The sound macro policies and a favorable external environment that characterized this period contributed to fast economic and social progress.

While external factors triggered the slowdown, an expansionary policy response led to rapidly rising fiscal disequilibria and, with rising domestic political uncertainty, a loss of confidence and sharp drop in investment The economic recovery has remained weak with 1 percent growth in 2017, 1.3 percent growth in 2018, and 2.5 percent growth projected in 2019.

With on-going tepid economic growth, poverty is estimated to have leveled off at

20.6 percent.

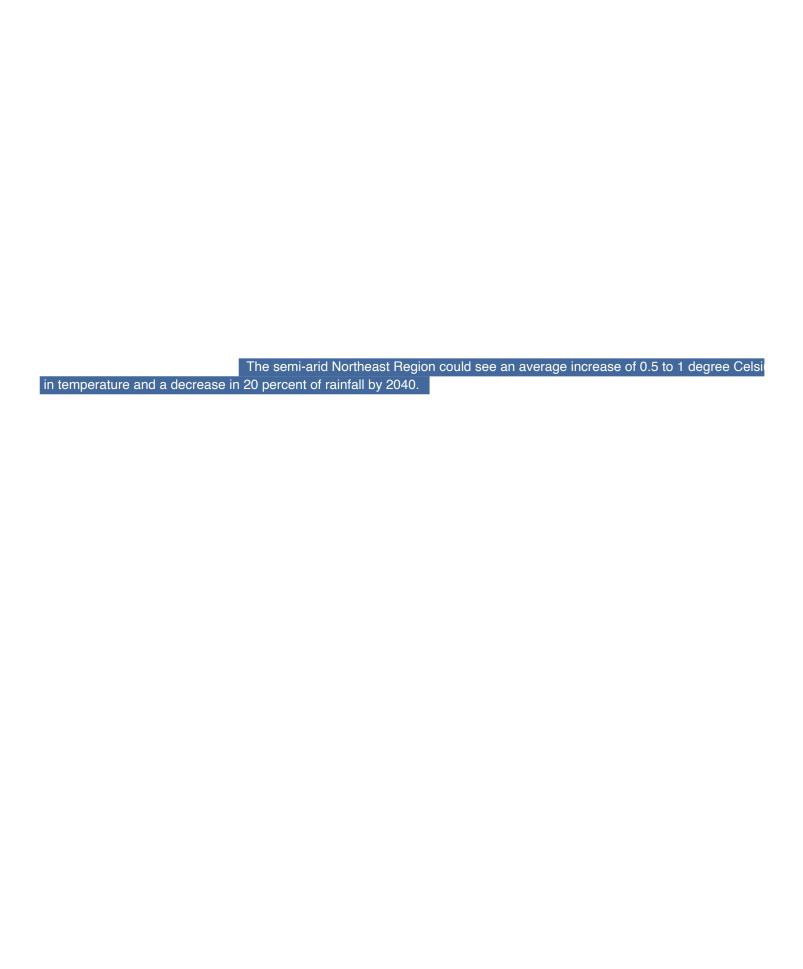
To address unsustainable debt

dynamics the government adopted a constitutional amendment to limit public expenditure growth that entails an accumulated adjustment of 5 percentage points of GDP for the period 2019-2026 and that would stabilize debt at around 89 percent of GDP by 2026, to start declining afterwards.

Brazil will also need to accelerate its productivity growth and infrastructure development. The average per capita income has risen by just 0.7 percent per year since the mid-1990s, one tenth of the rate in China and only one half of the average in OECD countries.

Brazil also posts one of the lowest investment levels in infrastructure (2.1 percent of GDP) when compared to its peers and the quality of this investment is low. Accelerating productivity growth remains a key priority for the country given that the demographic transition is over and there will be limited space for public sector led growth. Reforms could focus on boosting market competition, access to external markets, cheaper inputs and technologies, and simplification of the tax system. Higher levels of investment in infrastructure will also be needed to ensure adequate maintenance of existing infrastructure stock, removing bottlenecks and expanding access to social services. This calls for improving planning capacity at government level, strengthening regulatory environment and leveraging private resources to finance investments.

	The semi axid Nextheast region with 20 percent of the Prozilian
population has only 4 percent of the water resources	
	n, and polition.
Water has supported key drivers of economic	growth and has been key to reduce poverty and promote shared
prosperity through more equitable and widespread prosperity	provision of water supply and sanitation (WSS) services to a
	(1.20)
growing population.	
	The third quarter of 2018 showed signs of recovery,
growing population.	The third quarter of 2018 showed signs of recovery,
growing population.	The third quarter of 2018 showed signs of recovery,
growing population.	The third quarter of 2018 showed signs of recovery,



The Bank is supporting CAGEC

in increasing the efficiency of the sanitation system of Fortaleza through a lending operation 15, which finances household connections in low-income areas and a comprehensive campaign to non-poor users to connect.

Besides

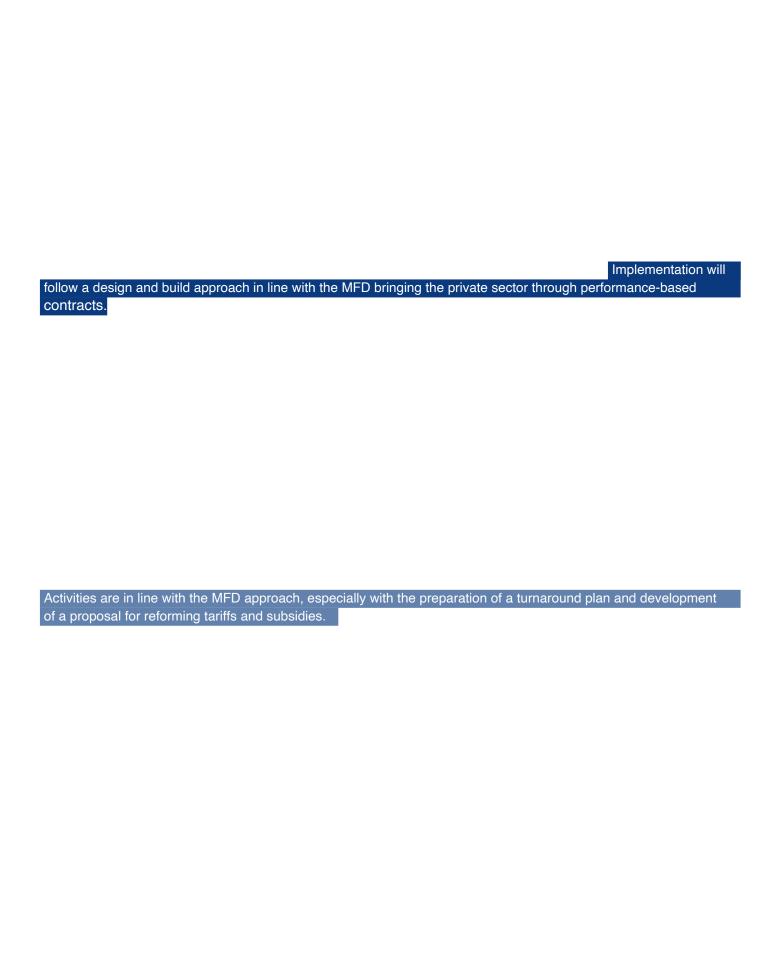
providing incentives for responsible water use through a contingency tariff, with additional charges for water consumption above established targets, CAGECE has been working on a design, build and operate contract for a seawate desalination plant to increase water security to the municipalities within the MRF.

CAGECE is working in line with the maximizing finance for development (MFD) approach. In addition to the proposed desalination plant, CAGECE is seeking partnering with the private sector to increase services coverage. The company has also engaged with the Brazilian National Economic and Social Development Bank (BNDES) in the assessment of other possible public-private-partnership (PPP) arrangements. However, as public sector investment capacity is reducing as a result of tighter fiscal situation, CAGECE will need to increasingly rely on its own cash generation capacity to finance needed investments. To this end, CAGECE also needs to increase its credit worthiness, through a series of measures comprising, among others, efficiency gains, cost reduction and increasing revenues from tariffs.

Currently, the Bank is supporting preparedness plan for drought in the MRF and increased capacity of water-related institutions to sustain water sources for agriculture and build resilience in water resource management through the use of tools and monitoring systems 18







The technical assistance activities focused on improving water resources management and strengthening the public sector will benefit the whole State population, around 9 million people.

The World Bank is also uniquely positioned to support water resources management and water supply infrastructure investments and reforms due to its strong local presence, specialized staff, and considerable
experience implementing water projects in the Northeast region of Brazil.
From a multisectoral perspective, between 2003-2019, the World Bank supported the State on several key areas of social and human development, service delivery, leveraging the greatest possible benefit for government actions and enhancing public sector management capacity in a scenario of high debt services commitments.



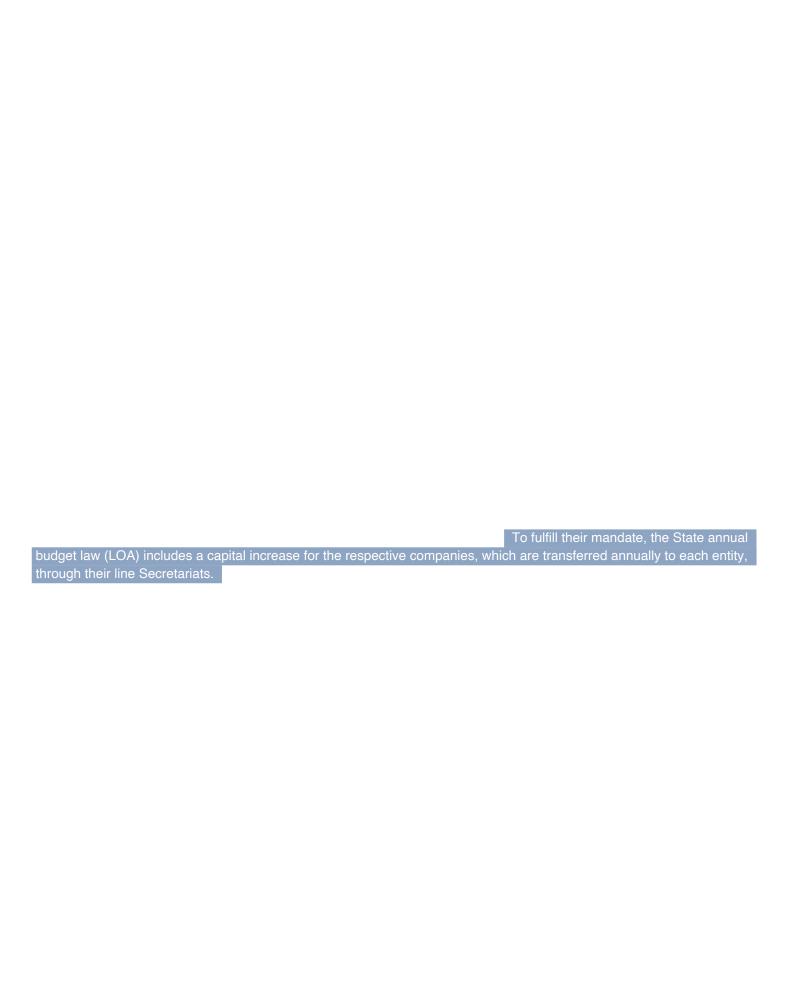
Sustainability of water investments supported by the Project relies on the financial and econ and technical capacity of beneficiary utility to efficiently operate and maintain built infrastructure and	d to bear at least
the O&M costs. The investment cost will be covered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected to be recovered by the State and it is not expected by the State an	The Project will assist
CAGECE in improving its financial and technical performance through technical assistance towards efficiency, increasing operational efficiency, and being better prepared to plan and manage	
operation of water infrastructure, especially with the use of the Utility Turnaround Framework.	

The public good nature of climate cha				
of new tariff structure, setting the stage for the	Project will contribute ne most direct benefici	to this aim by revising a aries of infrastructure in	nd supporting the application vestments to start paying for the start paying for the start paying for the supplies the sup	on or
these services.				

The decision to invest in water losses reduction was driven by the need to improve efficiency of wat	ter services
provision to the city of Fortaleza, which relies on inter-basin transfers.	
Co	ests and benefits
were expressed in constant prices as of 2018 at an exchange rate of 3.72 Reais per US dollar.	,
The net present value (NPV) of net benefits reaches US\$59 million with a benefit to cost ratio of 1.4	12 The Internal
Economic Rate of Return (IERR) for the Project reaches 14.5 percent.	
The High Branch of the Care of	s from services
The same with the sent vale (NPVV) of net benefits reaches US\$50 million we stimated at B\$941.89 million	06 billion 1 (US\$253 2
Milition)(16-Righter Supply serVices and Piss 550/90 Hill Both (1855) 29 Find the sanitation services. In 2016, g	gross revenues
were R\$869.88 million (US\$233.8 คโกโต้ก) for water supply services and R\$298.07 million (US\$80.3 million	
serviceth	

CAGECE is tackling losses based on reviewing accounts receivable and other receivables and contractual assets for an amount equal to the expected credit loss, to ultimately improve its financial position based on increasing operating margins visite the contractual assets for a margin of the receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and other receivables and contractual assets for a margin of the receivable and the receivab

decision making and strengthening the State's economic growth.

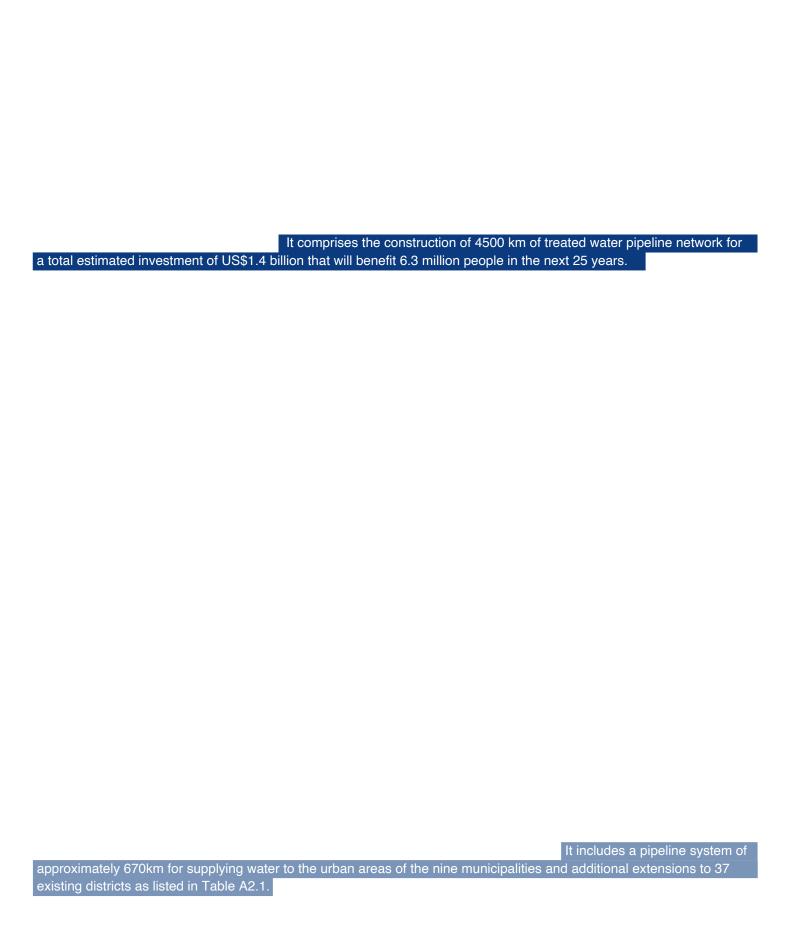


Procurement of	of goods.			

	This
component aims at contributing to increase water security through improved water resources water infrastructure and specific investments to ensure the safety of Project-related dams.	management, expanded
	According to
the law, water charge aims to encourage the rational water use, obtain financial resources for water resources management systems and associated interventions contemplated in the Wat	
in the River Basin Plans.	

urban supply,

industries, irrigated perimeters), fostering the right assessment of volumes produced and volumes delivered.



Although the focus of the project is the urban population, and therefore does not contemplate the construction of pipeline systems for the rural population, the project will consider in its dimensioning the entire population of the municipality, to allow, in the future, the integration with other supply systems, serving as a water source.

Activities development of a	are in line w a proposal for r	vith the MFD a eforming the curr	pproach, especia ent tariff and subs	lly with the prep sidies.	aration of a turna	around plan and

Improving public sector investments and management.

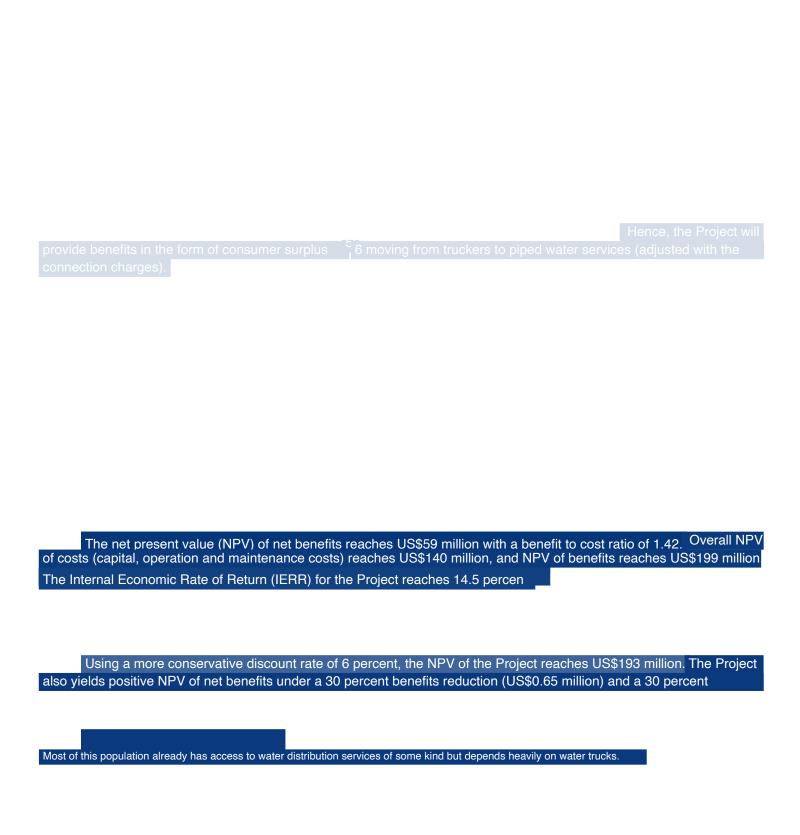
It will also

include the implementation of a Public Investment Management System (PMIS) to support decision making throughout the entire public investment cycle (proposal, design, implementation and evaluation), as well as improve the management and monitoring of investments.

Improving accountability in public investment.

46.





Thus, the NPV with health benefits increases from US\$59

million to US\$62 million.

The average values

between low and high prices are applied to the GHG emissions assuming a growth rate of 2.26 percent per year for the lifetime of the Project. Accounting for the GHG emission, the NPV of the Project increases from US\$59 million to US\$60.5 million. By adding both the GHG estimates and health benefits, the NPV of the Projects reaches US\$69.5 million.

Sensitivity of Project Adding Health and GHG benefits

	NPV Total (US\$ million)	ERR
Baseline	59.0	14.5%
Adding health benefits	62.1	14.7%
Adding GHG estimates	60.5	14.6%
Adding GHG + Health Benefits	61.9	14.7%

4.4

In addition, COGERH and CAGECE would need to improve coordination to maximize the returns of the Project in terms of water management and resilience against scarcity, water infrastructure delivery, and water and sanitation services.

In the year 2017, CAGECE obtained net revenues from services

rendered reaching R\$1.16 billion (US\$311.8 million) and in 2016 in the amount of R\$1.06 billion (US\$284.9 million) Gross revenue, or revenue before taxes in 2017 was R\$941.89 million (US\$253.2 million) for water supply services and R\$335.7 million (US\$ 90.2 million) for sanitation services. In 2016, it was R\$869.88 million (US\$233.8 million) with water supply and R\$298.07 million (US\$80.3 million) with sewage services.

The objective

of this review was to achieve the average tariff of R\$3.55 per cubic meter (US\$0.95 per cubic meter).

CAGECE is also showing an

increase in net revenues over the last year. Net revenues for the third quarter of 2018 had an increase of R\$65.6 million (US\$17.6 million) compared to the same period in 2017.

The Company is tackling losses by reviewing accounts receivable and other receivables and contractual assets for an amount equal to the expected credit loss, to ultimately improve its financial position based on increasing operating margins vis-a-vis debt and liabilities.

The financial

leverage ratio for 2017 was 13 percent and reduced due to stable financial indicators to 10 percent for 2018 indicates that the company has margin to inject debt for capital investments without threatening a substantial decline in operating margins.

