

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

SUPPORT FOR THE SOCIAL PROTECTION SYSTEM

(BR-L1004)

LOAN PROPOSAL

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CONTENT

PROJECT SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Poverty in Brazil.....	1
B.	The social protection system	2
C.	Government strategy	4
D.	Program strategy.....	6
E.	Bank strategy in the country and the sector.....	7
F.	Coordination with other agencies.....	7
II.	THE PROGRAM.....	9
A.	Objectives.....	9
B.	Program Structure.....	9
1.	Conditional cash transfers	9
2.	Institutional strengthening.....	9
C.	Costs and Financing	13
III.	PROGRAM EXECUTION.....	15
A.	The borrower and executor.....	15
B.	Execution and administration.....	15
1.	Execution of Component 1: Conditional cash transfers.....	15
2.	Execution of Component 2: Institutional Strengthening.....	17
3.	Operations Manual	17
C.	Procurement of goods and services	17
D.	Loan conditions	18
E.	Recognition of expenditures	18
F.	Execution period and calendar of disbursements	19
G.	Financial statements, internal controls and external auditing	19
H.	Monitoring and evaluation	20
IV.	VIABILITY AND RISKS	22
A.	Fiduciary assessment.....	22
1.	Budgetary process	22
2.	Budget execution.....	22
3.	Internal control	23
4.	External control	23
B.	Institutional Viability.....	24
C.	Financial viability.....	24
D.	Environmental and social impact	25
E.	SEQ/PTI Classification	25
F.	Risks	26

PROPOSED RESOLUTION

Electronic Links and References	
Basic Socioeconomic Data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of Loans in Execution & Loans Approved	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=434178
Tentative Lending Program	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=434174
Information available in the files of RE1	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=412415
Logical Framework	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=417468
Procurement Table	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=412425
Institutional and Fiduciary Report	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=412230

ACRONYMS

BPC	Benefício de Prestação Continuada
CadÚnico	Cadastro Único
CCT	Conditional cash transfer programs
CEDEPLAR	Centro de Desenvolvimento e Planejamento Regional
CEF	Caixa Econômica Federal
CFAA	Country Financial Accountability Assessment
CMC	Core Management Committee
DFID	Department of International Development
ENAP	National School of Public Administration
IBGE	Instituto Brasileiro de Geografia e Estatística
INDES	Inter-American Institute for Social Development
LOAS	Organic Law of Social Assistance
MDS	Ministry of Social Development and Hunger Eradication
PAIF	Program of Integrated Attention to the Family
PETI	Program for the Eradication of Child Labor
PNAD	Pesquisa Nacional por Amostragem de Domicílios
PPA	Plano Plurianual
SENARC	Secretaria Nacional de Renda de Cidadania
SFC	Secretaria Federal de Controle Interno
SIAFI	Integrated System of Financial Management
STN	Secretaria do Tesouro Nacional
SWAp	Sector-wide approach
TCU	Tribunal de Contas da União
UNDP	United Nations Development Agency

PROJECT SUMMARY
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Financial Terms and Conditions ¹				
Borrower: Federative Republic of Brazil Guarantor: not applicable Executing Agency: Ministry of Social Development and Hunger Eradication (MDS). The National School of Public Administration (ENAP) will be a co-executor for training activities.			Amortization Period:	25 years
			Grace Period:	3.5 years
			Disbursement Period:	3.5 years
Source	Amount	%	Interest Rate:	Adjustable
IDB (OC)	US\$1,000,000,000	13	Supervision and	0%
Local	US\$6,643,000,000 ²	87	Inspection Fee:	
Total	US\$7,643,000,000	100	Credit Fee:	0.25%
			Currency:	United States dollar drawn on the Single Currency Facility of the Bank's Ordinary Capital.
Project at a Glance				
Project objective: The general objective of the program is to reduce the inter-generational transmission of poverty, through the expansion and consolidation of a social protection system centered on the conditional cash transfer program Bolsa Familia. The specific objectives are to: (i) expand the coverage of the Bolsa Familia program to all eligible families in an efficient and effective manner; (ii) assess and improve the quality of complementary safety net programs; (iii) strengthen the newly created Ministry of Social Development as well as the decentralized social assistance structure, especially their human resource base.				
Special contractual clauses: Conditions precedent to first disbursement: (i) entry into force of the agreement between MDS and ENAP for the execution of training activities; (ii) appointments of the MDS staff that will perform the duties of Technical and Operational Coordinators; (iii) approval of the Operations Manual; and (iv) entry into force of the agreement between the MDS and the specialized agency which will assist in the contracting of services. Execution conditions: (i) subscription and entry into force of the agreements between MDS and municipalities specifying the guidelines for the recertification of PETI beneficiaries and the responsibilities of each party, prior to the receipt of financial resources by said municipalities; (ii) subscription and entry into force of the agreements between the MDS and municipalities covering the terms and conditions for receipt of equipment, as specified in the Operations Manual; and (iii) subscription and entry into force of the agreement(s) between the MDS and IBGE prior to carrying out the Child Labor Supplement of the PNAD and the Survey of Social Services Agencies. (See paragraphs 3.13 and 3.14). The Bank will consider retroactive financing in an amount up to US\$128 million chargeable to the loan and recognize Government expenditures up to US\$641 million for the Bolsa Familia program, covering the period from July to December 2004, in accordance with OP-504 (see paragraph 3.15).				
Exceptions to Bank policies: See procurement below.				
Project consistent with Yes [x] No []				
Country Strategy:				
Project qualifies for: SEQ[x] PTI [x] Sector [] Geographic[] Headcount [x]				
Verified by CESI on: October 29, 2004.				
Environmental/social review: See paragraph 4.11, 4.12, 4.13				
Procurement: The direct hiring of the Instituto Brasileiro de Geografia e Estatística (IBGE), the national statistics institute, to carry out the 2006 Special Supplement on Child Labor of the PNAD (paragraph 2.8) and for the 2005 Survey of Social Services Agencies (paragraph 2.10) is recommended, in accordance with GS-403. See paragraphs 3.11 and 3.12.				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount (*)

(*)With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

² Includes US\$395,000,000 in World Bank financing for Bolsa Familia cash transfers in 2005-6.

I. FRAME OF REFERENCE

A. Poverty in Brazil

- 1.1 Since the early 1990s Brazil has made substantial progress towards poverty reduction. The poverty rate declined from 41% in 1992 to 33% in 2002, while the extreme poverty rate fell from 14.5% to 13.4% over the same period. This decline was largely achieved between 1993 and 1995, as a result of the success of the Plano Real in curbing inflation and stabilizing the economy. Since then poverty rates have remained practically constant, but population growth has resulted in an actual increase in the number of poor from approximately 50 million in 1995 to 55 million in 2002, though this is still below to pre-Plano Real level of 59 million. Recent studies suggest that the pace of poverty reduction is limited by sluggish growth, but primarily by the persistence of high levels of inequality, the highest in the Region.
- 1.2 The level of education is the single most important predictor of the probability of being poor in Brazil. Among poor households, 54% are headed by individuals with less than four years of schooling. While universal coverage of basic education has been practically achieved, significant differences persist between poor and rich children: 88% of 5-15 year olds in the poorest quintile are enrolled in school, compared to 99% of those in the richest quintile, while repetition rates are respectively 40% and 6%. Thus, education plays a key role in the inter-generational transmission of poverty: low levels of education lead to low incomes, which in turn lead to lower levels of enrollment and attendance as well as high repetition rates by children from poor households, perpetuating poverty. It is estimated that 68% of the differences in education in one generation are transmitted to the next, compared to 50% in the Region.¹
- 1.3 The policy implications of these findings are twofold. First, improving the equity and quality of educational opportunities remains the single most important policy for poverty reduction and social inclusion over the medium and long term. Second, cash transfers directed at poor families, conditional on school attendance, can play a critical role in poverty reduction, given their redistributive impact as well as their contribution to the accumulation of human capital. With regards to the first, over the last decade the Brazilian government has made investing in basic education a top priority. Among its key actions was the establishment of a fund to guarantee minimum levels of expenditures per pupil in primary education, improve teacher's salaries and reduce the large differences across states. The second policy implication began to be addressed through the creation of a number of cash transfer programs discussed below.

¹ RE1/SO1, "Poverty Reduction and Inequality in Brazil" (October 2004).

B. The social protection system

- 1.4 Until the late eighties, the Brazilian social protection system was characterized by strong centralization and little transparency. The needy largely had to seek support through clientelistic networks which treated benefits as charitable favors. The 1988 Constitution and the subsequent 1993 Organic Law of Social Assistance (LOAS) redefined social protection in terms of rights, and initiated important institutional, organizational, legal and programmatic changes in the system. The main principles underlying these changes were the decentralization of responsibilities to municipalities, greater participation of civil society and the adoption of more technical and transparent criteria to select beneficiaries and private service providers. At the federal level, the secretariat responsible for leading the changes in the social assistance system was initially placed under the Ministry of Social Security, and later directly under the Presidency.
- 1.5 Since then, Brazil has developed an array of social protection programs at the federal, state and municipal levels, resulting in substantial progress in the creation of a modern social protection system. The major federal programs in existence in 2002 are shown in Table 1. Together, they amounted to approximately US\$3 billion, less than 1% of GDP. Many of the programs provide social services to specific vulnerable groups, especially children, the elderly and the disabled. These programs receive federal financing, usually on a per capita basis, but are executed in a decentralized manner by municipalities, either directly or through the contracting of private providers. Others provide cash transfers, either conditional on actions by beneficiaries or non-conditional (pure).

Table 1.1: Federal Social Assistance Programs			
Program	Type of Benefit	Beneficiaries (2002-2003)	Budget (R\$ millions)
Benefício de Prestação Continuada/Renda Mensal Vitalícia	One minimum wage per month (R\$260) to elderly and disabled	2,286,572	5,171.9
Auxílio-Gás	R\$7.50 per month to replace general cooking gas subsidy	9.7 million households	650.5
PETI	R\$25 (rural areas)/R\$40 (urban areas) and after-school program funding of R\$20 and R\$10 respectively per month per child aged 7-14 years old, conditional on school attendance and participation in after school programs	810,823	516.1
Bolsa Escola	R\$15 per month for each child 6-15 years old (up to three) conditional on school attendance	5.6 million households	1,605.4
Bolsa Alimentação	R\$15 per month per person (pregnant and nursing women and children under 6), up to three, conditional on health care visits	1.7 million households	152.0
Cartão Alimentação*	R\$50 per month for food purchases	774,764	n.a.
Agente Jovem	R\$65 per month for adolescents 15-17 years old, conditional on training activities	55,563	66.7
Assistance to children, adolescents, elderly and disabled	Services (including day care, pre-schools, non-institutional care)	1,711,392 children 308,438 elderly 151,438 disabled	430.0
Other	Includes assistance to indigenous communities and drought victims; community gardens, income generation programs, training programs	n.a.	703.8
TOTAL			9,296.4

* Created in 2003

- 1.6 Among pure cash transfer programs, *Benefício de Prestação Continuada* (BPC), mandated under the 1988 Constitution and directed to the elderly and disabled below the extreme poverty line, together with an earlier program which is being phased out by attrition (*Renda Mensal Vitalícia*), accounted for more than half of all social assistance spending in 2002.
- 1.7 Conditional cash transfer programs (CCTs) began to be established in the mid 1990s. The Program for the Eradication of Child Labor (PETI), created in 1996, was designed to eliminate child labor in activities considered dangerous, unhealthy or degrading, through the provision of a cash transfer as well as financing for after school activities, which are implemented by municipalities. Participation is conditional on cessation of work and school and after-school program attendance. *Bolsa Escola* was introduced in 1995 by the Federal District and the municipality of Campinas as a cash transfer conditional on school attendance; almost 100 similar programs, under different names, were then established in other states and municipalities. The Federal *Bolsa Escola* Program was created in 2001, with federal financing, but retaining municipal responsibility for beneficiary enrolment and program monitoring. Another federal program, *Bolsa Alimentação*, was also introduced in 2001. It was designed to reduce nutritional deficiencies and infant mortality among poor households, through the provision of a cash transfer to pregnant and nursing mothers as well as small children, conditional on regular health care visits for specific services. Finally, *Cartão Alimentação* was established in 2003, providing a cash transfer conditional on food purchases.
- 1.8 Overall, the new programs were well targeted, especially when compared to other transfers made by the Federal Government. In 2002, 94% of the expenditures on the BPC program for the elderly and 91% of those on Bolsa Escola went to poor households; in contrast, only 40% of federal expenditures on pensions and 31% on unemployment insurance reached the poor. Most of the new cash transfer programs were also able to minimize administrative expenditures and local political interference by paying households directly through automated cash machines available in the banking system. PETI remained the exception, with only a small percentage of beneficiary families paid directly.
- 1.9 The three major CCTs, PETI, Bolsa Escola and Bolsa Alimentação have all been subject to impact evaluations using experimental and quasi-experimental designs or micro-simulation techniques. The PETI has been the most studied; all studies concur in finding a significant decrease in child labor; several also found a significant increase in school attendance as well as an improvement in school performance. Evaluations of the Bolsa Escola Program found a positive and significant impact on school enrollment and attendance, although its impact on child labor is more complex, in the sense that working children already attending school were also likely to remain employed. Evaluations of Bolsa Alimentação found significant positive impacts on food consumption and dietary diversity, but a negative impact on child growth. This appeared to be linked to the mothers' perception that benefits would be discontinued if the child achieved normal weight.

- 1.10 Despite the largely positive results of these individual programs, the evolution of the social protection system took place in a fragmented manner. PETI was established and managed by the Secretariat for Social Assistance, Bolsa Escola by the Ministry of Education, Bolsa Alimentação by the Ministry of Health, Auxílio Gás by the Ministry of Mines and Energy, and Cartão Alimentação by the Extraordinary Ministry for Food Security. Each of the programs maintained its own registry of beneficiaries and administration systems, including separate contracts with the banking system for payments, resulting in the duplication of administrative costs and other inefficiencies. The multiplicity of programs had other adverse consequences. First, it led to the fragmentation of social policy, through the use of sectoral criteria for selecting beneficiaries and defining conditionalities, failing to capitalize on intersectoral synergies in education, health and nutrition for poor children. Second, lack of coordination of independent programs at the federal level and among the three levels of government produced both duplications and significant coverage gaps, accentuating horizontal inequities produced by vastly different benefit levels. Third, the sectoral approach applied conditionalities to specific individuals within the family, failing to develop an integrated approach to both protect and create behavioral incentives for the entire household.
- 1.11 In terms of overall expenditures, while the low budgetary allocations to CCTs led to low levels of coverage, the low value of the transfer provided under each program limited their overall impact on both short-term poverty reduction and human capital accumulation. In 2002, expenditures on CCTs represented 25% of expenditures on social assistance, which in turn represented less than 1% of GDP. It is striking to note that despite the fact that Bolsa Escola was well targeted while federal expenditures on pensions are highly regressive, the latter was estimated to have a larger effect on poverty due to its size (9.3% of GDP). Studies also show that household decisions to enroll children in school are reasonably elastic with respect to the transfer size. Thus, a low transfer induces a smaller response, which reduces the program's impact on the reduction of poverty over the longer term as well.
- 1.12 Much less is known about the effectiveness, efficiency and impact of the non-cash transfer social assistance programs financed by the Federal Government, including the after school program which is an integral part of PETI. Most of these services were effectively decentralized and social participation and oversight increased through the establishment of councils at all levels of government in which civil society organizations are represented. However, the very decentralization of services has resulted in the proliferation of different models of care in the absence of federal norms and the fragmentation of interventions.

C. Government strategy

- 1.13 The Government of Brazil has developed a new sectoral policy, designed to reduce the existing institutional and sectoral fragmentation, promote efficiency in the use of public resources, and scale up the coverage of the social protection

system. The Ministry of Social Development and Hunger Eradication (MDS) was established in January 2004, bringing together the ministries of social assistance and food security as well as the executive secretariat responsible for the newly created unified cash transfer program, *Bolsa Família*, formerly under the Presidency. The MDS is responsible for the coordination and execution of intersectoral policies to promote social inclusion and eradicate poverty and hunger.

- 1.14 The Bolsa Família program was launched in 2003, and enacted into law in January 2004, consolidating the Bolsa Escola, Bolsa Alimentação, Cartão Alimentação and Auxílio-Gás programs; the PETI remained as a separate program given its remedial, rather than preventive nature. Bolsa Família represents the Government's most important poverty reduction initiative and constitutes the basis of the reformed social protection system. It provides a fixed benefit of R\$50 to families below the extreme poverty line, and a variable benefit of R\$15 for pregnant and nursing women and children aged 0-15 per month, up to three, to all families under the poverty line. Participation is conditional on school attendance and health visits for pregnant women and all children in the family. This design preserves many of the features of the previous programs, while addressing their deficiencies through an integrated multisectoral approach and the application of conditionalities to the entire family. Moreover, the new program raises the average benefit level from approximately R\$24 under Bolsa Escola to approximately R\$72.
- 1.15 The unification of several programs under Bolsa Família is also designed to promote efficiency and better targeting. Enrollment into the Bolsa Família program is carried out through the *Cadastro Único* or *CadÚnico* (single registry), a national system which identifies and registers potential beneficiaries, originally established in 2001, but underutilized until now since different programs already had their own systems. The use of a single registry will allow for the elimination of duplications in benefits and reduce administrative costs. The adoption of the CadÚnico for the Bolsa Família program has also triggered several actions to improve it, among them cross-checking with other government databases and granting access to the data to states and municipalities, which can carry out their own checks and use the information for planning and management of local programs targeted to the poor.
- 1.16 The unification of separate contracts with the Caixa Econômica Federal (CEF)² for automated payments directly to beneficiaries has already led to substantial administrative savings, on the order of R\$93 million annually. Enrollment in the PETI will also be subject to the CadÚnico and payments made directly to beneficiary families.

² CEF is a federal savings institution, whose network reaches all Brazilian municipalities.

- 1.17 In addition to reducing institutional and sectoral fragmentation at the federal level and promoting efficiency gains, the introduction of Bolsa Familia is designed to promote coordination at sub-national levels through agreements with states and municipalities, under which local programs adopt the same design and complement it by financing the expansion of coverage or topping up benefits.
- 1.18 The Government's sectoral strategy recognizes that cash transfers alone are not sufficient to address risks faced by poor and vulnerable families. Important policy reforms and investments in basic health and education are being undertaken to expand the supply and improve the quality of these services, with the support of both the IDB and the World Bank. Neither sector is expected to present a constraint to the expanded demand generated by Bolsa Familia. In addition, the government seeks to strengthen the quality of complementary social assistance services and reduce their fragmentation. A key aspect of the strategy is the consolidation and expansion of the Program of Integrated Attention to the Family (PAIF), which provides and facilitates access to social services focused on the family unit through referral centers located in poor neighborhoods. This program is critical to identifying, monitoring and addressing the non-cash needs of families and vulnerable groups, promoting their social inclusion and autonomy. The Government also remains strongly committed to the improvement of the after-school program which constitutes an integral part of PETI.

D. Program strategy

- 1.19 The proposed program will support Brazil's rationalization, consolidation and expansion of the social protection system, which has at its center the newly unified conditional cash transfer program Bolsa Familia. Bank support will enable the government to expand the coverage of this program to all eligible families in an efficient and effective manner, while at the same time strengthening complementary programs and the recently created Ministry's capacity to design, monitor and evaluate social policies. The Bank's support is particularly critical to strengthen the PETI, an internationally recognized program to reduce child labor, and the PAIF, an innovative program to address vulnerable families. At the same time, Bank involvement in what is likely to become the largest conditional cash transfer program in Latin America will provide a valuable learning experience which can be shared with other countries in the region and strengthen the Bank's leadership role in the implementation of innovative social protection systems.
- 1.20 The proposed investment loan would use the Sector-Wide Approach (SWAp) as approved by GN-2330-6 and utilize both pooled and non-pooled funding arrangements (see paragraphs 2.18 and 2.19 and Chapter III), which is expected to maximize government ownership and impact. A fiduciary and institutional assessment was carried out in the course of project preparation in order to ensure

that existing standards are satisfactory to underpin the use of pooled funding, and is described in Chapter IV.³

E. Bank strategy in the country and the sector

- 1.21 This operation supports the key objectives of reducing poverty, promoting social inclusion and reducing inequality contained in the Bank's new country strategy for Brazil (GN-2327), which was considered by the Programming Committee of the Board of Executive Directors on October 4, 2004. It also incorporates one of the important lessons learned from previous strategies: the need to focus on major initiatives already incorporated in Brazil's Multiyear Plan (*Plano Plurianual* - PPA), which is the case of Bolsa Familia, in order to ensure country ownership.
- 1.22 The proposed operation is also consistent with the Bank's Poverty Reduction and Promotion of Social Equity Strategy (GN-1894-7), which describes CCTs as essential elements of policies designed to combat structural poverty and inequality. The Bank has been the major source of technical support and financing for CCTs in the region, including those in Mexico, Honduras, Nicaragua, Jamaica and Colombia. All of these programs have been the subject of rigorous evaluations that demonstrate their positive results in terms of raising household consumption, and increasing school enrollment and health care utilization in a cost-effective manner.
- 1.23 As noted above, Brazil was one of the pioneers in the development and implementation of CCTs. Although the Bank was not involved in the direct financing of its CCTs until now, it has been a long-term partner in the development and implementation of social policies and programs. More specifically, the 1999 emergency loan for Social Sector Reform and Social Protection Program (1174/OC-BR) and the 2001 Sector Program to Build Human Capital (1378/OC-BR) provided budgetary protection and set targets for the expansion of selected programs, including Bolsa Escola and the PETI, supported measures to improve targeting and service quality across the social sectors, and assisted in the development of monitoring systems and evaluation methodologies. The present operation builds on these policies and studies, while accommodating recent changes in sectoral policy.

F. Coordination with other agencies

- 1.24 In June 2004, the World Bank approved an adaptable program loan to support Bolsa Familia, in the amount of US\$572.2 million for the period 2004-6 using the SWAp mechanism; a second loan in the amount of US\$520.2 million is planned for the period 2007-8. Under the first phase, US\$551.5 million of loan resources are being pooled with Government, and will reimburse 8.9% of the transfers made

³ Institutional and Fiduciary Report:
<http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=412230>

under the Bolsa-Familia program.⁴ The remainder of loan resources are unpooled, and will be used to provide technical support for the improvement of the CadÚnico, the procedures for monitoring conditionalities, the establishment of a monitoring and evaluation system, as well as finance incremental costs related to project management and supervision.

- 1.25 The IDB has collaborated closely with the World Bank as well as the UK's Department of International Development (DFID), which provided technical support to the design of Bolsa Familia. The IDB and World Bank loans are complementary. Specifically, the World Bank focuses exclusively on the Bolsa Familia program, while the IDB will also support other social protection programs and promote their articulation with Bolsa Familia. It is expected that the collaboration between the World Bank and the IDB, as well as other donors, will continue during program execution, including the sharing of results of studies and activities financed by all donors.

⁴ The World Bank's Project Appraisal report can be found at http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2004/06/10/000160016_20040610095010/Rendered/PDF/285440orig.pdf

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to reduce the inter-generational transmission of poverty, through the expansion and consolidation of a social protection system centered on the conditional cash transfer program Bolsa Familia. The specific objectives are to: (i) expand the coverage of the Bolsa Familia program to all eligible families in an efficient and effective manner; (ii) assess and improve the quality of complementary safety net programs; (iii) strengthen the newly created Ministry of Social Development as well as the decentralized social assistance structure, especially their human resource base.

B. Program Structure

- 2.2 The program consists of two components: conditional cash transfers and institutional strengthening.

1. Conditional cash transfers (US\$983.4 million in loan resources)

- 2.3 The objective of this component is to support the Government's strategy to rationalize previous CCT's through the expansion of the coverage of Bolsa Familia from approximately 4.1 million families as of June 2004 to 11.2 million by 2007. This expansion is based on the migration of eligible beneficiary families of Bolsa Escola, Bolsa Alimentação, Cartão Alimentação and Auxílio-Gás, eliminating duplications as these programs are phased out, and filling gaps in coverage by incorporating new eligible families. The component will also support the remedial PETI program, as its current beneficiaries are recertified and additional eligible children are incorporated, increasing expected program coverage from 931,000 children in 2004 to 1.2 million children by 2007. The loan will partially finance the cash transfers to beneficiaries of both programs, through reimbursement of expenditures. Financing will be on a declining basis, consistent with the Bank's recurrent costs policy: 16.5% of expenditures in 2005, 13% in 2006 and 9% in 2007.

2. Institutional strengthening (US\$15.7 million in loan resources)

- 2.4 The objective of this component is to strengthen the new Ministry's capacity to develop, implement and evaluate the integrated social protection system. Specifically, the component will support the expansion of the beneficiary identification system (the CadÚnico), the improvement of programs and policies which are complementary to Bolsa Familia, and the training of personnel within the MDS and across the social protection network.

a) Support for the CadÚnico

- 2.5 The objective of this sub-component is to support the improvement and expansion of the single registry which is used by municipalities to identify potential beneficiaries of social protection programs. The program will partially finance the municipal costs of the recertification of existing PETI beneficiaries, which will allow for the automation of beneficiary payments, following a directive issued by the Supreme Audit Institution of Brazil (*Tribunal de Contas da União-TCU*). Program resources will also finance: (i) the development and application of quality indicators for the CadÚnico at the municipal level, which will allow the MDS to evaluate enrollment processes and results at the local level and take corrective actions as needed; (ii) the provision of computer equipment to poorer municipalities to facilitate the process of enrolment of beneficiaries, subject to municipal agreements with the MDS to comply with quality standards; (iii) social communication activities, including regional seminars and a national one to share best practices in enrollment and disseminate the new orientations of the CadÚnico. These new orientations include the required use of the CadÚnico for enrollment in Bolsa Familia and PETI, MDS application of quality standards, municipal access to the database, and required internet publication of the names of beneficiaries.
- 2.6 IDB support for the CadÚnico will complement activities financed by the World Bank. Among them is the development of a basket of indicators to potentially replace self-reported income as the criterion for determining eligibility for Bolsa Familia.⁵ The CadÚnico questionnaire already includes several non-income variables which can be used to determine the socio-economic vulnerability of households, and the use of these variables is contemplated in the legislation. The World Bank is also providing technical assistance to adapt eligibility criteria and data collection mechanisms to the diverse cultural and ethnic characteristics of indigenous groups and quilombola⁶ communities.

b) Support for complementary policies and programs

- 2.7 The objective of this sub-component is to improve the non-cash transfer aspects of the PETI as well as other social assistance programs which constitute integral parts of the social protection system, such as the PAIF. In the case of the PETI, the program will finance qualitative studies of after-school programs in the five regions of the country, based on single pre-tested methodology for data collection and analysis, adapted to local circumstances as needed. These studies will

⁵ Self-reported income is generally regarded as an unreliable targeting criterion, although cross-checking with other databases, already being initiated, can be used to validate responses. An audit carried out by the TCU in the state of Rio Grande do Norte, using this methodology, found that 12% of total households included were not eligible. However, the audit did not provide information on the magnitude of errors in reporting, nor on the percentage of eligible households excluded.

⁶ Quilombolas are descendants of runaway slave communities.

- identify best practices, provide information on standards of quality for program design and delivery as well as their costs, and propose indicators for monitoring and evaluation. The studies will be presented and discussed in a national seminar with stakeholders, and their results systematized. On the basis of these inputs, the operations manual of the program will be revised and a methodological kit will be produced; both will be disseminated to municipal PETI coordinators and after-school program monitors.
- 2.8 The program will also finance a new round of the child labor supplement of the National Household Survey (*Pesquisa Nacional por Amostragem de Domicílios – PNAD*), last undertaken in 2001, which will permit new estimates of the magnitude of the problem and its characteristics, as well as updated studies of PETI's impact. Prior to carrying out the survey in 2006, workshops with national and international specialists who have previously carried out research using the 2001 supplement will provide the necessary expertise to support the revision of the questionnaire.
- 2.9 As in the case of PETI's after school activities, the program will finance an assessment of the PAIF, which complements Bolsa Familia by addressing the non-cash needs of poor and vulnerable families, facilitating access to social services and other activities through centers located in vulnerable neighborhoods. Qualitative studies will be carried out in the five regions of the country to identify best practices and provide inputs to define standards of quality and determine required financial and human resources. An additional study will be undertaken to systematize successful methodologies of working with vulnerable families, including international ones, such as *Chile Solidario*. The studies will be presented at a national seminar for stakeholders and lead to the revision of the PAIF Operations Manual.
- 2.10 As noted in Chapter I, little is known about other non-cash transfer social assistance programs, including those provided by private entities that are targeted primarily to children, the elderly and the disabled. The program will finance studies of the network of social assistance organizations which will provide the empirical basis for the formulation and rationalization of complementary policies and programs of social inclusion in the future. Specifically, the program will finance in-depth surveys of public and private social services agencies which will provide data on services delivered, their geographical distribution, available infrastructure, the profile and qualifications of available human resources, sources of financing and other strategic information relevant for an in-depth knowledge of the status of social service delivery in the country. In addition, the program will finance a study to identify the competencies and skills required for an effective and efficient delivery of social services in the country. The information provided by this study will be used to develop a strategy for continuous decentralized training at the local level designed to address the gap between existing skills and actual needs.

c) Training

- 2.11 The objective of this component is to improve the country's capacity to design, implement, monitor and evaluate social programs and policies. At the federal level, training courses will be used to strengthen the institutional capacity of the newly-created MDS. Specifically, the program will finance short term training (up to four weeks) in social development, safety nets, operational research and quantitative methods, and program design, implementation, monitoring and evaluation. A preliminary list of courses has been identified, including those offered by the INDES, the World Bank Institute and Brazilian institutions. In addition, the program will finance post-graduate training for career personnel at MDS and technical visits to countries with successful experiences in the design, implementation and monitoring and evaluation of social protection programs.
- 2.12 The Program will also finance the training of social program managers (*gestores sociais*) at the federal and state and municipal levels, which is essential to the modernization of the social protection system, while simultaneously laying the basis for the development of a sustainable decentralized training capability. This training will be undertaken in two phases: (i) the training of 120 trainers drawn from private and public institutions that seek to form part of a decentralized training network for managers of social services, programs and projects, under the coordination of the National School of Public Administration (*Escola Nacional de Administração Pública* – ENAP); and (ii) the decentralized training, conducted by the private and public institutions mentioned in (i) of 1,600 high level managers of social programs drawn from all 26 Brazilian states, state capitals, municipalities with over 100,000 inhabitants and smaller municipalities located in metropolitan regions. At project completion, it is expected that this experience will result in the establishment of a network of institutions on which the MDS and state and municipal governments can rely on to provide training for managers of social services on a continuous basis.
- 2.13 Training will respond to the need to develop homogeneous conceptual and methodological standards that can be adapted to local social services needs. The curriculum for the 88-hour training of trainers program includes modules on the National Social Assistance Policy in the context of the proposed social protection system, as well as modules focusing on topics as diverse as Ethics and the Management of Social Programs; Management and Strategic Planning; Participation, Partnership and Decision Making; Budget Administration and Design, Monitoring and Evaluation of Public Policies. The curriculum for the 160-hour decentralized training of social managers will address these same issues at a more practical, applied level. Modules will include topics such as Ethics, Equity and the Rights of Users of Public Services; Effectiveness, Efficiency and Transparency in Public Administration; Decentralized Public Services Delivery, the Provision and Financing of Social Services Delivery; Partnership and Participation in the Delivery of Social Services.

d) Support for evaluation

- 2.14 The objective of this component is to support evaluation efforts being undertaken by the MDS. Specifically, the MDS is designing a two-year quasi-experimental impact evaluation based on a longitudinal survey of Bolsa Familia beneficiaries and non-beneficiaries. In order to differentiate treatment and control groups, the evaluation design takes advantage of the transition of families from non-beneficiary status or from beneficiaries of other programs to Bolsa Familia beneficiaries. Enrollment data will be obtained from the CadÚnico and from information at the municipal level collected by the MDS. The dependent variables being considered are household consumption and expenditures, family behavior with respect to program conditionalities and anthropometric measurements. The Centro de Desenvolvimento e Planejamento Regional (CEDEPLAR) of the Federal University of Minas Gerais will be responsible for the survey's fieldwork, which is financed by the MDS. Loan resources will finance international consultants and workshops to assist in designing, monitoring and analyzing the evaluation's results. Upon completion of the evaluation, the IDB will finance the dissemination of the results.
- 2.15 In addition, loan resources will support two international seminars focused on monitoring and evaluation of selected aspects of social protection programs. Three thematic areas have been pre-identified for these seminars: (i) monitoring of conditionalities; (ii) evaluation of complementary strategies to promote the exit of beneficiaries; and (iii) monitoring and evaluation of social policies in decentralized systems. The Bank will also finance a final evaluation based on the verification of the expected outcomes presented in the logical framework, as described in Chapter III. This evaluation will verify the global impact of the program on poverty and inequality and educational variables.
- 2.16 **Program administration.** Approximately US\$900,000 of loan resources will be used to finance incremental costs associated with program management, as described in Chapter III.

C. Costs and Financing

- 2.17 The preliminary cost of the program is estimated at approximately US\$7,643,000,000 of which US\$1 billion will be financed by the IDB. The projects costs are summarized in the following table:

Table 2.1: Project Costs
(in US\$ millions)

Component	BID	% of total Program costs
Component 1. Conditional Cash Transfers	<u>983.4</u>	<u>12.9%</u>
Component 2. Institutional Strengthening	<u>15.7</u>	<u>100%</u>
A. Support for the CadÚnico	6.4	
B. Support for complementary policies and programs	3.6	
C. Training	5.2	
D. Support for Evaluation	0.5	
Administration and Supervision	<u>0.9</u>	<u>100%</u>
Program Administration	0.9	
Total	<u>1,000.0</u>	<u>13.1%</u>

- 2.18 **Loan modality.** The project team proposes that this investment loan use the Sector-Wide Approach (SWAp), as requested by the Government of Brazil and already adopted in the World Bank's parallel loan. The proposed program shares the major characteristics of SWAp's being financed by other donors: (i) there is an agreed comprehensive sectoral framework; (ii) the Government has led the development of this framework as well as the specific program, mobilizing and coordinating different sources of financial and technical support; (iii) key external stakeholders, including the Bank, the World Bank, and DFID have collaborated with the Government in the development of the sectoral framework as well as the specific program and shared information to ensure interventions are complementary; (iv) the resource envelope is beyond the scope of any individual donor.
- 2.19 Under the proposed SWAp, Bank resources will be pooled with Government for the first component, which has no procurement of goods and services, and rely on the Government's own fiduciary framework for financial management. IDB and World Bank alignment with country systems will reduce the transaction costs associated with parallel systems and are also expected to maximize government ownership and program impact. Resources for the second component will not be pooled and standard Bank procurement rules will be applied.

III. PROGRAM EXECUTION

A. The borrower and executor

- 3.1 The Borrower will be the Federative Republic of Brazil, and the Executor will be the Ministry of Social Development and Eradication of Hunger (MDS). The MDS is the institution in charge of the formulation, coordination, regulation and monitoring and evaluation of federal policies and programs in the areas of social development, social assistance, income transfers and food security, as well as the articulation of these policies and programs with other levels of government and civil society.
- 3.2 The National School of Public Administration (ENAP) will be a sub-executor, responsible for coordinating the centralized training of trainers and coordinating and supervising the decentralized training of trainers and social managers (paragraph 2.12). ENAP is a financially and administratively autonomous foundation, associated with the Ministry of Planning, Budget and Management, mandated with the promotion, development and implementation of training programs for civil servants at the federal level. Its participation will ensure the continuity of the training activities financed under this operation once loan resources are exhausted.

B. Execution and administration

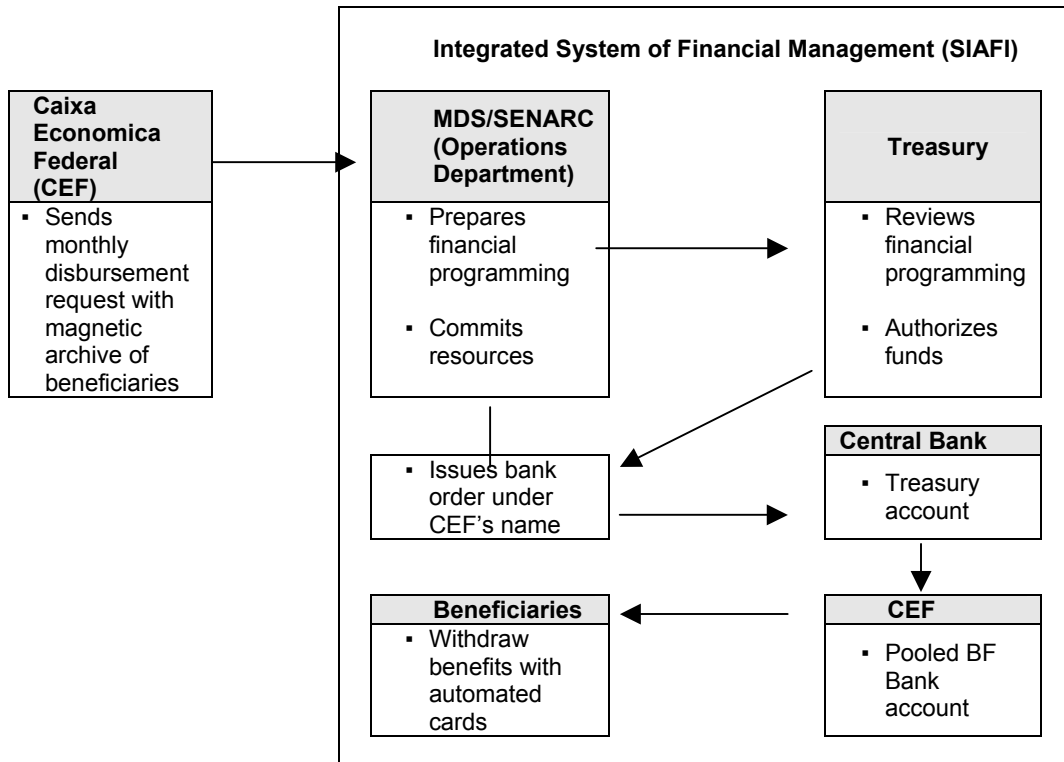
- 3.3 The execution and administration of the program will rest on the MDS's own organizational structure, through its Executive Secretariat, which is consistent with the SWAp. The Executive Secretariat will act as the liaison with the Bank. Overall supervision and oversight will be exercised by a consultative Core Management Committee (CMC), headed by the Executive Secretary and comprised of three of the Ministry's existing Secretaries: Income Transfer (*Secretaria Nacional de Renda de Cidadania*; SENARC), Social Assistance, and Evaluation and Information Management.

1. Execution of Component 1: Conditional cash transfers

- 3.4 The first component, financed through pooled funding, will be implemented by the SENARC following the financial management procedures and relying on the embedded internal and external control mechanisms originally established under the pre-existing cash transfer programs. The flow of funds for the payment of Bolsa Familia benefits is illustrated in Figure 1 below. The payment of PETI benefits for those enrolled in the CadÚnico follows the same procedure.
- 3.5 Specifically, SENARC's Operations Department prepares the monthly financial programming upon verification of a list of eligible beneficiaries drawn from the CadÚnico and processed by the Caixa Economica Federal (CEF). This is submitted to the Treasury (Secretaria do Tesouro Nacional – STN) for review and authorization of funds. Once approved by Treasury, SENARC issues a bank

order and funds are transferred from the Treasury's account at the Central Bank to the Bolsa Familia account at the CEF. Financial programming, commitment of funds and transfer of resources are registered through the Integrated System of Financial Management (SIAFI). Beneficiaries withdraw their benefits using electronic cards at the nearest CEF agency; if benefits are not cashed within a 90-day period, they are returned to the Treasury.

Figure 1-. Payment Process



- 3.6 The Bank will reimburse a percentage of expenditures of Bolsa Familia and PETI on a monthly basis upon the presentation of copies of the following documentation, which follows the flow of resources: (i) CEF's monthly disbursement request to SENARC, which details the number of families and corresponding payment, and is accompanied by a magnetic file with beneficiary information by municipality drawn from the CadÚnico, similar to a payroll list; (ii) Authorization issued by the Secretary of SENARC to the General Coordination of Budget and Finance of its Department of Operations to proceed with the transfer of resources to CEF; and (iii) SENARC's statement of commitment of funds and issuance of payment order to CEF's pooled account registered through the Integrated System of Financial Management (SIAFI), which triggers the transfer of resources to the CEF. This documentation is consistent with that requested by the World Bank under the SWAp arrangement.
- 3.7 Under both the IDB and the World Bank loans, the MDS will not be required to reconcile reimbursement requests with actual payments made to beneficiaries on a monthly basis, given the high number and small amount of transactions. Control

will be done on an ex-post basis through annual audits (see paragraph 3.19). This is the same approach adopted under other Bank-financed cash transfer programs.

2. Execution of Component 2: Institutional Strengthening

- 3.8 For the execution of the second component, the Executive Secretariat will appoint a Technical Coordinator, drawn from the MDS's own staff. The Coordinator will be responsible for technical guidance, quality control and supervision of all program activities, and coordination with other participating units within and outside the Ministry. Given the large number of activities contemplated under the component, the Technical Coordinator will be supported by a full-time technical advisor and assistant, as well as four full-time consultants, financed with loan resources, responsible for coordinating research, training, dissemination and events planning.
- 3.9 The Technical Coordinator will also be supported by an Operations Coordinator, drawn from the MDS's own staff, who will be responsible for procurement, financial management, and administration for both the IDB and the World Bank's parallel technical assistance component. The Operations Director will rely on existing Ministry personnel in both the Legal and the Planning, Operations and Administration Departments. In addition, s/he will be supported by full-time consultants to assist in carrying out activities in accordance with IDB and World Bank procedures, depending on the source of financing. Specifically, IDB program resources will be used to hire a procurement specialist and an administrative aide to cover the additional workload generated by the institutional strengthening activities. In addition, a specialized agency will provide additional support in procurement and contracting of consulting services to the Ministry. The Government will finance this agency's fees with its own funds, and thus its contracting does not represent an exception to Bank policy.

3. Operations Manual

- 3.10 An Operations Manual, currently under preparation with the Executor, will guide execution and will be finalized during loan negotiations. The Manual covers, among other aspects: (i) the roles and responsibilities of different units of the MDS and other program participants; (ii) a detailed description of all Program activities, covering eligibility criteria and technical specifications when relevant, execution aspects and timetables; (iii) financial administration and reporting procedures.

C. Procurement of goods and services

- 3.11 Component 1 does not involve any procurement of goods and services. Under Component 2, acquisitions of goods and services will follow Bank policies as set in the respective Annexes of the Loan Contract. The threshold for international competitive bidding is US\$350,000 for equipment and US\$200,000 for consulting services. No civil works will be financed under this operation.

- 3.12 The project team recommends the direct hiring of the Instituto Brasileiro de Geografia e Estatística (IBGE) to carry out the 2006 Special Supplement on Child Labor of the PNAD (paragraph 2.8) and for the 2005 Survey of Social Services Agencies (paragraph 2.10), in accordance with GS-403. IBGE is the specialized federal government agency responsible for all the survey and research activities in the Brazilian Statistical System, including the census. In its sixty years of operation IBGE has accumulated institutional and technical advantages unmatched by smaller and more recently created research institutes in carrying out yearly national household surveys as well as regular surveys on employment, industrial, agricultural and businesses activity according to international standards. IBGE is the only agency in the country with the technical capacity and experience to conduct complex survey operations such as PNAD, in terms of design, timely and cost-effective data collection, processing and analysis. In the case of the PNAD Supplement, IBGE is the only agency with the capability to replicate the methodology of the two previous Child Labor modules so as to obtain a consistent time series. In the case of the studies of the network of social service organizations, IBGE will be relying on its own Central Registry of Firms and on its regular survey of municipal services, to undertake specially tailored surveys to identify, for the first time, the profile of private and public delivery of social services in the country.

D. Loan conditions

- 3.13 Prior to the first disbursement of the financing, the Executor will present evidence of: (i) the entry into force of the agreement between MDS and ENAP for the execution of training activities in the terms agreed with the Bank; (ii) the appointments of the MDS staff that will perform the duties of Technical and Operational Coordinators; (iii) the approval of the Operations Manual; and (iv) the entry into force of the agreement between the MDS and the specialized agency which will assist in the contracting of services in the terms agreed with the Bank.
- 3.14 The following special conditions for execution will apply: (i) subscription and entry into force of the agreements between MDS and municipalities specifying the guidelines for the recertification of PETI beneficiaries and the responsibilities of each party, prior to the receipt of financial resources by said municipalities; (ii) subscription and entry into force of the agreements between the MDS and municipalities covering the terms and conditions for receipt of equipment, as specified in the Operations Manual; and (iii) subscription and entry into force of the agreement(s) between the MDS and IBGE prior to carrying out the Child Labor Supplement of the PNAD and the Survey of Social Services Agencies.

E. Recognition of expenditures

- 3.15 Since mid-2004, the Bolsa Familia program has undergone a rapid expansion through the incorporation of new eligible families, previously not covered by any programs. Program coverage increased from 4.1 million families in June 2004 to

5.9 million November, and is expected to reach 6.5 million by the end of the year. The Bank will consider retroactive financing in an amount up to US\$128 million chargeable to the loan and recognize Government expenditures up to US\$641 million for the Bolsa Familia program, covering the period from July to December 2004, in accordance with OP-504. The amount chargeable to Bank financing represents 16.5% of total expenditures on Bolsa Familia, the same percentage which will be reimbursed in 2005.

F. Execution period and calendar of disbursements

3.16 The loan disbursement period will be 42 months.

**Disbursement Calendar
(IN US\$ MILLIONS)**

Financing Source	2004*	2005	2006	2007	TOTAL
IDB					
Component 1	128	345	292	218.4	983.4
Component 2	0	5.5	7.6	2.6	15.7
Program Administration	0	0.3	0.3	0.3	0.9
LOCAL	641	1,748	1,957	2,297	6,643
TOTAL	769	2,098.8	2,256.9	2,518.3	7,643

* Expenditures corresponding to 2004, to be disbursed in 2005.

G. Financial statements, internal controls and external auditing

3.17 The MDS, through the Executive Secretariat, will be responsible for: (i) preparing and submitting disbursement requests to the Bank and the corresponding justification of expenses. For resources disbursed under Component 1, which are pooled with those of Government, the MDS will not be required to maintain separate accounts for managing the loan and counterpart resources. Loan funds will be disbursed to the Treasury to reimburse expenditures on a monthly basis, in accordance with the documentation specified in paragraph 3.4. The originals of these documents will remain in the archives of the MDS for eventual inspection by the IDB or external auditors.

3.18 For the management of the project's financial resources of Component 2, the MDS will maintain a separate bank account and adequate financial and accounting records of Bank funds in order to allow for the verification of transactions, identification of the sources and uses of funds, and the timely preparation of financial statements and reports. A revolving fund will not be established, but rather a reimbursement mechanism will be used.

3.19 The MDS, through the Executive Secretariat, will prepare and submit to the Bank, within 120 days after the closing of each fiscal year and within 120 days after the date of the last disbursement of the financing, the audited financial statements of the program, elaborated in accordance with procedures acceptable to the Bank. The external audit will be carried out by the Federal Secretariat of Internal Control (*Secretaria Federal de Controle* - SFC), based on terms of reference previously approved by the Bank (Document AF-400). For the pooled resources under Component 1, the audited statements will encompass the entire Bolsa

Familia program, independent of source of financing. The SFC will also be required to certify that: i) the total amount of resources received by the CEF for the Bolsa Familia program were deposited in the specific program account; and ii) at least 85% of the resources deposited monthly in this account were disbursed to program beneficiaries. While the date for submission of audited annual financial statements will be different for the IDB and the World Bank, given different fiscal years, the scope of the audit of resources under Component 1 is being harmonized.

H. Monitoring and evaluation

- 3.20 Other donors' experiences with the SWAp suggest that periodic reviews be undertaken to examine the resource envelope and ensure coordination among the partners. The Bank will undertake annual reviews to: (i) assess progress in the coverage of the Bolsa Familia and PETI programs; (ii) budgetary allocations for the Bolsa Familia program; (iii) analyze the technical improvements in the CadÚnico, financed by the IDB, World Bank and local resources; (iv) assess technical progress in the evolution of the various activities financed under the institutional strengthening component; and (v) verify progress towards compliance with the output indicators contained in the logical framework. In the course of these yearly reviews necessary adjustments to the program may be introduced, in consultation with all partners.
- 3.21 The Logical Framework⁷ presents agreed-upon time-bound output and outcome indicators. While the World Bank does not require the presentation of a logical framework, output indicators regarding the coverage of Bolsa Familia and the phasing out of previous cash transfer programs have been set by Government and agreed upon with both Banks. Outcome indicators presented in the logical framework were drawn from an ex ante simulation carried out by the World Bank using a discrete choice model developed by Bourguignon et al⁸. The model rests on a set of simplifying but strong behavioral assumptions about household work and schooling decisions as well as the degree of program targeting. The model, originally developed for Bolsa Escola, was adapted to Bolsa Familia and simulated using data from the 2002 PNAD.
- 3.22 Given the utilization of the SWAp, evaluation activities will address the performance of the Bolsa Familia program as a whole, independently of source of financing. Loan resources will support a final evaluation based on a verification of the expected outcomes presented in the Logical Framework. The post-program estimates will verify the simulated results using 2007 PNAD data,

⁷

<http://ops3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=417468>

⁸

F. Bourguignon, F.H.G. Ferreira and Philippe G. Leite, "Conditional Cash Transfers, Schooling and Child labor: Micro-simulating Brazil's Bolsa Escola Program" The World Bank Economic Review, vol. 17, no. 2, 2003.

controlling for exogenous factors and seek to explain differences between predicted and observed outcomes.

- 3.23 This exercise will complement the evaluations of the Bolsa Familia program carried out by the MDS (paragraph 2.13) and well as assessments supported by the World Bank. Specifically, the World Bank is financing the monitoring of outcomes and assessment of program impact at both the territorial and the family level. The territorial-level analysis will measure the potential impact of Bolsa Familia on a broad socio-economic level (e.g., municipality and/or regional area) and its functioning and interactions with other complementary programs and services. The family-level analysis will evaluate the impact of the program on the living conditions of beneficiaries.

IV. VIABILITY AND RISKS

A. Fiduciary assessment

- 4.1 The IDB has drawn on the World Bank's 2002 Country Financial Accountability Assessment (CFAA) and the fiduciary assessment carried out for the Bolsa-Familia Program, as well as its own fiduciary and institutional analysis in order to ensure that country systems used in the pooled account are satisfactory.⁹ The focus was on a financial management capacity assessment, since no procurement is involved in the component financed using pooled funds. These assessments indicate that the Borrower has satisfactory procedures to manage and account for the programs' expenditures and transactions as well as adequate internal and external control and audit systems, which are satisfactory to the Bank. Specifically, as noted in the CFAA, "the Brazilian system of public financial management provides reliable information. Adequate systems exist to manage and track the receipt and use of funds at the national level and there is a high level of fiscal transparency... The risk to both [World] Bank and country funds is low."

- 4.2 Both the CFAA and the program-specific fiduciary assessments examined the following components of Brazil's financial management system, relevant to the Bolsa Familia program:

1. Budgetary process

- 4.3 There is a well-established legal framework for the development, implementation and monitoring of the budget as well as for ensuring fiscal transparency. The construction of the budget is comprehensive, there is adequate linkage between capital and recurrent expenditures and there are no off-budget funds. A well functioning centralized budget information system is used to develop the budget and monitor its implementation. The budget system incorporates a forward look through four-year Multi-year Plans (PPA), which provides both expenditure and physical targets which can be used as a basis for dialogue with development partners. The 2005-8 PPA has been used as a basis for projected expenditures and targets in the preparation of the Bolsa-Familia and PETI programs.

2. Budget execution

- 4.4 Execution in terms of cash payments, monitoring of cash flows and preparation of financial statements is carried out through the Ministry of Finance's SIAFI, a well-developed centralized financial management information system which provides reliable and timely information on actual expenditures. As noted in Chapter III, all the steps in the financial flows of the Bolsa Familia program are

⁹ <http://ops33.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=412230>. The World Bank assessment can be found in Annex 7 of the Project Appraisal Document.

registered through the SIAFI, which allows for decentralized recording of transactions online. Embedded internal controls prevent expenditures without corresponding resources and provide for audit trails.

3. Internal control

- 4.5 The Federal Secretariat for Internal Control (SFC), under the State Ministry for Control and Transparency centralizes all internal control functions for the executive branch, with the exceptions of the Ministries of the Presidency, Foreign Relations and Defense, which have their own internal control units. The SFC has extensive operational autonomy, a professional staff, recruited competitively and legal right of access to all available government information required to carry out its functions. It uses auditing procedures which conform to international norms. A recent initiative adopted by the SFC is the selection by lottery of 50-60 municipalities per month in which all federally-financed programs are examined. The results of the audits and inspection reports are published in the internet within a period of 60 days. The Bolsa Familia program has been identified as one of the priorities by the SFC, and as such it is being covered in these monthly audits carried out by SFC. These have included spot checks of municipal internal control procedures and meetings and verification of small samples of beneficiaries.
- 4.6 Among the SFC's functions are also the audits of programs financed by multilateral credit institutions and it has acted as the independent auditor for several IDB-financed loans, complying in a satisfactory manner with the norms and procedures required by the Bank. The current program will follow this practice.

4. External control

- 4.7 External control is the responsibility of the TCU, the Supreme Audit Institution of Brazil, which is subordinated to the legislative branch. The TCU has administrative and financial autonomy and a professional staff, and utilizes internationally recognized norms in carrying out its activities. It is a member of the International Organization of Supreme Audit Institutions. Though independent from the SFC, the TCU prioritizes the examination of instances where the SFC has identified irregularities, and has legal powers to prosecute irregularities, apply sanctions and present cases to the Attorney General for further legal investigation. The TCU's central mandate is to verify the correct use of budgetary funds through financial audits, but in consonance with new trends in external control it has recently expanded its actions to encompass operational audits, designed to assess the performance of selected programs, with the support of technical assistance provided by DFID. Operational audits of the PETI, the

CadÚnico and other social programs have been carried out and posted on the internet.¹⁰

B. Institutional Viability

- 4.8 Although the Ministry in charge of the new program is a new institution, the risks associated with this are mitigated by several factors. First, many of the Ministry's professional staff, including those staffing the areas of finance and administration, are career civil servants which previously worked in the former Ministry of Social Assistance. Second, the Bolsa Familia program results from the merger of four previous programs which were operating successfully and exhibiting positive results, as demonstrated by rigorous evaluations. While the Ministry is new, the Bolsa Familia program relies on instruments that were already in use by the previous CCT programs it replaces, including the automated direct payment to beneficiaries through the banking system. Third, the activities financed under the second component have been carefully selected to strengthen the MDS's capacity within the period of execution. In order to ensure that these activities will be successfully implemented, the program is reinforcing the Ministry's staff in charge of the program with a set of full time consultants to assist in both technical and operational matters.
- 4.9 ENAP, the co-executor for training activities has substantial experience in programming, delivering and evaluating training programs in all 27 states, including those supported by previous Bank-financed operations. The CEF, while not a co-executor, plays a critical role in the implementation of the Bolsa Familia program. The CEF has more than a century of experience in banking at the federal, state and municipal levels and acts as the Government's financial agent for several social programs, given its large network of almost 14,000 payment points across the country.

C. Financial viability

- 4.10 The expected increase in the number of beneficiaries from 6.5 million families at the end of 2004 to full coverage of 11.2 million families by the end of 2006 is already contemplated in the Government's PPA for the period 2005-8, with an increase in planned budgetary resources from R\$5.1 billion in 2005 to R\$8.7 billion in 2008. The increase in expenditures represents approximately 0.3% of GDP, which could be offset by expected savings from the reform of the public pension system, projected at 0.4% of GDP annually, while contributing to an increase in the progressiveness of social spending. Moreover, it is important to note that Brazil's spending on social assistance, approximately 0.7% of GDP in 2002, was below the Latin American average of 1.2% of GDP and significantly below the OECD average of 3.1%.

¹⁰

See <http://www.tcu.gov.br/AvaliacaoDeProgramasDeGoverno>

D. Environmental and social impact

- 4.11 The program will not finance any physical investments, and thus will not have a direct impact on the environment. The social impact of the program will be significant, expressed in reductions of poverty, inequality, school repetition rates, and the share of children not attending school, as shown in the logical framework. Specifically, ex ante simulations suggest that the direct redistributive impact of the program will lead to a reduction of four percentage points in the poverty rate and more than six percentage points in the extreme poverty rate. The micro-simulation also suggests that the share of children not attending school would fall from 5.2% to 4.5%, while the repetition rate would fall by 6%.
- 4.12 The program is expected to have a positive impact on the status of women in the home and in the community, since Bolsa Familia payments are made preferentially to the woman in the family, a strategy which has yielded positive results in previous CCTs in Brazil as well as other countries in the region.
- 4.13 The MDS is aware of the need to adapt the design of its social protection system to the particular characteristics of indigenous and quilombola communities. Consultations with various communities were carried out in conjunction with the preparation of the World Bank program.¹¹ As a result, strategies were identified to guide the expansion of the program in a culturally appropriate manner, including the use of trained local agents to enroll beneficiaries and the tailoring of eligibility criteria, especially in the definition of the family unit. A dialogue with representatives of indigenous communities and other specific population groups regarding their inclusion into Bolsa Familia was initiated in early 2004 under the aegis of the Presidency. Various scenarios for inclusion are being considered, with particular emphasis on developing a partnership with the Indigenous Health Department of the Ministry of Health, given its experience. Specific strategies will be further developed and implemented with the support of the parallel World Bank loan.

E. SEQ/PTI Classification

- 4.14 The social protection system supported by the program is directed at families below the poverty line, and thus the program qualifies as both a social equity enhancing initiative and a poverty target investment, using the headcount criteria. The borrower will not utilize the 10% in additional financing.

¹¹ The World Bank's Brazil - Bolsa Familia: Indigenous Peoples Plan, can be found at http://www-wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2004/05/14/000012009_20040514153218/Rendered/PDF/IP850rev.pdf

F. Risks

- 4.15 The fiduciary and institutional analysis carried out in the course of project preparation confirms the viability of the project, as summarized in the following risk analysis:

Table 4.1					
Nature of Risk	H	S	M	L	Comments/Mitigating factors
1. Risks inherent to Program					
Country specific				X	Legislation, budget preparation and execution systems, internal and external financial controls are adequate.
Entity specific (MDS)		X			MDS is a new institution. World Bank and IDB are financing institutional strengthening activities
Targeting		X			Technical assistance is being provided by the World Bank and the IDB to improve municipal data collection and implement quality standards.
2. Risks associated with Supervision and Control Mechanisms					
Financial and accounting administration				X	Utilization of adequate existing systems for the processing and registration of transactions (SIAFI).
Internal/External Audit				X	Function performed adequately by SFC.
External control				X	Function performed by TCU.
Social control				X	List of beneficiary families by municipality published in the Internet.

H: High; S: Substantial; M: Medium; L: Low

- 4.16 In addition to the risk associated with the fact that the MDS is a new agency, the other substantial risk identified refers to the targeting instrument. As discussed in Chapter II, enrollment in Bolsa Familia and other targeted social programs is based on self-reported income, which is considered an unreliable targeting criterion, resulting in leakages in program benefits. Second, enrollment is the responsibility of municipalities, and especially smaller and poorer ones may lack the resources to carry out the job effectively. Third, especially in small and poor municipalities, the risk of fraudulent enrollment of non-eligible families may be significant, although the TCU has found no generalized practice of clientelistic use of the CadÚnico. These risks are mitigated by a number of actions undertaken by Government with the assistance of both the IDB and the World Bank. The IDB is financing the provision of computer equipment to poor municipalities as well as the development and implementation of quality

indicators for the CadÚnico, which will allow the MDS to evaluate enrollment processes and results at the local level and take corrective actions as needed. The World Bank is financing training on data collection methods and application of questionnaires, targeted at weaker municipalities. In addition, it is financing the development of a basket of indicators which could potentially replace self-reported income as the targeting criterion.