying and humanizing management and care practices in keeping with the principles that guide the SUS.

In partnership with the Federal Government, more than R\$16 billion was applied in this area. The investment in the Family Health Program [*Programa Saúde da Família* PSF] was increased by 99 percent, with implementation of more than 493 new units, and investments were made in the hospital network as well, including the construction of five new hospitals.

In addition, the period saw more specific discussions about the health of Blacks, who constitute the largest population group in the state. It was noted that the epidemiological profile of this population has special genetic characteristics and living conditions that make for differences in patterns of illness, treatment, and death, including early and discriminant mortality. Their health problems include cardiovascular diseases and chronic degenerative diseases such as hypertension, diabetes mellitus, and sickle cell anemia, among others. Some of these illnesses, such as sickle cell anemia—for which 1 in 650 Blacks has the trait and 17 of those who have the trait develop the disease—have few symptoms and are difficult to diagnose. And it happens that the people who are most vulnerable to them are the ones who have the least access to specific treatment.

It is therefore necessary to take steps to address and break down institutional racism, introduce a focused approach to management that respects sociocultural differences, implement epidemiological monitoring from a racial perspective, and take any other



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needed initiatives to guarantee a greater degree of equity in realizing the human right to health promotion, disease prevention, care, treatment, and recovery from communicable and noncommunicable diseases, including those that are more prevalent in this population group. These actions have been spelled out in the state's policy on health for the Black population.

Other serious public health problems in Bahia are teen pregnancy and childhood mortality. In recent years, with social policies such as the *Bolsa Família* program and the requirement to meet its health and education criteria, there has been considerable expansion of child health coverage in the state, including compliance with the vaccination schedule, which has led to a reduction in childhood mortality. However, even though the numbers have improved, they are still higher than the rest of Brazil. In 2012, the maternal mortality rate in Bahia was 50.3 per 100,000 live births. Similarly, even though teen pregnancy declined in recent years, the levels were still quite high in 2012: nearly 23 percent of pregnant Bahian women were between 10 and 19 years old, and 15 percent of them lost their babies. It is increasingly important to implement coordinated measures, with linkage between the health and education sectors, to reach this population with health information and provide specific, territory-based care.

Recognizing the need for greater progress in providing health for the Black population and addressing the problems of teen pregnancy and childhood mortality, the Government of Bahia has chosen the state's policy on health for the Black population and its actions to address teen pregnancy and neonatal and postneonatal child mortality for assistance under PROINCLUSÃO II.

III) Public Security

The problem of violence, 80 percent of which is concentrated geographically in 20 municipalities of Bahia that have high indexes of Black youth, led the Government of Bahia to create the anti-crime program [*Pacto pela Vida*] under the multi-year plan BA 2012-2015. Symbolic of a new model of public security policy, this program focuses on guaranteeing the rights to life and citizenship and the human rights. It is being implemented with coordinated actions aimed at prevention, community policing, social inclusion and citizenship, and a process of consensual governance. Its commitments include: (i) improving the prevention and repression of violence through community police actions focused on priority areas; (ii) implementing police actions integrated through democratic management of the public security system, including the use of smart technology to make a strategic difference; (iii) strengthening management of the Bahia public security system through administrative restructuring and upgrading of its institutions; (iv) promoting training programs and cultivating an appreciation of the value of the public security professional, with emphasis on citizen policing, to improve the quality of the services provided; and (v) guaranteeing the protection of life, physical integrity, and assistance for victims of violence and witnesses to crimes.

The results achieved so far include several specific steps forward, including: (i) establishment specialized task forces to set guidelines and sector-based policies for the reduction of rates of intentional lethal violent crimes (ILVCs); (ii) identification of the focus of concern in the 20 priority municipalities (which account for 80 percent of the



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occurrences); (iii) expansion of the public security force with the addition of 11,377 military police, 766 civilian police, and 565 experts; (iv) reduction of ILVCs in the state by 7.8 percent in 2013, exceeding the target of 6 percent, with reductions of 10.8 percent in the capital city, 12.7 percent in the Metropolitan Region; and 5.5 percent in the interior of the state.

Despite these intensive efforts by the Government of Bahia, however, much still remains to be done. The numbers are clear when we analyze the data on vulnerable groups, especially young Blacks, women, and the lesbian, gay, bisexual, and transgender (LGBT) population. Black youth are the most socially vulnerable group and the one most exposed to violence. As of 2013, two out of every three victims of ILVCs in Bahia were between the ages of 18 and 29, and 91 percent were males. Addressing violence against Black youth calls for preventive actions linked to social policies in the areas of education, labor, culture, sports, health, access to justice, and public security aimed at expanding the rights of young people, combating social inequality, and guaranteeing rights.

The number of women exposed to violence in Bahia is one of the highest in Brazil. At 9 deaths per 100,000 women, Bahia's rate of femicide (female deaths due to gender-based conflict) is the second highest in the country, surpassed only by Espírito Santo. The Violence Map for 2011 (incorporating data from 2008 to 2010) shows that four of the country's ten municipalities with the highest rate of female homicides are in Bahia: Porto Seguro, in 3rd position; Simões Filho, 4th; Lauro de Freitas, 6th; and Teixeira de Freitas, 10th. Between 2011 and 2013, Bahia saw an average increase of 12 percent per year, from 32 women killed in 2011 to 40 in 2013, and the majority of these femicides were perpetrated by men (57 percent) and caused by firearms.

Changes in legislation, as well as public policies specifically designed to protect women—for example, the changes introduced in Law 11.350/06 (the Maria da Penha Law) and in the Penal Code in 2009—responded to rising trends in violence against women in the occurrences analyzed.

Bahia ranks in third place nationally for homicides in the LGBT population. The Annual Report on Assassination of Homosexuals (LGBT) for 2012, prepared by the Gay Group of Bahia, shows that the state accounted for 29 of the 338 LGBT homicides in Brazil in 2012, or 8.3 percent of all LGBT assassinations in the country.

These data emphasize the importance of formulating and implementing public policies focused on specific groups. And indeed, this scenario prompted the Government of Bahia to include public security actions to protect vulnerable populations, especially Black youth, women, and the LGBT population, under PROINCLUSÃO II.

The following specific actions were decided on: (i) supporting the Young People Alive Plan [*Plano Juventude Viva*] and establishing its board of directors (this plan calls for the prevention of violence by linking social policies in the areas of education, labor, culture, sports, and health); facilitating access to justice and public security in an effort to expand the rights of young people; combating racial inequality; and guaranteeing human rights; (ii) creating the Violence Prevention Superintendency [*Superintendência de Prevenção à Violência SPREV*] in the Secretariat of Public Security (SSP) with the mission to



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coordinate and disseminate community policing in at-risk communities; developing protocols and offering support on the subject of human rights, including specific protocols for vulnerable populations (youth, women, the LGBT population, and older adults) at increased risk for victimization; and (iii) implementing the State Forum on Addressing Violence against Women in Rural and Forest Areas [*Fórum Estadual de Enfrentamento à Violência contra as Mulheres do Campo e da Floresta*], which is committed to providing care services for women in situations of violence without easy access to public services because they live in remote areas. The foregoing actions are all essential in order to address the challenges faced by these vulnerable populations.

IV) Productive Inclusion

The profile of Bahia's population of 14.29 million is predominantly Black and female, with 79 percent Black and 51 percent female, with young people representing 19 percent (PNAD 2012). Of all the states in Brazil, Bahia has the largest population living in extreme poverty. In its economically active population (EAP), 42.4 percent of the workers are women, who also represent 41 percent of the employed EAP. Black persons, in turn, are 79.3 percent of the state's EAP and 77.3 percent of the employed EAP. Only 38.8 percent of the 7 million workers have formal jobs, and women only account for 18.17 percent of these formal positions.

The policy of productive inclusion implemented by the state focuses on social integration of the poorest segment of the population, especially those excluded from the political sphere of citizenship. Some of the strategies used for this purpose are inclusion through consumption and production, especially through integrated approaches in which it is possible to implement inclusion in productive settings and ensure sustainable work and income for those whose only access continues to be the monetary allowance provided under the *Bolsa Família*.

The *Bolsa Família* program has been essential in this regard, offering minimum conditions for survival to people below the poverty line. Approximately 5.7 million Bahians, or 40 percent of the state's population, receive benefits under the program. However, these income transfers have not been sufficient to actually transform the beneficiaries into people who are fully integrated into the working world and the sphere of citizenship.

In recent years, the Government of Bahia has invested heavily in measures to promote productive inclusion, food and nutritional security, and social protection and promotion for persons and households living under vulnerable conditions. So far, 89.4 million people have qualified, in addition to 66,700 youths under the Citizen Youth, Trilha SETRE/SEAGRI/SEDES, and PROJOVEM programs. Between 2007 and 2012, the number of households benefiting from the Federal Government's *Bolsa Família* program increased 29 percent, thus enabling a sizable portion of the population to emerge from extreme poverty.

Under the multi-year plan BA 2012-2015, the *Vida Melhor* program works toward achieving socioproductive inclusion for Bahian men and women, especially those living in poverty and extreme poverty, who are registered in the CadÚnico database. The program fosters individual, collective, associative, and household entrepreneurship. The commitment is to: (i) promote the productive inclusion of *CadÚnico* families living in the



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large cities of Bahia and ethnic identity-based territories; (ii) incorporate the state's low-production populations through investments in social and productive infrastructure and the promotion of popular enterprises; (iii) increase the output and productivity of family agriculture through investments in the main productive chains; (iv) promote markets for family agriculture products in all the territories of Bahia; (v) promote productive projects for young people 16 to 29 years old from rural areas, traditional peoples, and women to help them generate income; (vi) support the development of sustainable aquaculture in the state taking advantage of existing hydric potential and promoting increased fishery production and the generation of jobs and income for riverine communities; (vii) foster the verticalization of production with a view to adding value to the final product of family agricultural businesses; (viii) promote the improvement of local micro- and small businesses through creation and maintenance of the productive inclusion program by one of its representatives, thus facilitating the development of public and private initiatives for this purpose; (ix) ensure the availability of Technical and Rural Extension Assistance [*Assistência Técnica e Extensão Rural* ATER] specifically adapted for family farmers; and (x) implement continuing technical and education programs for the agricultural and fishing sector to develop managerial, organizational, professional, social, and human competencies.

However, the differences in average income between the Black and non-Black population and between men and women, together with the underrepresentation of Blacks (30 percent lower) and women (11 percentage points lower) relative to the average representation in the EAP of Bahia continue to exist and account for inequalities. Only 38.8 percent of the nearly 7 million workers in Bahia have formal employment, and women hold only 18.17 percent of the formal jobs, even though there are more women than men in the general population. These numbers confirm that Blacks and women have unequal access to the labor market. When the indicators of education, condition of poverty, and income are considered, studies show that Bahian women, on average, have more schooling than Bahian men and they are in the absolute majority as heads of family in families living in poverty and extreme poverty, and yet they earn less than men. Moreover, the average income of women entrepreneurs in Bahia is 29 percent lower than that of men, and the income of Black women entrepreneurs is 33 percent lower than the average for the state.

The number of Black women with microbusinesses in Bahia continues to be much lower than desired. Of the nearly 145,000 microbusinesses in Bahia, 62 percent are owned by Blacks and their average income is 10 percent lower than that of non-Black microbusinesses (PNAD 2012). While Black men and women represent 77.6 percent of all individual entrepreneurs, they are only 59 percent of employers.

Improving the relative situation of women, Blacks, and other discriminated groups in society; overcoming extreme poverty and its related challenges; increasing opportunities for access to employment and work in order to guarantee a decent life—these are all changes that will enable economic growth to translate into less poverty, greater well-being, and social justice (OIT Brasil, 2013). They are also key elements of the Declaration on Fundamental Principles and Rights at Work and the Decent Work Agenda of the International Labour Organization (ILO).

As the first step in addressing inequality, a government must decide to place the subject on



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the public policy agenda. And in fact, the Government of Bahia has opted to incorporate this initiative in PROINCLUSÃO II, the Draft Law on the Development of Entrepreneurism for Black Persons and Women.

The Government of the state of Bahia remains firmly committed to responsible fiscal management, especially in its program of reforms described above, and it hopes to obtain the fundamental and indispensable assistance of the World Bank through a Development Policy Loan to support the measures that have already been adopted and those that are in the implementation phase.

Trusting that the state of Bahia will continue its customary collaboration with the World Bank, we thank you in advance and reiterate the assurances of our highest esteem and consideration.

Sincerely,


JAQUES WAGNER
Governor of the state of Bahia

ANNEX 3: FUND RELATIONS

A satisfactory letter of assessment, dated March 19, 2014 has been received from the IMF, and it is circulated separately.

ANNEX 4: POVERTY AND SOCIAL IMPACTS ASSESSMENT

1. **The World Bank team carried out a poverty and social impact analysis (PSIA) to assess the potential distributive effects of the policies supported by this DPL operation.** The PSIA is based on demographic and socioeconomic data available through secondary sources as well as information obtained from focus group interviews with key stakeholder groups.¹⁵ The overall conclusion of the PSIA is that the policies supported by this operation address some of the underlying causes and effects of the socioeconomic inequalities that have historically hampered the sustainable development of the state of Bahia and will have pro-poor outcomes.

A. Poverty and Social Assessment

2. **Bahia is the largest state in terms of population, geography and economic activity in Brazil's Northeast Region.** According to the 2010 Census, Bahia has a population of 14,016,906, accounting for approximately 7.3 percent of the national population or about 26.4 percent of the population of Brazil's Northeast region. The State's rate of urbanization (72 percent) is much lower than the Brazilian average (84 percent). Bahia is geographically the largest state in the Northeast, accounting for 36.3 percent of the Northeast and 6.6 of Brazil's national territory. In 2012, Bahia's GDP reached US\$88 billion, representing 30 percent of the regional GDP and 4 percent of the national GDP. In 2011, Bahia registered a per capita GDP of US\$5,920, well below the national GDP per capita of US\$11,235. Indeed, Bahia's per capita GDP ranks nineteenth in the country.).
3. **Bahia continues to be characterized by overwhelming incidence of poverty, social vulnerability, and social inequality.** The baseline scenario of Bahia emphasizes the state's comparatively low urbanization rate and uneven distribution of its 14 million population over the state's territory; high poverty rates and high levels of social inequality; an overall large informal economy and labor market as well as a heavy concentration of output and employment (and much less so in population) in Metropolitan Salvador. Regional, gender- and race-based differences in economic achievements are huge.
4. **Vulnerability and poverty are worse in the lagging semi-arid and mostly rural areas of the state and disproportionately affect women and minorities.** Comprising more than one-fourth of the State population, rural people from the semi-arid zones of the State continues to be overrepresented among the poor due to the heavy reliance on livelihoods based on low productivity and rain-fed agriculture in drought prone areas. Living in small municipalities with low governmental capacity, rural people also lacks access to basic public infrastructure and services of quality more than the urban population and higher levels of non-monetary deprivation. These family farmers include indigenous population, *quilombola* and other traditional communities, who face high poverty levels and racial discrimination. While nearly 56 percent of the indigenous population live under the extreme poverty line and 80% under the moderate poverty line, it is estimated that 76 percent of the *quilombola*

¹⁵ Secondary data included census data, studies, research reports, and reports on previous consultations with different social groups carried on by the State Government for the elaboration of the interventions proposed under this DPL. Consultations with stakeholders included state and municipal authorities, Afro-descendant and women organizations, *quilombola* and indigenous communities, and representatives of the LGBT, youth and the elderly.

families live in conditions of extreme and chronic poverty. Illiteracy rate among the *quilombola* population is almost three times the national average (24 *vis-à-vis* 9 percent) and access to basic infrastructure is low in comparison with countrywide averages.

5. **Overall, “race” inequality remains a key issue for the state of Bahia and the state’s large afro-descendant population is overrepresented at the bottom 40 percent of the income distribution scale.** In addition to wide differences in labor earnings by race, other difficulties faced by afro-descendants refer to less access to quality public services and to disproportional victimization by crime and violence. They are at increased risk for self-selecting pathologies – such as Sickle Cell Disease (SCD), with regards to which the state of Bahia has the largest prevalence in the country. In a state that is facing an increase on crime and violence, the rate of victimization is much higher among the Afro-descent population than among white people, particularly for male youth.
6. **Gender inequality still remains a critical social issue.** Overall women in Bahia face lower participation, higher unemployment and have lower earnings as compared to men. Having fewer economic opportunities, women become more dependent on their male partners and the probability of being subjected to domestic violence increases. Women in Bahia still face high levels of teenage pregnancy, which reflects on fewer economic opportunities and generates a series of issues for public health. Almost one fourth of live births (23.2%) are from women aged from 15 to 19 and, in general, there is a strong association between premature pregnancy and poverty as economic opportunities are lowered for young mothers and their children. If a woman is illiterate, Afro-descendent, head of household with small children, works in family agriculture and lives in the semi-arid interior of the State, she will have a very higher probability of belonging to the bottom 40 percent of the population as well as of being overexposed to risky situations.

A.1. Poverty Incidence and Reduction

7. **Although Bahia has made laudable progress in lowering poverty over the last decade, poverty in the state remains high and well above the national average rates.** Poverty has declined drastically in Bahia since the 2000s, with moderate poverty dropping from 45 percent in 2001 to 18 percent in 2012 and extreme poverty dropping from 20.5 percent to 7.5 percent. Both in Bahia and Brazil, those vulnerable to falling into poverty¹⁶ constitute a large portion of the population 20.7 percent and 13.2 percent respectively. Nevertheless, Bahia has the 6th highest rate of moderate poverty in Brazil.

¹⁶ The vulnerable population is defined as individuals who have crossed over the R\$140/month poverty line, but have not reached the R\$250/Month line for the middle class. This group is defined as vulnerable due to the high probability of falling back into poverty caused by the lack of assets and savings to withstand an external shock.

Figure 1: Poverty Headcount

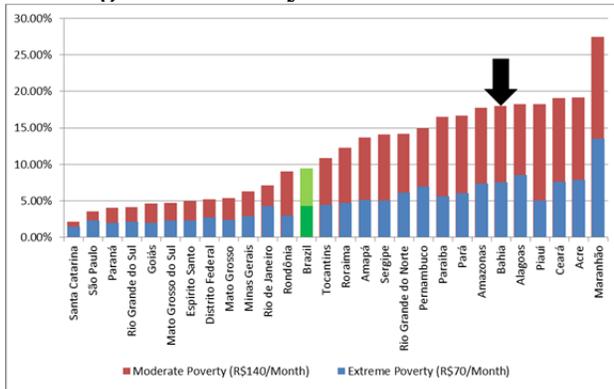
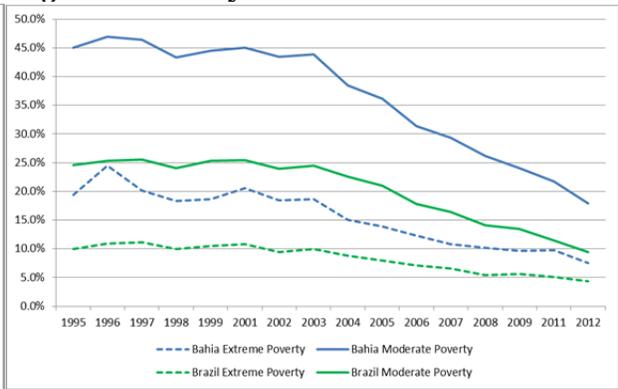


Figure 2: Poverty Headcount Trends



Source: GPVDR - Poverty, Equity and Shared Prosperity Notes: An Overview for the State of Bahia (February 2014)

- Poverty incidence is higher for rural population, women, and afro-Descendants.** As shown in Figures 3 and 4, the rates of extreme and moderate poverty reach their peaks when these factors intersect. Overall poverty is higher in rural than urban areas despite of gender and/or race features. However, the data also shows that black females living in rural areas continue to fare worse than other people.

Figure 3: Extreme Poverty Rate in Bahia (2002/2012) by Selected Characteristics

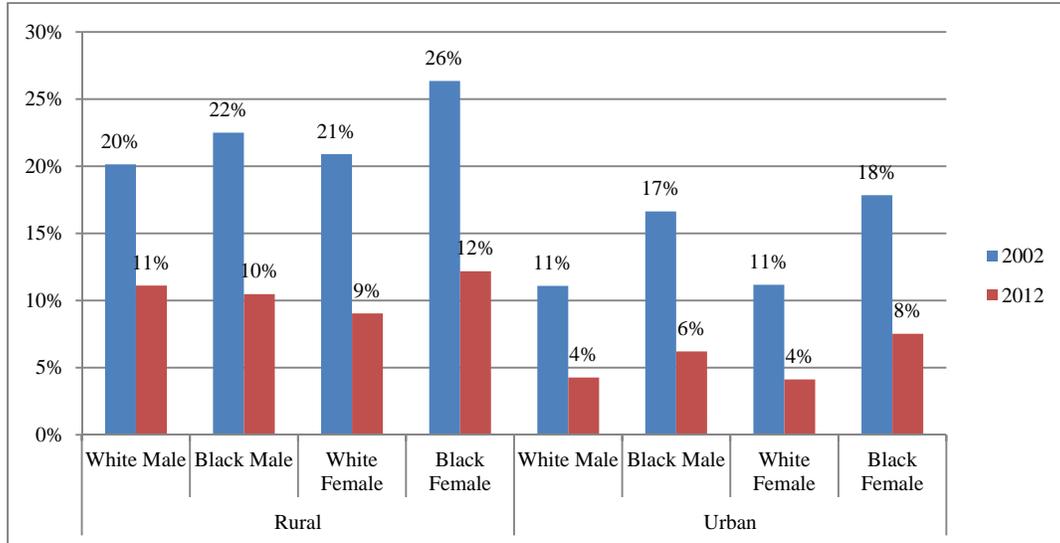
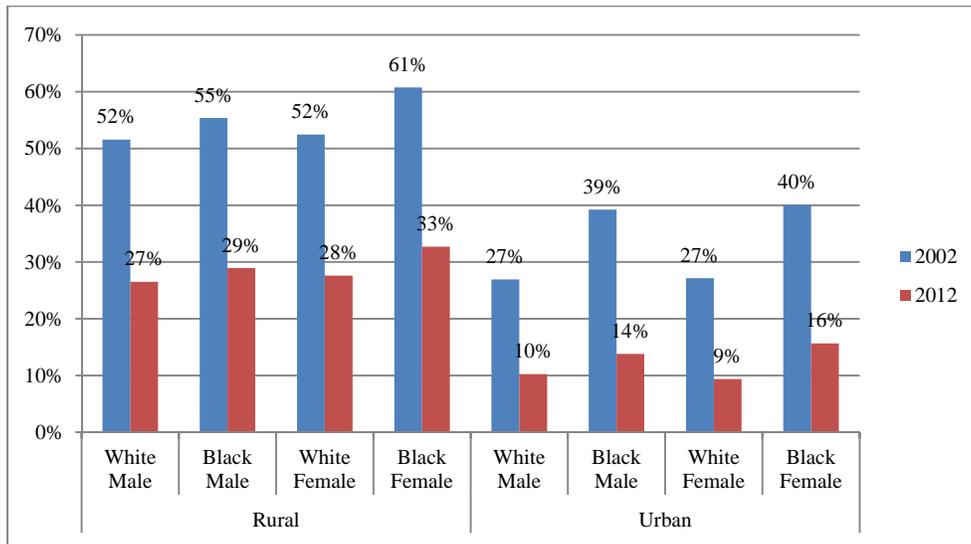


Figure 4: Moderate Poverty Rate in Bahia (2002/2012) by Selected Characteristics



Source: Socio-Economic Data Base for Latin America and the Caribbean (SEDLAC), produced CEDLAS and the World Bank, *Instituto Brasileiro de Geografia e Estatística* (IBGE), and the World Development Indicators.

9. **Bahia also faces high rates of non-monetary deprivations, similar to what is seen in other states in Brazil’s Northeast region.**¹⁷ As is the case with much of Brazil, the incidence of monetary poverty in Bahia remains higher than that along non-monetary deprivations. However, the state faces a higher rate of non-monetary deprivations than any of the states outside of Brazil’s North and Northeast regions (See Figures 5A and 5B). Despite only accounting for 28 percent of the national population, the Northeast region accounts for 63.8 percent of the chronic poor that live in Brazil. Similarly, 55 percent of the nation’s transiently poor live within the Northeast. Of the nine states within the Northeast, Bahia faces the fourth highest incidence of multi-dimensional poverty.

¹⁷ The non-monetary deprivations that are believed to be closely linked with income levels and wellbeing include; (i) a school-aged child (7 to 15) is out of school, (ii) none of the household members have completed at least 8 years of schooling, (iii) dwelling is constructed with precarious wall materials, (iv) no access to tap water in dwelling, (v) no flush toilet or pit latrine in the dwelling, (vi) no electricity, and (vii) lack of assets.

Figure 5A: Non-Monetary Poverty 2001 – Brazil, Northeast Region, Bahia and Salvador Metropolitan Area

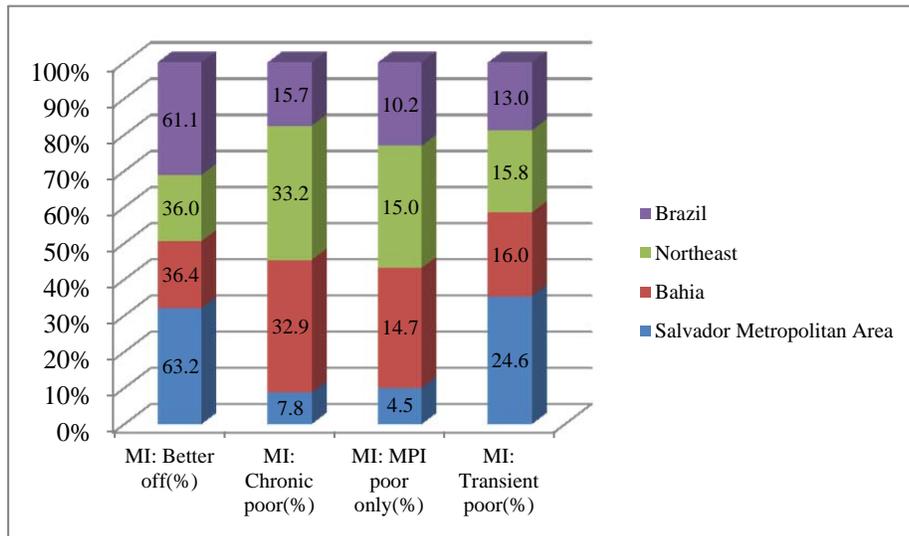
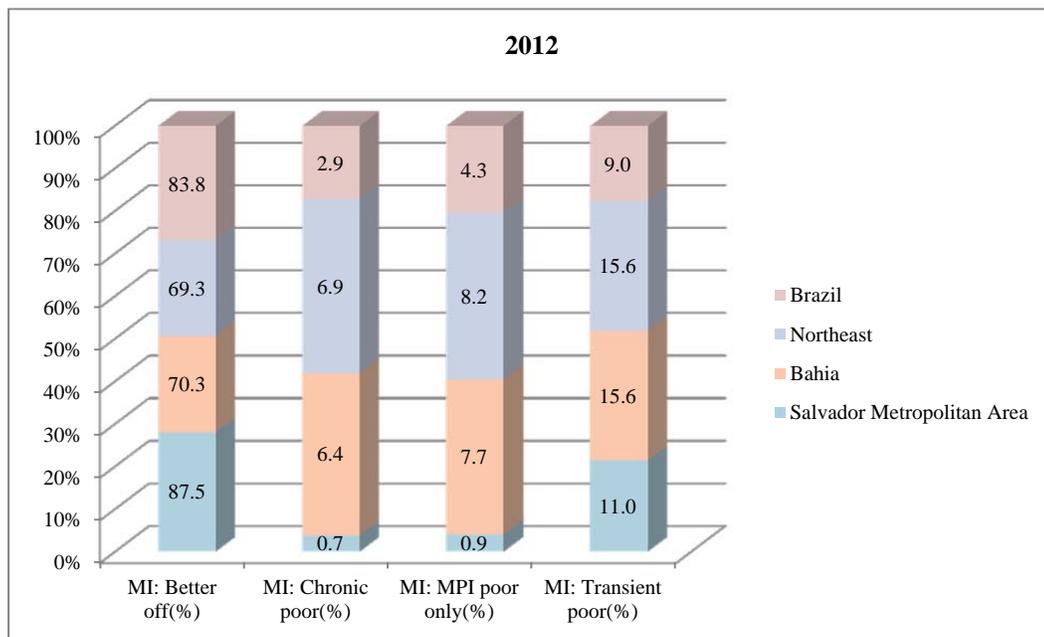


Figure 5B: Non-Monetary Poverty 2012 - Brazil, Northeast Region, Bahia and Salvador Metropolitan Area



Source: PNAD 2001/2012

10. **Most common causes of non-monetary poverty in Bahia are due to a lack of access to improved sanitation and low levels of educational completion among heads of households.** During the 2000s Bahia made substantial progress with respect to urban and rural infrastructure, but overall the State has a qualitative deficit on public infrastructure

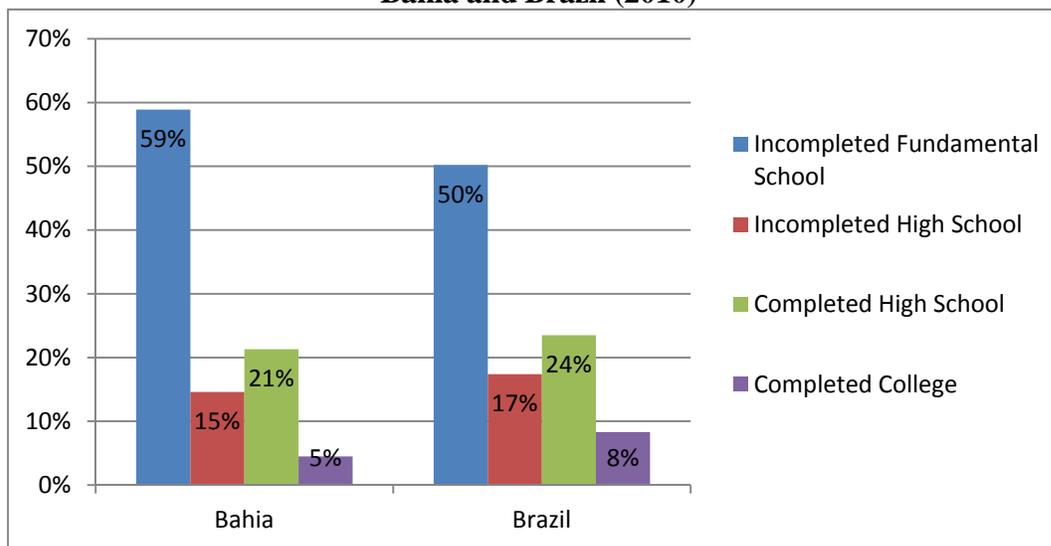
represented by the lack of household access to water (20 % off the general supply system) and sewage (55.0% with no connection to the general network). Water and sewage availability are highly heterogeneous among regions and a substantial part of the State is dry (the Semi-Arid region). If the supply of clean water is a source of moderate inequality, the sewage system is much worse. In 2010, only 51.8 percent of the wastewater was drained through local connected sewage networks or rainwater systems. This figure is well below the national average (67.1 percent) and it was up from 42.4 percent in 2000. The share of urban households connected to the general water supply network increased from 89.4 percent in 2000 to 94.8 percent in 2010. It also advanced among rural households but at a slower pace: the percentage of rural households with connection to the general water supply system increased to 38.9 percent in 2010 from 23.9 percent in 2000. As to sewage collection the share of urban households connected to the general wastewater system (including rainfall outlets) increased from 58.6 percent in 2000 to 66.3 percent in 2010. Conditions for rural households were worse and, in 2010, only 10 percent of the rural households in Bahia were served with sewage, a percentage up from 5.9 percent in 2000. Thus, access to sewage varied among the territories from a low rate of 4.4 percent up to 82.6 percent in the Metropolitan Area of Salvador.

11. **Lack of access to clean water and sewage are one of the main causes of infant mortality and of acute diseases of the gastro-intestinal system.** During last decade infant mortality dropped substantially. From 26.6 per thousand born alive in 2000, the rate dropped to 17.8 in 2010¹⁸. Still, Bahia's rate was higher than the Brazilian and Northeast averages (13.9 and 15.6, respectively) in 2010. Rates declined all over the State during that period but in 2010 there were still wide variations among regions, ranging from 11.2 up to 22.4. Over the same period, gross mortality rates (per 1000 inhabitants) increased for both men (from 5.2 to 6.5) and women (from 3.9 to 4.4), but in 2010 both rates were below the Brazilian average. Such increase may be due to rising violence levels in the State as whole.
12. **Educational attainments are also one of the most important assets that are considered essential to the ability to escape poverty are lacking amongst the poor households in Bahia.** Educational outcomes across age groups leads to low labor force schooling and some of the main social challenges faced by the State are that educational attainments in Bahia are lower than Brazilian averages, learning outcomes are poor across all levels of education, and educational indicators show sharp variations across the State's territories. Thus, illiteracy rates run high and almost three-fourths of the literate people aged 10 years and over had less than 12 years schooling, leading to low labor force schooling and reducing opportunities in the formal labor market. The 2010 Census data show that illiteracy rates declined over last decade from 23.1 percent (2000) of the population aged 15 years and over to 16.6 percent (2010) and that Bahia illiteracy rate is below the northeastern average (19.1 percent in 2010) but well above Brazil's rate (9.6 percent). Illiteracy rates are lower for women than for men and there are also wide variations in illiteracy rates across regions. The lowest illiteracy rate was observed for Metropolitan Salvador (4.7 percent) and the highest for the *Semi-Árido Nordeste II* region (30.8 percent). Figure 6 shows the distribution of people aged 10 years and over by level of education and the strong concentration on the lower levels of schooling. Heads of household performed better but 62.3 percent of them had up to eight years of study

¹⁸ Source for data on health is the Ministry of Health: MS/SVS/DASIS - SIM – SINAC.

whereas the figure for Brazil was 51.5 percent. Additionally, in Bahia, 51.8 percent of the labor force had between one and eight years of schooling, whereas the equivalent figures for Brazil was 39.4 percent in the same year.

Figure 6: Distribution of people aged 10 years and over by level of education – Bahia and Brazil (2010)



Source: IBGE, 2010 Census

13. **Educational coverage is increasing, but Bahia performs poorly in all educational indicators across all school levels.** School enrollment for the young cohorts and getting closer to 100 percent for children aged between 7 and 14 years, but increased school enrollment is not enough because the educational system as a whole show that: (i) the fail, drop-out and age-distortion rates have improved but are still high; (ii) enrollment in secondary schools is low; and, (iii) test scores bad. In fundamental education fail rates have decreased from 18.0 percent in 2007 to 15.7 percent in 2010, remaining higher than the national (10.3 percent) and the northeastern (12.9 percent) averages. Dropout rates are also falling: it went down from 9.7 percent in 2007 to 6.6 percent in 2010, but this achievement should not hide the fact that such rate is still high even for regional and national standards. In fact, dropout rates in fundamental education were more than double the Brazilian average (3.1 percent). Age-distortion rates dropped from 46.1 percent in 2007 to 38.1 percent in 2010, a reduction that was not enough to set the rate below the regional (32.7 percent) and national averages (23.6 percent) which are still very high by international standards. Albeit slowly improving Bahia is one of the worst performers and ranks among the bottom third for all Brazil's 27 states on the National standardized test of students in 4th, 8th and 11th grades (IDEB).¹⁹

¹⁹ In secondary education, the State is still very far from acceptable educational standards. In 2010, secondary school approval rates have reached 71.9 percent and dropout rates declined to 15.7 percent, but the fail rate increased to 12.4 percent and only about a half of the State's secondary students graduated in the correct age group. The source for information regarding education at fundamental and secondary levels is INEP – The National Institute for Pedagogical Research linked to the Ministry of Education.

14. **Access to basic services that are essential to overcome non-monetary deprivations varies widely by territories, between urban and rural areas, and according to gender- and race-related features.** The low capacity in local governments and poor articulation between municipal and State agencies are key obstacles for service delivery of quality. The social and economic disparities among regions are replicated in the provision of public services and access to economic opportunities. The high fragmentation of public resources and the weak integration of policies have limited the reduction of regional disparities. The state is highly decentralized into 417 municipalities which enjoy full autonomy for the design and implementation of public policies. With 80 percent of municipalities with less than 30,000 inhabitants, the capacities of local governments are also unevenly distributed. As there is no an intermediate level of government between the State and the municipalities, local development strategies are not integrated, public resources are fragmented and scale economies are not explored.
15. **Low capacity of local governments and poor articulation between different levels of government are a main concern expressed by women organizations, indigenous, afro-descendants and quilombola leaderships** that have been consulted on the policy changes proposed to improve access to education and health services. These stakeholders revealed some degree of skepticism over the actual and effective implementation of these measures due to these governance issues. Thus, on education policies, *quilombola* leaderships were skeptical because – unlike indigenous schools that are most under the responsibility of the state government and have a large number of indigenous teachers – *quilombola* schools are generally managed by municipalities and there are not too many *quilombola* teachers available. In their view, these facts could hinder the adoption of the proposed measures. On the measures proposed to enhance access to and improve of the quality and access to health services by afro-descendant populations, representatives of afro-descendant and *quilombola* movements were very supportive, but also expressed concerns related with the poor and at times inexistent infra-structure in poorer communities and particularly *quilombola* communities, which they thought might hinder the effective implementation of these measures.²⁰ Finally, on the policies addressing teenage pregnancy, indigenous and *quilombola* representatives expressed concerns over whether these measures would reach their communities due to the difficulty in articulating with municipalities and also with federal SESAI, the agency responsible for the provision of health services to indigenous people.

²⁰ With regards to this issue, they also expressed some concern with the “institutionalized racism” that (in their view) prevails in medical schools` curriculum and training, which leads to racial discrimination in public health provision as well as to a lack of respect and acknowledgement of traditional medicine practices by doctors.

A.2. Social Inequality

16. After a sharp decline in inequality at the beginning of the decade, inequality has been stagnant in Bahia (See Figure 7). At the turn of the millennium, Bahia and Brazil faced nearly identical rates of inequality, with Gini coefficients of .60 in 2002. Since then, inequality has remained fairly stagnant in Bahia, with the Gini coefficient declining by .01 since 2004 compared to .05 nationally. Thus, in 2012, Bahia was the fifth most unequal state in Brazil with a Gini coefficient of .55 compared to the national .53 (See Figure 8).

Figure 7: Growth and Inequality Trends

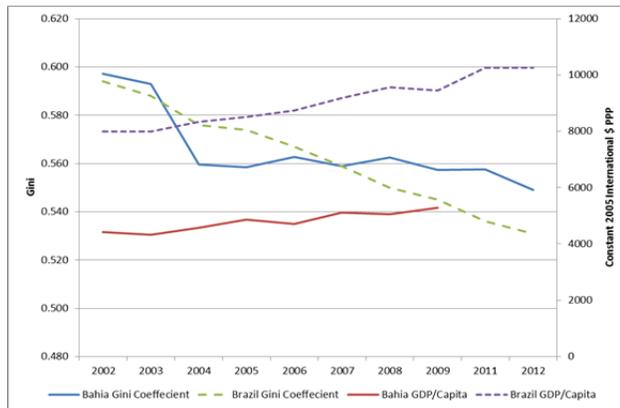
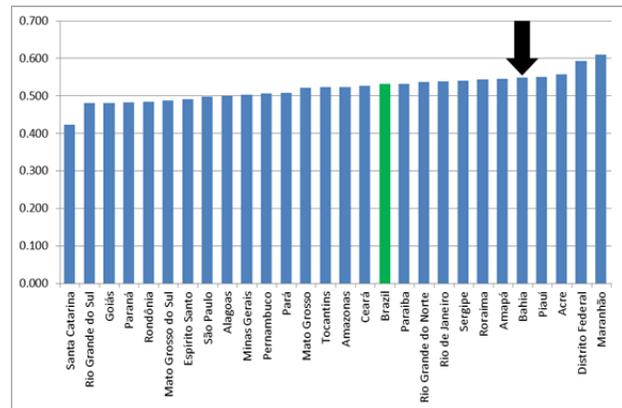


Figure 8: Inequality in Brazil (2012)



Source: GPVDR - Poverty, Equity and Shared Prosperity Notes: An Overview for the State of Bahia (February 2014)

17. Mean income growth in Bahia from 2002 to 2012 was high but lower than the income growth for the bottom 40. The state rate of mean income growth at an annualized 4.8 percent from 2002 to 2012 was faster than the nation's (3.3 percent) and the Northeast region's (4.7 percent). Meanwhile, at a rate of 6.9 percentage points, the incomes of the less well-off grew faster in the state than in the nation (5.9 percentage points), but slower than in the Northeast region (7.1 percentage points). The gap on mean incomes among the bottom 40 percent of the population and the total population has also been reduced in the state and in the nation, but reduced faster at the later than at the former, at yearly paces equal to .58 and .47 percentage points respectively.

Figure 9: Annualized Mean Income Growth Rate (2002-2012)

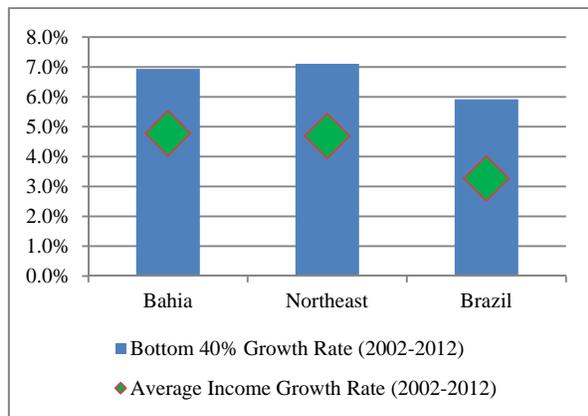
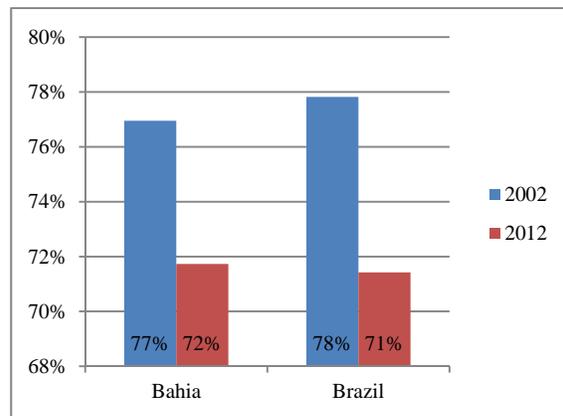


Figure 10: Mean Income Gap among the total population and the bottom 40 percent (2002/2012)



Source (Figure 4): GPVDR Calculations Based on SEDLAC (World Bank and CEDLAS)

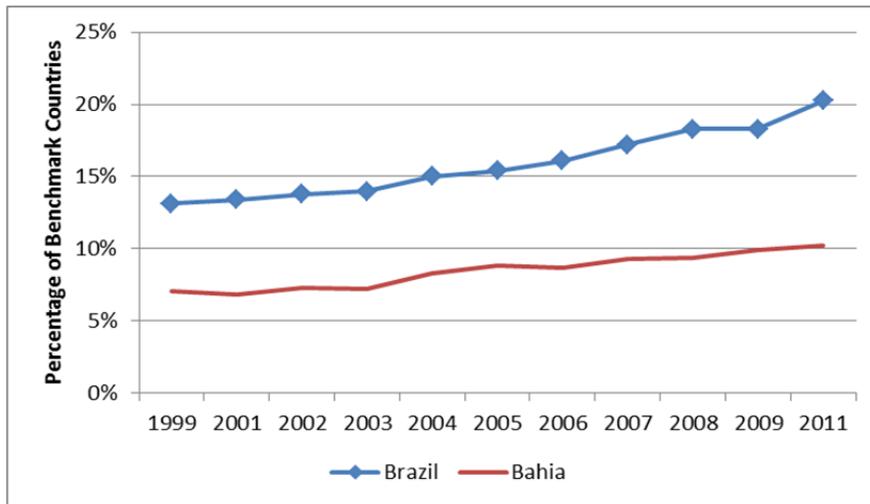
Source (Figure 5): PSIA Calculations based on SEDLAC (World Bank and CEDLAS)

18. Despite the high level of income growth, convergence with benchmark countries and Brazil's aggregate level of welfare still falters. This is largely due to the low per capita GDP seen in the state. Per capita income in Bahia was approximately \$5,279 in 2009 (measured in constant 2005 international dollars PPP) compared to the national \$9,456 and to the 2000 Sen's Welfare Index benchmark per capita income of \$38,909.²¹ Despite the higher growth rate of incomes in Bahia relative to Brazil, Bahia has seen a lower level of convergence in shared prosperity than the nation, growing by 1.4 percentage points from 2004-2009 compared to 3.3 percentage points nationally (See Figure 11). The difference in the convergence growth rates highlights the importance of promoting inequality reduction while boosting individual income levels, both areas in which Bahia lagged behind Brazil, in attaining shared prosperity convergence. In 2009, Bahia had attained a Shared Prosperity Convergence Index (SPCI)²² of 9.9 percent compared to the national 18.3 percent.

²¹ The Sen's Welfare Index benchmark is 23,535 (equity adjusted per capita GDP per year, PPP 2005), derived from the population weighted average of the Sen's welfare Index of the top ten countries in 2000, Luxembourg, Qatar, Norway, Denmark, United States, Netherlands, Switzerland, Austria, Ireland and Singapore. These countries have a weighted average per capita of \$38,909 international PPP 2005 and a Gini of 0.395.

²² The SPCI is essentially a country's Sen's Welfare Index (a county or region's per capita GDP multiplied by one minus the Gini coefficient, that is per capita GDP adjusted for equity) relative to the Sen's Welfare Index of the top ten countries worldwide in 2000. The SPCI compares the level of wellbeing between societies rather than within societies.

Figure 11. Shared Prosperity Convergence Index (SPCI)



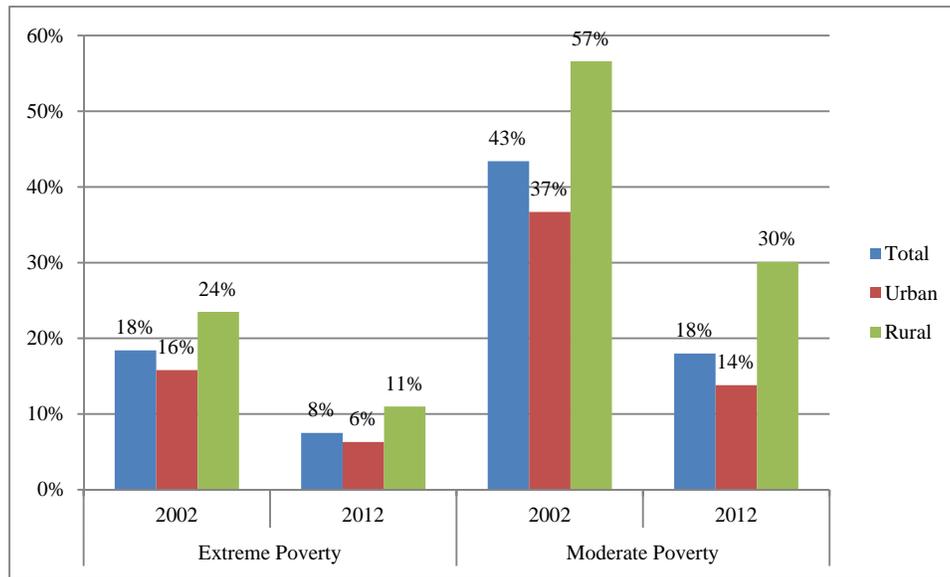
Source: GPVDR - Poverty, Equity and Shared Prosperity Notes: An Overview for the State of Bahia (February 2014)

A.3. Urban/Rural Inequalities

19. **A particular trait of Bahia's economy is a heavy concentration of output and employment (and much less so in population) in Metropolitan Salvador.** The GDP distribution and GDP per capita remains highly unequal among regions and municipalities. The Metropolitan Region of Salvador concentrates 41 percent of the state GDP and its GDP per capita are 1.6 times bigger than the average for Bahia and 4.7 times bigger than in the poorest region. The 25 richest municipalities account for 75 percent of state GDP; and the poorest 132 municipalities respond for a meager 5 percent of GDP.
20. **While both urban and rural poverty have fallen sharply in Bahia, the incidence of poverty in rural areas remains significantly higher** at 30.1 percent compared to 13.8 percent for moderate poverty and 11 percent compared to 6.3 percent for extreme poverty in urban settings.²³ Although most of the poor live off the Metropolitan Area of Salvador (84.2 percent), poverty rates remain higher in rural areas. Thus, the inequality ratio between the regions with the worst and the best poverty indicator continues to be 3.6 for extreme poverty and 2.0 for moderate poverty. Nevertheless, out of its 14 million inhabitants, four million live in rural areas, the largest share of rural population in Brazil. Bahia has diverse climatic areas (e.g., land locked, semi-arid, and coastal) and strong plurality of ethnicity.

²³ Moderate poverty has dropped in rural areas by 26.5 percentage points relative to 23 percentage points in urban areas since 2002.

Figure 12: Extreme and Moderate Poverty Rates in Urban and Rural Settings (2002/2012)



Source: Socio-Economic Data Base for Latin America and the Caribbean (SEDLAC), produced CEDLAS and the World Bank, *Instituto Brasileiro de Geografia e Estatística* (IBGE), and the World Development Indicators.

21. **Rural population is also overrepresented among the bottom 40 percent of the state population and the State of Bahia accounts for up to 20% of Brazil’s rural poverty.** In 2012, the share of people living in rural areas related to the rest of the state population equaled 19.3 percent, whereas the shares of people living in rural areas among the bottom 40 percent and among the top 60 percent were 25.2 and 11.7 percent, respectively.²⁴
22. **Most of the poor rural people live in the poverty stricken semi-arid zone of the state, in which family agriculture based on small land holdings remains a basic trait the local economy.** These regions continues to lag in terms of economic development with consequences in terms of its contribution to overall state growth, decreasing population, low job creation, and high concentration of poor people. While holding almost half of the State population and spanning 69 percent of the state territory, this zone contributes only to 29 percent of Bahia’s GDP.
23. **In these semi-arid zones, family farmers – including indigenous peoples, *quilombola* and other traditional communities – are involved with low-productivity and value-added activities.** Water scarcity and poor sanitation are characteristics of small-scale family agriculture, leading to low productivity and low health standards. Further, rural extension services and financing are severely limited and access to markets has been hampered by poor logistics, the presence of middle-men and small production scales.
24. **Afro-descendants, women and traditional communities such as indigenous populations and *quilombola* are overrepresented among the poor rural population in the state of**

²⁴ Comparatively, at the country level, people living in rural areas represented 14.5 percent of the total population. They were overrepresented at the bottom 40 percent of the population, among which they counted for a 21.1 percent share as well as underrepresented at the top 60 percent of the population among which they counted for a 9.8 percent share.

Bahia. According to FUNAI (the Brazilian Agency of Indigenous Affairs) there are 16 Indigenous Peoples living in rural areas of the state of Bahia. They account for 16,817 people, living in 31 indigenous lands, which comprise 113 local communities. Nearly 56 percent of them live with monthly per capita income up to ¼ of the Brazilian minimum wage and 80 percent earn up to ½ of the minimum wage. Poor soils in drought prone areas and low technology productive practices compromise their livelihood. Perennial water shortage reduces quality of life in indigenous and traditional communities that are mostly located at the North-Northwest semi-arid portions of the state. Land conflicts are frequent in some indigenous lands at the southern coastal region.

25. **In the state of Bahia as elsewhere in the country, *quilombola* and “*fundo de pasto*” communities occupy small rural land areas and characterize by high incidence of poverty and social exclusion²⁵.** In Bahia, there are also 494 *quilombola* communities officially recognized in the state and 507 communities in which the system of “*fundo de pasto*” prevails. Data available reveals that 78 percent of *quilombola* communities comprise less than 200 households, and only 12 percent of them comprise more than 300 households. It is estimated that 76 percent of the *quilombola* families live in conditions of extreme and chronic poverty. Illiteracy rate among their population is almost three times the national average (24 *vis-à-vis* 9 percent) and access to basic infrastructure is low in comparison with countrywide averages. It is equally small the share of communities that had sure land tenure rights (less than 4 percent of the *quilombola* lands in the state have received their land titles). There are 11,431 families in rural Bahia living in “*fundo de pasto*” communities. Major challenges faced by these communities are related with land tenure regularization, the survival of their social and cultural identities and the preservation of their traditional livelihood and productive practices with low environmental footprint. The state of Bahia is the only in the country to have issued specific legislation for land regularization of these collective areas.²⁶

A.4. “Race-related” Inequalities

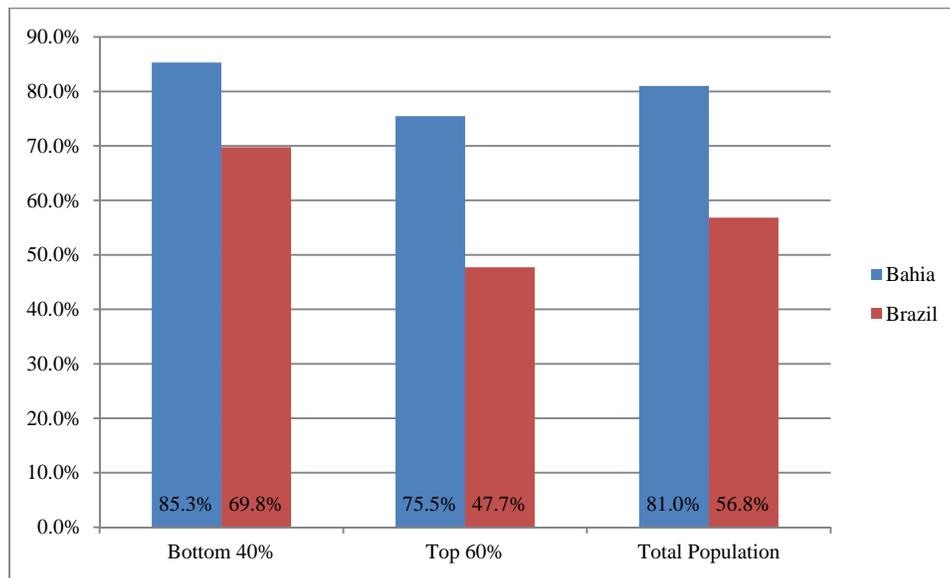
26. **The share of afro-descendants in the total population of the state is much larger than in the rest of country.** When self-ascribed skin color distribution among the population of Bahia is taken into consideration, large differences between what prevails at the state and the country levels can be observed, as depicted in Figure 13, below. The population of Bahia primarily self identifies as “*Parda*” or “mixed” (59 percent), but a large portion of the state’s population also self identifies as “*Branca*” or “white” (22 percent) and “*Negra*” or “black” (17 percent). In the country, these ratios are 48 percent for people who identify as “mixed”, 43 percent for “white”, and just 8 percent for “black”.²⁷

²⁵ The concept of “quilombola community” refers to lands traditionally occupied by Afro-descent communities. The Government of Brazil officially acknowledges the existence of 1,948 quilombola communities in the country. The “fundo de pasto” system prevails among traditional pastoralist communities who collectively and according with consuetudinary rules use large areas of free land for breeding cattle (mostly goats) as well as extractive activities.

²⁶ Law 20.417/2013 ensures land regularization of state and public lands traditionally occupied by both quilombola and “fundo de pasto” communities.

²⁷ Source: IBGE, 2010 Demographic Census.

Figure 13: Share of Afro-Descendants in the State and Country Population (2012)



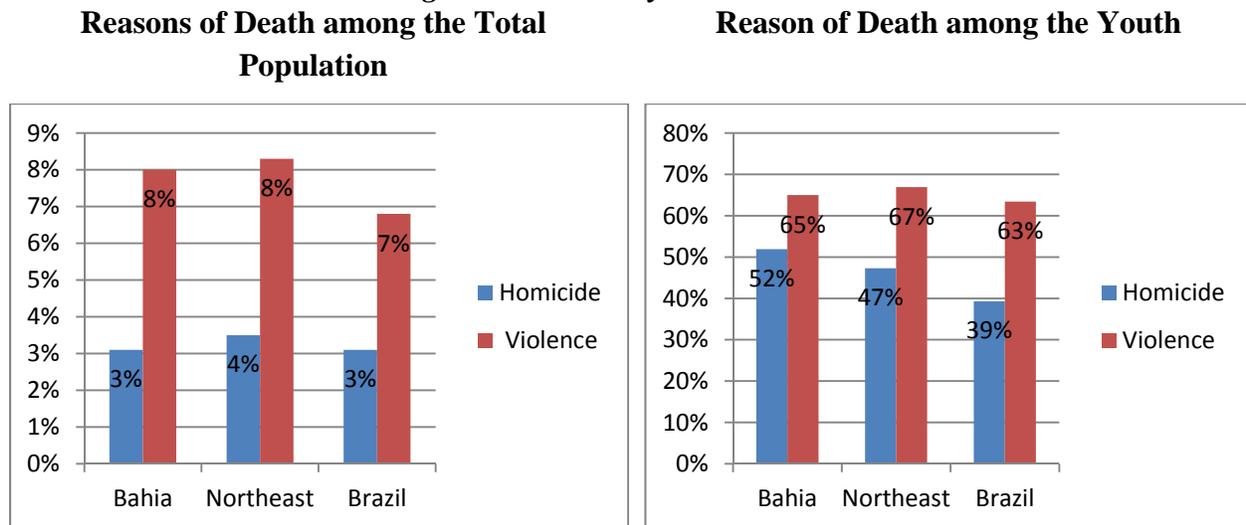
Source: GPVDR Calculations Based on SEDLAC (World Bank and CEDLAS)

27. **As elsewhere in the country, the state’s Afro-descendant population is overrepresented at the bottom 40 percent and underrepresented at the top 60 percent of the income distribution scale.** In Bahia, the minority “black” and “white” populations face similar levels of poverty, with moderate poverty at 15.3 and 14.1 percent respectively. Meanwhile, the majority “mixed” population faces a higher incidence of poverty at 19.9 percent. Nevertheless, there has been a large level of convergence across “racial” lines from 2002 to 2012. The gap between “black” and “white” people with the gap in poverty rates dropping from 6.7 to 1.2 percentage points; whereas the gap between “white” and “mixed color” people has dropped from 10.8 to 5.8 percentage points.
28. **“Race” inequality remains a key issue for the state of Bahia, with wide differences in labor earnings by race.** While whites received nominal income 53.5 percent higher than the State’s average and those who self-ascribed themselves as non-white people had lower labor earnings than the Bahia’s average. The labor earnings ratio between self-ascribed white and non-white people was 1.81. This rate was below the national averages (1.88). Lower averages for Bahia in this respect unveil other factors related to skills and education which are determinants of labor income.
29. **Data on the Metropolitan Region of Salvador show that afro-descendant population (and, particularly, women), with low educational attainment prevail among the workers in the informal sector and the self-employed.** In Bahia, informality declined from 69.6 percent in 2004 to 64.3 percent in 2009. Although formal employment grew at 6.0 percentage points per year during the period 2005-2010, slightly above the Brazilian average (5.8 percentage points), the informal sector continues to hold many urban poor who are outside of the social protection network, because they do not contribute to social security, and have no access to credit and technical expertise to broaden their business and to increase productivity and income. In 2009, out of the 2.2 million inhabitants of the Metropolitan Region of Salvador about 311 thousand were unemployed and about 957 million were self-employed. A

social profile of these “popular entrepreneurs” shows that they are in their majority Afro-descendant women with low degrees of school education, who started to work at an early age.²⁸ These people are trapped in chronic poverty due to their poor educational and labor skills and have no adequate opportunities to access jobs open at the formal market.

30. **Another difficulty faced by afro-descendants is in accessing health services, which affects the overall health of afro-descendant populations.** They are also at increased risk for self-selecting pathologies. The state of Bahia has the largest prevalence of Sickle Cell Disease (SCD), with 1 affected per 650 people, and 1 trait carrier per 17 people. The high prevalence is correlated to the large black and mixed race population in the state. The black population who suffers from SCD is largely unaware of the existence of the disease, cannot easily access high quality medicine, and many are misdiagnosed with leukemia.
31. **Bahia is a State with high levels of violent crime and homicides, which have increased more at the state than at the regional and country levels in the last decade, particularly victimizing youth.** From 2001 to 2011, the state share on the overall country number of homicides increased 7 percentage points, rising from 3 to 10 percent. In the period considered, the state share of all homicides against youth in the country increased 9 percentage points, rising from 3 to 12 percent. Figure 14 compares mortality reasons among the overall and the young population at the state, the region and the country. It shows that violence and homicide are the most frequent reason of deaths among the youth. Figure 15 compares state, regional and country rates of homicides and rates of homicides against youth for years 2001 and 2011. Figure 16 shows the variation during this period (2001-2011) in the state, regional and country rates of homicides for the overall population and the youth. These figures show that crime and violence became a social problem more intense in Bahia than at the Northeast and the country.

Figure 14: Mortality Structure 2011



²⁸ Source of information: Governo do Estado da Bahia, Programa Vida Melhor.

Figure 15: Rates of homicide and homicide against youth in Bahia, Northeast and Brazil (2001/2011)

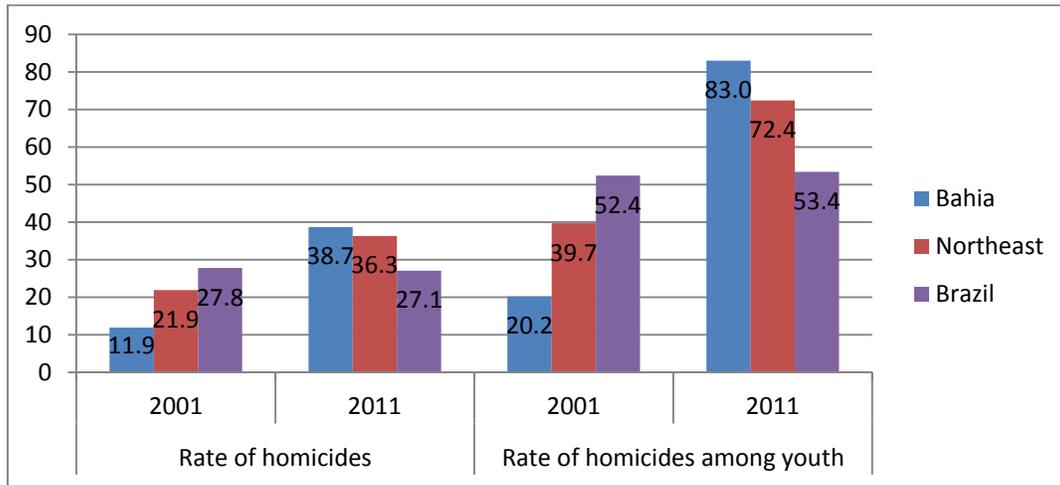
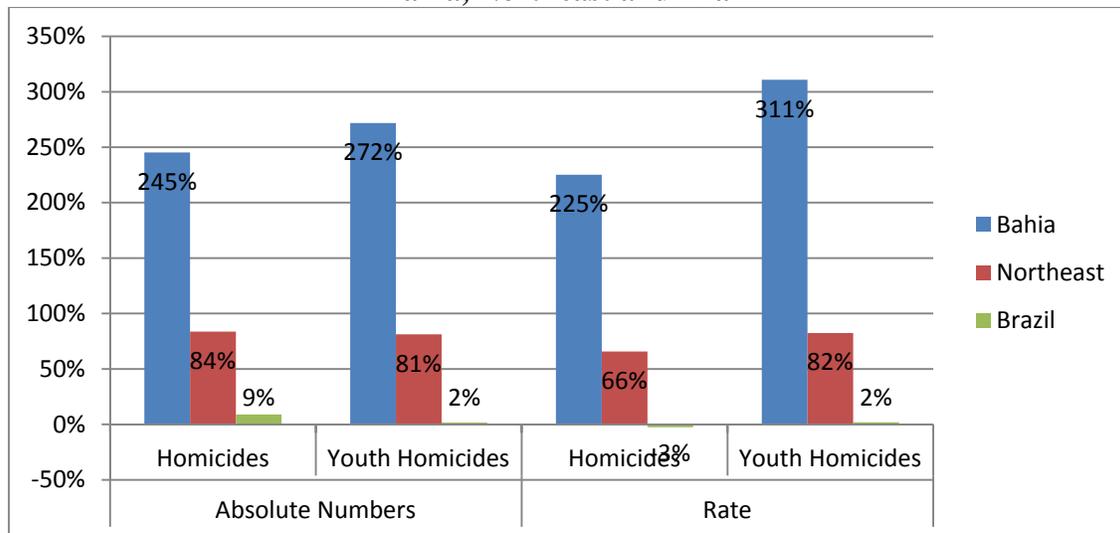


Figure 16: 2001-2011 Variation of the rates of homicides and homicides against youth in Bahia, Northeast and Brazil

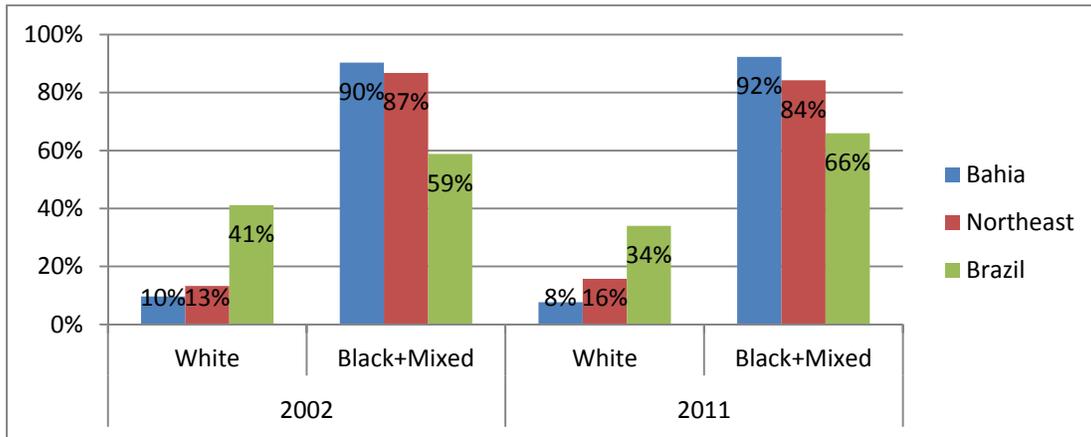


Source of Figures #14, # 15 and # 16: Julio Jacobo Waiselfisz, **Mapa da Violência 2013: Homicídios e Juventude no Brasil**. Rio de Janeiro, CEBELA/FLACSO, 2013.

32. **The rate of victimization is much higher among the Afro-descent population than among white people, particularly for male youth.** “Race-sensitive” data show that Afro-descendant people are the majority among the victims of homicides in both the state of Bahia, the Northeast Region and Brazil. The “race-related” gap is still larger at the state than at the region or the country. Figure 17 shows these “race-related” gaps in the victimization rate. In addition, the data available also shows that: (i) the rate of homicides has increased more among Afro-descent people than among the white population (as depicted in Figure 18) and (ii) in Bahia, the probability of being a victim of homicide is larger for the Afro-descents youth than for any other social group (as suggested by Figure 19). In Bahia, the odds for a

young Afro-descendant person becoming a victim of homicide is 2.4 times larger than the odds for an older Afro-descendant person, 3.2 times larger than the odds for a white youngster, and 7.7 times larger than the odds for an older white person.

Figure 17: Race-related Victimization Rates in Bahia, Northeast and Brazil (2002 and 2011)



Source: Julio Jacobo Waiselfisz, *Mapa da Violência 2013: Homicídios e Juventude no Brasil*.

Figure 18: Variation on Homicide Rates in Bahia, Northeast and Brazil (2002-2011) by “Race-related” Characteristics

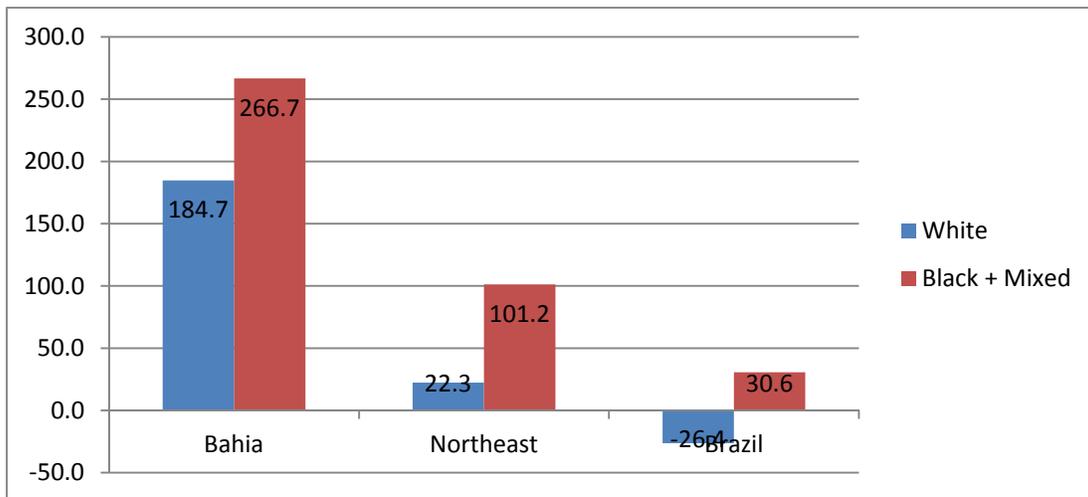
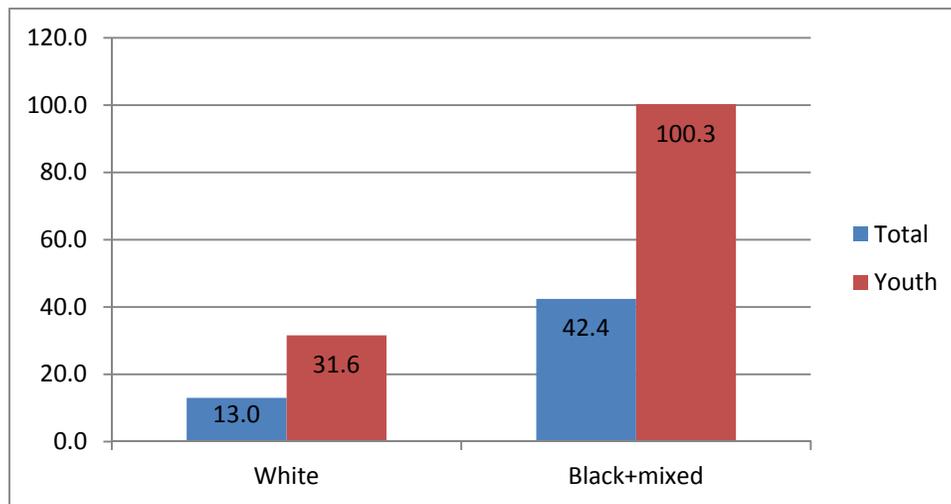


Figure 19: Race-related Homicide Rates in Bahia, Northeast and Brazil (2011)

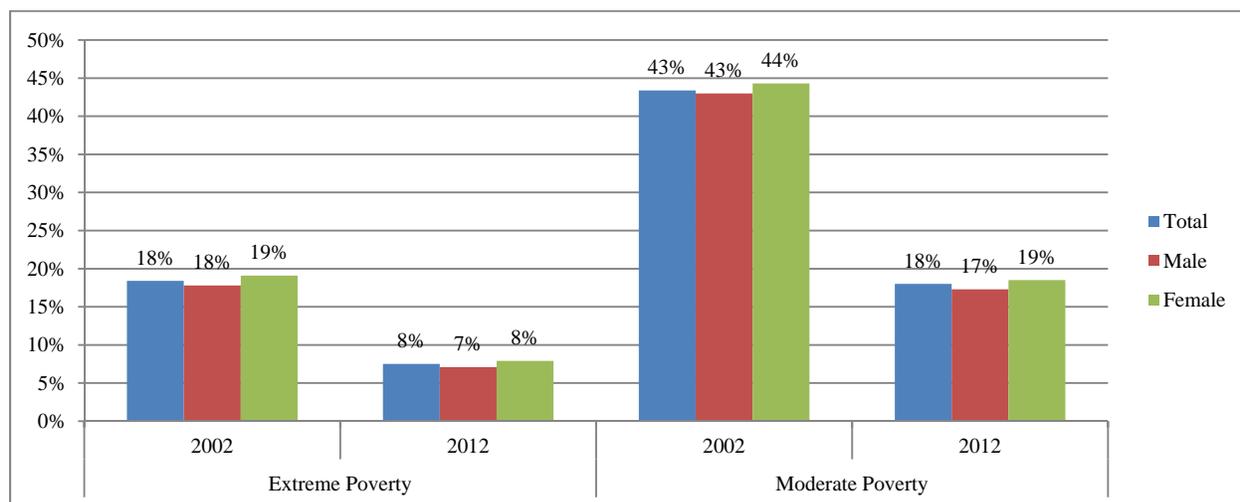


Source of Figures #18 and #19: Julio Jacobo Waiselfisz, **Mapa da Violência 2013: Homicídios e Juventude no Brasil**.

A.5. Gender-related Inequalities

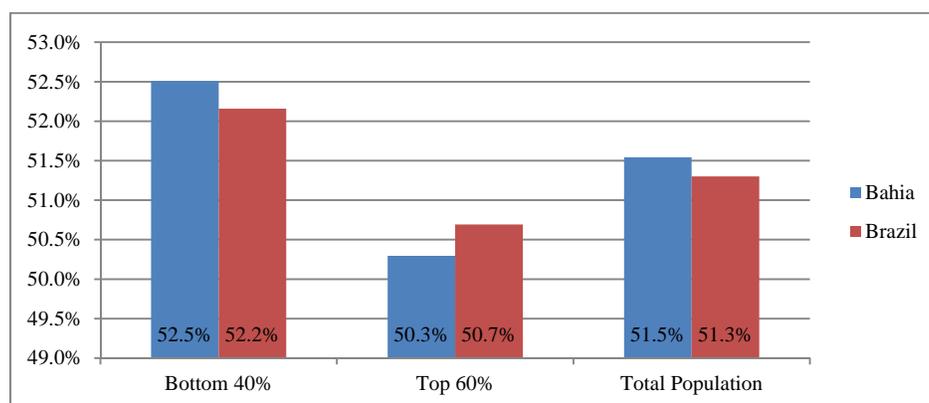
33. **Women, particularly in rural areas, are overrepresented among the bottom 40 percent in the state and face higher poverty rates than men.** Women are majority in the overall population (50.9%) and the ratio of women to men (1.037) is nearly the same as the national average (1.04). In the state, the share of female headed households equaled 35.9 percent in 2009. While gender gaps exist in Bahia, they are not significantly different from that seen in other parts of the country. Women face slightly higher rates of poverty than men, with an incidence of moderate poverty 1.2 percentage points and an incidence of extreme poverty .8 percentage points above their male counterparts (see Figure 20, below). Women are just slightly overrepresented among the bottom 40 percent of the state population (see Figure 21, below). However, in rural areas, this picture is much worse; the shares of extremely poor (black or white) women are much larger than the same figures for urban areas (see Figures 3 and 4, above).

Figure 20: Extreme and Moderate Poverty Rates by Gender (2002/2012)



Source: Socio-Economic Data Base for Latin America and the Caribbean (SEDLAC), produced CEDLAS and the World Bank, Instituto Brasileiro de Geografia e Estatística (IBGE), and the World Development Indicators

Figure 21: Share of Women in the State and Country Population (2012)



Source: GPVDR Calculations Based on SEDLAC (World Bank and CEDLAS)

34. Women face lower participation, higher unemployment and have lower earnings as compared to men. Women’s increased participation in the labor market accounted for 5.9 percent of the decline in poverty compared to 9 percent amongst men; whereas in Brazil increases in female labor income accounted for 11 percent of the decline of poverty compared to 33.7 percent that was from increased labor earnings for men. The share of the economically active population that is made up of women is similar in Bahia and Brazil at 43.1 and 43.5 percent respectively. However, the fact that women have, on average, more years of education than their male counterparts is not reflected in comparable outcomes in economic opportunities (less jobs and lower labor income). This gap is wider in rural areas as compared with the urban setting. Recent unemployment data shows that despite a tight labor

market, women’s unemployment rate (11.2 percent) is almost twice that for men’s (5.7 percent). In 2009, the ratio between male and female earnings was 1.58. A proportion of 11.1 percent of female household heads were unemployed whereas the northeastern and Brazilian averages were 10.6 percent and 9.2 percent, respectively.

35. **Higher unemployment, lower income turns and fewer economic opportunities leave women more dependent on their male partners and increase the probability of being subjected to domestic violence.** The numbers and rates of female homicides are on the raising Bahia as well as in the Northeast and Brazil. Figure 22 shows that the number and the rates of homicides among women and among young women have increased more at the state than at the regional and country levels in the last decade. The state’s shares on the nation’s number of homicides against women and against young women have increased 7 and 9 percent points respectively, reaching 10 and 11 percent. Figure 23 shows the 2001-2011 variations on the rates of homicides against women and young women and reveal how they have increased more at Bahia than at the Northeast or the country.

Figure 22: Rates of homicides against women and young women

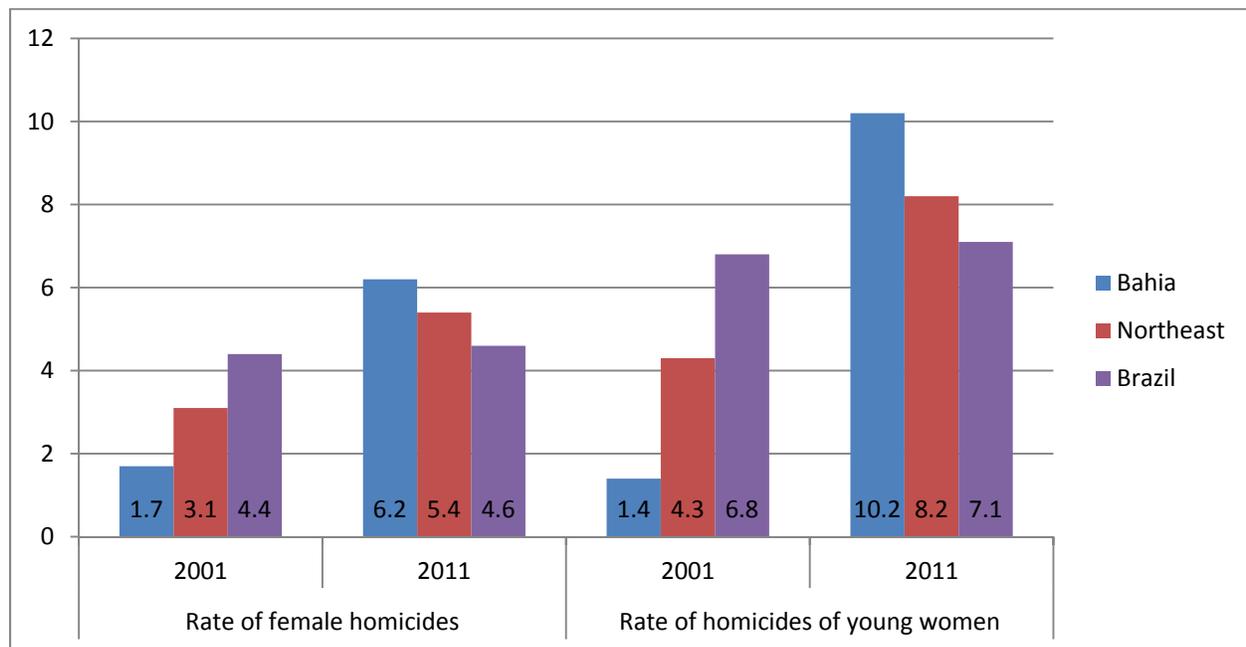
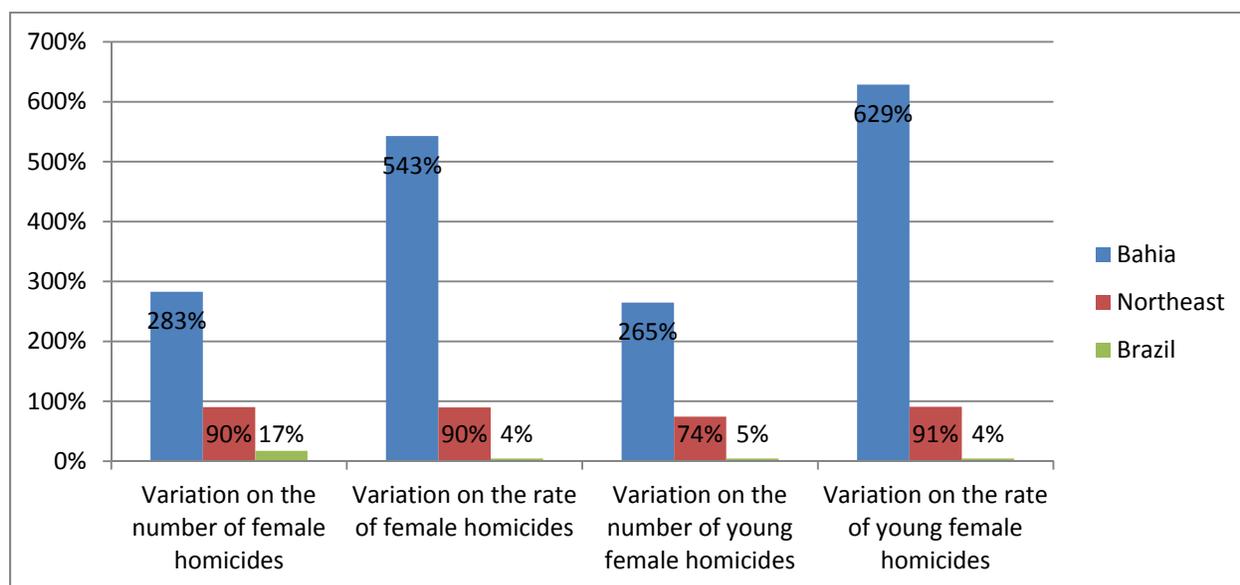


Figure 23: Variation in the rates of homicides against women and young women (2001-2011)



36. **If a woman is illiterate, afro-descendant, head of household with small children, works in family agriculture and lives in the semi-arid interior of the State, she will have a very higher probability to being overexposed to risky situations.** Coupled with race and other attributes women are at an even greater risk and disadvantage. A profile of the female victims of violent crime in the state capital for the year 2013 reveals that: (i) 97 percent of them were single at the moment of the crime; (ii) 57.9 percent were young (less than 29 years old); (iii) while 54.1 percent had completed high school and 22.5 percent just completed the fundamental school; (iv) almost half of them had unskilled jobs (49.9 percent); and, (v) the huge majority self-ascribed themselves as black (10 percent) or mixed color people (82 percent).²⁹
37. **Women in Bahia still face high levels of teenage pregnancy, which reflects on fewer economic opportunities and generates a series of issues for public health.** Almost one fourth of live births (23.2%) are from women aged from 15 to 19 and, in general, there is a strong association between premature pregnancy and poverty as economic opportunities are lowered for young mothers and their children. In 2009, 31% of the women deaths were associated to pregnancy, delivery and postpartum assistance. Unsafe abortion is a serious public health issue in Bahia with negative consequences on maternal death rates. The Maternal Mortality Ratio (MMR) has remained high and steady from 2003 to 2009 (72.8/000 live births in 2009) as compared to international standards and strikes mostly poor women. Many studies have concluded that in the State of Bahia (i) abortion is the single most important causes of such deaths as about one fifth of these occurrences are attributed to complications arising from unsafe interventions and (ii) poor afro-descendent young women are an especially vulnerable group.

²⁹ Secretaria de Segurança Pública do Estado da Bahia. **Nota Técnica: Dinâmica da criminalidade/violência no Estado da Bahia.** Salvador: 2014.

B. Expected Impacts

38. **The specific policy reforms supported by this operation address a number of socioeconomic issues previously analyzed and may contribute to the reduction of regional, racial and gender disparities across several dimensions.** The poor and most vulnerable social groups, such as rural population, women, afro-descendants and traditional communities are expected to receive most of the direct positive gains from the reforms proposed. The main channels through which these impacts will occur are: (i) improved territorial planning leading to increased social accountability and state/municipal capacity to respond effectively to social needs for basic public services; (ii) increased access and quality of education and health services for ethnic minorities; (iii) increased economic opportunities for the most vulnerable social groups who are trapped in chronic poverty; (iv) enhancement of preventive measures to control crime and violence; and (v) expanded coverage of services to tackle gender based violence in rural areas.
39. **Lagging regions and smallest municipalities are expected to benefit significantly from improvements in territorial planning, with significant pro-poor effects.** Bahia enjoys a highly decentralized governance system. However, capacities of local governments are unevenly distributed, with much of the poor living in poverty stricken regions under governments with low capacity to respond to their demands. The strengthening of a legal framework for the functioning of the 26 territorial planning units (*territorios de identidade*) is expected to increase the capacity of the smallest and most lagging local governments to design more coherent public policies and to increase public service coverage by pooling in public resources and gaining economies of scale as well as in response to increased citizen engagement in public policy decision making, transparency and social accountability.
40. **Women and afro-descendants who are poor family farmers and urban workers engaged in precarious informal labor markets will gain the most positive outcomes from social and productive inclusion policy changes, contributing to the reduction of gender, racial and regional disparities.** The expected outcome from PENM is to leverage the results obtained by non-specialized productive inclusion interventions and increase income and welfare for women and afro-descendants through the lenses of individual and collective empowerment. In lagging semi-arid regions, poor family farmers may benefit most from the PENM, which will contribute to increase productivity and their access to soft and business skills, capital, technology, technical assistance, and market. Furthermore, as productive and social inclusion policies might make more cash available at the local market of poor and backward municipalities, the economy of these lagging regions may also benefit through increases in tax collection and larger investment ability. In urban areas, productive inclusion policies focus in the informal sector where many urban poor seek to earn a living. This may also contribute to address and overcome gender, racial and regional inequalities in the access to formal labor market that hamper women economic empowerment. Finally, extremely poor families and, particularly, the female headed households are also expected to benefit from social inclusion policies that aim to reach out to them, to improve their access to social services and social safety networks. Therefore, PENM has the potential to promote equitable growth and reduce poverty.

41. **The Statute for Racial Equality is expected to increase the availability and the quality of services and programs to promote racial equality, which should increase the welfare of afro-descendants across several dimensions.** The statute creates an institutional framework to facilitate the formulation, implementation, financing and monitoring of policies and programs promoting racial equality at state and municipal levels. It is expected to build technical and financial capacity in the state and in municipalities in Bahia for the effective implementation of policies promoting racial equality, which should increase the availability and the quality of services and programs tailored to address specific needs faced by afro-descendants.
42. **Policy reforms in the education sector are expected to contribute to narrowing educational gaps and reduce poverty in indigenous and *quilombola* communities by improving the quality of specialized schools.** Minorities groups in Bahia are severely disadvantaged in terms of education indicators. The creation of the indigenous teacher category and the recruitment of 390 teachers in this new indigenous teacher career category through an official exam (*concurso publico*)³⁰ are expected to address the problem of lack of certification for indigenous school teachers by setting up knowledge standards for intercultural education. The adoption of regulatory frameworks for indigenous and *quilombola* education, with the definition of curriculum and pedagogical guidelines to specialized schools is expected to increase the access and quality of education to these populations by tailoring educational content and improving the learning environment.
43. **The State Health Policy for Afro-descendants is expected to enhance access to and improve the quality of health services to afro-descendant populations.** The decree supports an increase in the treatment of afro-descendants, including racial training to public health care providers, and increased scientific and epidemiologic knowledge pertaining to illnesses that disproportionately affect this group, as is the case of SCD. By adopting the principles to serve afro-descendant population, hospitals and health services providers will increase coverage of testing among afro-descendant children for early detection for sickle cell anemia and mitigation measures. During stakeholder consultations and despite some concerns with low capacity of local governments and “institutional racism” in the provision of public health services, representatives of afro-descendant and *quilombola* movements were very supportive of these measures, which are expected to increase the quality and access to health services by afro-descent population.
44. **The adoption of preventive measures to address teenage pregnancy is expected to have a positive impact on the welfare of Bahia’s women.** During stakeholder consultations, representatives of the women organizations, indigenous peoples and expressed that teenage pregnancy is a huge issue and strongly supported the implementation of preventive measures

³⁰ During stakeholder consultations, representatives of indigenous teachers expressed support for this measure but also a strong concern regarding the quality of the “*concurso publico*” used for the recruitment process under this new system. It was their view that in the first “*concurso publico*” launched by the GoBA the company hired to prepare, organize and evaluate the exams did not have enough knowledge on indigenous culture, evidenced by the high average scores candidates obtained in the objective part of the exam and the low general scores obtained in the subjective part, which included literature, interpretation, history, etc. With this, many experienced teachers have not been able to pass the exam and so ended removed from their positions. The GoBA is aware of this issue and has partnered with UNEB (the State University of Bahia), which has expertise in indigenous studies for the future application of the exams.

that effectively address teenage pregnancy. To reach this aim, they emphasized the need to effectively train education and health workers on gender issues and to strengthen the articulation with municipalities, which are responsible for the supply of basic health services. Indigenous and *quilombola* representatives expressed concern over whether these measures would reach their communities due to the difficulty in articulating with municipalities and also with federal SESAI, the agency responsible for the provision of health services to indigenous people. The GoBA expects to reduce youth pregnancies and maternal and neonatal mortality through better multi-sector coordination. The GoBA will institutionalize coordination and multi-sectoral solutions to prevent the risks related to adolescent pregnancy. Joint regulation signed by SEPLAN, SESAB, and SEE will support the implementation of a joint plan to improve access of young women to quality perinatal health care, reduction to risks associated to low weight at birth, preventive measures related to second teenage pregnancies, long-term reduction of youth pregnancies, improved common surveillance, and commitment to clear accountability with the involvement of civil society. As teenage pregnancies in Bahia are related with other social issues – including lower educational levels, higher rates of poverty, and other poorer life outcomes in children of teenage mothers – that contribute to reproduce chronic poverty, these measures are expected to have a significant impact on poverty reduction.

45. **The policy reforms under Public Security are expected to strengthen the ability of the State security sector to combat violence and victimization affecting vulnerable groups.** The Government of Bahia has adopted measures to strengthen its capacity to implement violence prevention activities that affect vulnerable groups including black youth population, women, gay, lesbian, bisexual and transgender (LGBT) population and the elderly within the Superintendence of Violence Prevention. With the strengthening of SPREV and its focus on works targeted at most vulnerable groups, the unit will be able to improve its training materials and expand its training activities with public servants officers focused on human rights and respect to minorities and vulnerable groups. Furthermore, the Rural Women Forum and the operationalization of the mobile units are expected to address one of the key bottlenecks in service provision to victims of GBV due to their particular difficulties in access³¹.
46. **The Strengthening of Public Sector Management by means of improved planned and budgeting systems, financial and resource management for the State of Bahia to achieve equitable growth, social inclusion and increased economic efficiency.** Thus, these policies will contribute to reduce poverty and inequality. First and as annual budgets are unrealistic and unconnected to the strategic Government priorities, by adopting new policies of planning and budgeting as well as by improving costing and resource allocation, the State Government will benefit from: (a) reduced transaction costs within the public sector, (b) lower costs of public services, and (c) free resources to be spent according to its strategic priorities. Hence, it is expected that the State Government may reach increased efficiency in the allocation of

³¹ During stakeholder consultations, representatives from the LGBT, youth, afro-descendants expressed strong discontent with “absurd levels police brutality”. Although they supported the initiatives proposed, they showed a strong skepticism to whether training would actually work due to the “ingrained culture of brutality” within the military police. They expressed the need to include human rights on the training curricula for officials and for the police force to be trained in clusters (old and new officers) to circumvent this. They emphasized the need for civil society to be more intensively consulted in the process of elaboration of specific interventions under SPREV.

public funds, more effective provision of public services and better targeting of programs and projects that may benefit the poor and reduce inequality. Furthermore, the better provision of public services at lower costs might have positive distributional effects and increase social well-being.

47. **Therefore, the overall conclusion of the PSIA is that the distributional impact of the operation is overwhelmingly positive.** All the policies considered have clear benefits for the poor, particularly in the medium to long term. Although a few challenges have been pointed out by the stakeholder groups consulted, the consultations have indicated strong support to the policy changes being pursued.

Consultations

48. **The measures supported by this operation have been prepared in a strong participatory manner.** The reforms to mainstream policies to promote racial equality are the result of historical demands to ensure equal opportunities, protection of individual, collective and individual rights and combating discrimination and other forms of racial and religious intolerance. In particular the draft law for the *Estatuto da Igualdade Racial e Combate à Intolerância Religiosa na Bahia* sent to the State Assembly was built from propositions of the black movement, originating from state conferences for the Promotion of Racial Equality held in 2005, 2009 and 2013. The final version was discussed in two public hearings held in 2013, one at headquarters of the Bahia Bar Association (Ordem dos Advogados da Bahia - OAB) and at the Council for the Development of the Black Community (*Conselho de Desenvolvimento da Comunidade Negra - CDCN*). Similarly, the *Política Estadual de Empreendedorismo Negro e de Mulheres* was originated in the State Conferences on Racial Equality of 2005, 2009 and 2013, on Policies for Women (2012). In addition, there were 5 meetings with representatives of African descent entrepreneurs to address the issue. Furthermore, the GoBA established in 2012, a dedicated working group to address the issue. This group consisted of representatives of the State Secretariats of Planning, Women, Promotion of Racial Equality, Trade and Industry Services, Labor and Income, and Finance.
49. **Policy reforms on the health sector, also followed a participative preparation process which is defined by the national Unified Health System (SUS).** The SUS (unified health system) comprises all health care and services provided by public institutions of the three levels of government (federal, state and municipal), as well as private institutions that provide services under contract. Responsibility for SUS is shared by the three levels of government - the Ministry of Health and the state and municipal councils/committees, as well as their respective secretariats, which comprise an equal representation of providers and users. Community participation occurs in the mentioned health councils or local committees, which exist at the 3 levels of government, have a deliberative character, and are based on parity of membership (members of the state and municipal governments and of society, including users and providers of health services).
50. **The curriculum guidelines for indigenous and quilombola education were defined with a broad participation of stakeholders.** In the case of *quilombola* education, the draft document was presented by the State Board of Education to the Education Forum *Quilombola* of Bahia, on December, 2012. The text was based on the documents of the

National Conference on Education (CONAE), the General Curriculum Guidelines for Basic Education and the National Curriculum Guidelines for School Education *Quilombola*, established in August 2012. The preparation process for the State Curriculum Guidelines for *Quilombola* Education in public schools of the State of Bahia contemplated hearings conducted with 380 Bahia *quilombolas* communities in the years 2010 and 2011. In the case of indigenous education, the definition of new curriculum and the law on indigenous education approved in 2010 and amended in 2013 were supported by the State Forum on Indigenous Education - priority forum for dialogue between indigenous peoples of 16 ethnic groups and the State Secretariat of Education.

51. **The establishment of the Fórum Estadual Permanent de Enfrentamento à Violência contra as Mulheres do Campo e da Floresta da Bahia followed a strong participatory process.** Organizations working with rural women workers in Bahia discussed in February 2014, the final version of the Permanent State Forum to Combat Violence against Women, along with representatives of the state government, public Ministry, National Institute of Colonization and Agrarian Reform (INCRA) and other segments of the government. The establishment of the Forum is supported by the Federal Government through the Secretariat of Policies for Women of the Presidency (SPM-PR).

