



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
PROGESTÃO ALAGOAS: PUBLIC SECTOR MANAGEMENT EFFICIENCY  
APPROVED ON JULY 21, 2022  
TO  
STATE OF ALAGOAS, WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL  
GOVERNANCE  
LATIN AMERICA AND CARIBBEAN

Regional Vice President:	Carlos Felipe Jaramillo
Country Director:	Johannes C.M. Zutt
Regional Director:	Robert R. Taliercio
Practice Manager/Manager:	Adrian Fozzard
Task Team Leader(s):	Kjetil Hansen, Carolina Luisa Vaira



## ABBREVIATIONS AND ACRONYMS

AMGESP	Central Procurement Agency ( <i>Agência de Modernização e Gestão de Processo</i> )
AP	Alagoas State Pensions ( <i>Alagoas Previdência</i> )
BRL	Brazilian Real
CAPAG	Payment Capacity Assessment ( <i>Capacidade de Pagamento</i> )
CRAS	Basic protection units ( <i>Centro de Referência de Assistência Social</i> ),
ESF	Environmental and Social Safeguards
HRMIS	Human Resource Management Information System
ICT	Information, Communication and Technology
IPF	Investment Project Financing
LRF	Fiscal Responsibility Law ( <i>Lei de Responsabilidade Fiscal</i> )
MOE	Ministry of Economy ( <i>Ministério da Economia</i> )
MOH	Ministry of Health
PDO	Project Development Objective
PMU	Project Management Unit
POM	Project Operations Manual
ROP	Operational Regulations of the Progestão Program ( <i>Regulamento Operativo do Programa</i> )
RPPS	The Public Servants' Pension Plan
SEADES	State Secretariat for Social Assistance and Development ( <i>Secretaria de Estado da Assistência e Desenvolvimento Social</i> )
SEDUC	Secretary of Education ( <i>Secretaria da Educação do Estado de Alagoas</i> )
SEFAZ	State Secretariat of Finance ( <i>Secretaria da Fazenda</i> )
SEPLAG	Secretary of Planning and Management ( <i>Secretaria de Planejamento e Gestão</i> )
SESAU	State Secretariat of Health ( <i>Secretaria de Estado da Saúde</i> )
SME	Small and Medium Enterprises
SOP	Series of Projects
STN	National Secretariat of Treasury ( <i>Secretaria do Tesouro Nacional</i> )
SUAS	Alagoas' Unified Social Assistance System ( <i>Sistema de Assistência Social Unificado</i> )
SUS	Federal Unified Health System ( <i>Sistema Único de Saúde</i> )
ToC	Theory of Change



**BASIC DATA**

**Product Information**

Project ID P177070	Financing Instrument Investment Project Financing
Environmental and Social Risk Classification (ESRC) Low	
Approval Date 21-Jul-2022	Current Closing Date 31-Mar-2028

**Organizations**

Borrower State of Alagoas, with the guarantee of the Federative Republic of Brazil	Responsible Agency
---	--------------------

**Project Development Objective (PDO)**

Original PDO

Improve efficiency in public resource management in selected departments of the State of Alagoas

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-94350	21-Jul-2022			31-Mar-2028	40.00	0	40.00

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

### A. Project Status

1. **The Progestão Alagoas: Public Sector Management Efficiency project is the first operation in a Series of Projects (SOP) under the Progestão Program designed to assist Brazilian States in implementing reforms that will improve efficiency in public expenditures.** Progestão Alagoas was approved by the World Bank Board of Directors on July 21, 2022 in the amount of USD 40 million with counterpart funding of USD 10 million. The project promotes fiscal sustainability through investments in management systems across five whole-of-government functions (human resource management, pensions, public investment management, asset management, and procurement) and three strategic sectors (health, education, and social assistance). These focus areas were selected applying the Progestão Program selectivity criteria: strategic alignment, implementation capacity, and impact on beneficiaries.

2. **The Progestão Program finances technical assistance as provided for under Senate Resolution 43/2001.** Art. 7, § 3 of the Resolution allows the Federal Government to guarantee financing for States that are not in compliance with the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal*, LRF) when that financing supports “investment projects for the improvement of revenue administration, fiscal, financial and asset management, within the scope of a program proposed by the Federal Executive Branch”. The scope of the Progestão Program is described in the Operational Regulations of the Progestão Program (*Regulamento Operativo do Programa*, ROP), dated April 07, 2020, and approved by the National Secretariat of Treasury (*Secretaria do Tesouro Nacional*, STN) in the minutes of negotiations for the first project of the Program dated June 01, 2022.

3. **Project signing and effectiveness has been delayed owing to a request from STN to strengthen the project’s alignment with Senate Resolution 43/2001 and changes in the State Government following elections in October 2022.** STN requested revisions to the Loan Agreement by emails dated September 5, 2022, and November 30, 2022, respectively, to ensure alignment of the project narrative, indicators, and activities with Senate Resolution 43/2001. STN argued that Resolution 43/2001 did not provide for financing of activities that were related to gender, citizen engagement, climate change and sustainable procurement and the Progestão Program should only finance activities related to fiscal, financial, and asset management that have a direct impact on efficiency. Discussions with the State of Alagoas (SoA) to address the concerns raised by STN were delayed pending the formation of a new State Government and appointment of officials following the elections of October 2022. The proposed revisions to the Loan Agreement were discussed between the World Bank and STN during a meeting held on February 03, 2023, and subsequently agreed with the State of Alagoas. Following agreement with the authorities on the scope of the project restructuring, and approval of the restructuring the project will be submitted to the Brazilian Senate for approval before the loan can be signed.

4. **Activities are underway to ensure implementation readiness upon effectiveness.** The Project Management Unit (*Unidade de Gestão do Programa*, PMU) established during project preparation is currently drafting Terms of Reference for priority activities, including the management analytics system for automated audits, strategic workforce right-sizing system, enterprise architecture, and the e-procurement information system. The PMU intends to submit the Project Operations Manual (POM) to the Bank for non-objection by mid-April 2023. The State Government is working on the issuance of regulations that will enable the deployment of information management systems.

### B. Rationale for Restructuring

5. **By letter of March 07, 2023, the SoA requested restructuring of the Project in order to strengthen the project’s alignment with Senate Resolution 43/2001 and respond to concerns raised by STN.** Following technical discussions, SoA and the Bank agreed to revise the Loan Agreement to respond to the concerns raised by: (i) removing references to gender, citizen engagement, sustainable and green procurement, and climate change; (ii) reviewing activities and indicators to demonstrate that they are related to fiscal, financial, and asset management; and (iii) demonstrating the fiscal and financial impacts of the proposed activities. Additionally, the SoA requested that the project include activities related to



public investment management that were not foreseen at the time of negotiations. These additions do not change the development objective of the project, the scope of the project, the loan amount and financing for components.

## II. DESCRIPTION OF PROPOSED CHANGES

6. **This Restructuring Proposal seeks the approval of the Country Director for the Progestão Alagoas: Public Sector Management Efficiency project (Progestão – AL) to strengthen alignment of the Loan Agreement with the requirements of Senate Resolution 43/2001.** This Restructuring Paper (RP) includes the rationale of the changes that supports the revisions to the Loan Agreement, namely: (i) remove references to gender, citizen engagement, sustainable procurement and climate change; (ii) revise the description of activities and indicators to demonstrate that they are related fiscal, financial, and asset management; (iii) estimate the fiscal and financial impacts of the proposed activities; and (iv) revise the description of activities on public investments and budget in subcomponent 1.4, without changing the amount proposed for the component. The changes are reflected in the following:

- Table 1 presents changes to the Loan Agreement.
- Table 2 presents a new table that provides estimates of fiscal savings generated by the project activities.
- Table 3 presents changes to the Results Framework: one (1) PDO indicator on education and two (2) intermediate level indicators on health and social assistance and drop one (1) intermediate indicator on gender.
- Annex 1 presents the rationale of the institutional and sectoral context that informs the proposed changes to the Loan Agreement.
- Annex 2 presents the revised description of the Progestão Program to ensure alignment with the Senate Resolution 43/2001.

7. **The Operations Manual (POM), which is an effectiveness condition, will reflect the revised interventions and indicators.** The Secretariat of Finance (SEFAZ), in coordination with the co-executing agencies, will prepare the POM following adjustments to the project activities, arrangements, and monitoring and evaluation framework as described in the revised Loan Agreement. The State of Alagoas will approve the POM after its content is deemed satisfactory by the Bank.

8. **Procurement Plan.** The first Procurement Plan that has been approved in STEP. This plan will be revised as necessary to align with changes in the Loan Agreement and the POM.

9. **Environmental and Social.** The Environmental and Social risk rating remains unchanged at low. The project is expected to have a positive impact through: (i) the development and implementation of a public procurement strategy; and (ii) reductions in consumables, travel time and energy consumption through the business processes remodeling of public administration services. To date, there is no environmental and social issues identified. An operational grievance redress mechanism (GRM) is in place. The Environmental and Social Commitment Plan is up to date, and no revision is necessary. This Restructuring does not require an update to existing ESF instrument for the project.



**Table 1: Changes to the Loan Agreement**

Sections	Original Text	Revised Text
<b>Schedule 1: Part 1: Whole-of-Government Management Systems</b>		
b. Pensions Management	(...) (iii) the procurement of energy efficient hardware;	(...) (iii) the procurement of hardware;
c. Public Procurement	(...) (iii) the procurement of energy efficient hardware to support the deployment of the above-mentioned activities	(...) (iii) the procurement of hardware to support the deployment of the above-mentioned activities
d. Public Investment Management and Budgeting	Provision of support to SEPLAG and SEFAZ for, <i>inter alia</i> : (i) the development and implementation of (A) a public investment system, integrating, when applicable, environmental and social considerations in project preparation, screening, and appraisal, (B) a governance strategy to manage the project portfolio execution, (C) a public expenditure reviews to assess policy alignment, effectiveness and efficiency to standardize public expenditures and identify opportunities for savings and (D) the preparation of a portfolio of technically appraised projects; (E) design and implementation of budgeting systems and practices; (ii) the delivery of capacity building for government officials on public investment and expenditure management practices, to support the implementation of the above-mentioned activities; and (iii) the carrying out periodic staff surveys to assess reform implementation and support change management	Provision of support to SEPLAG and SEFAZ for, <i>inter alia</i> : (i) the development and implementation of (A) <b>a public investment management system for the Borrower integrating project preparation, screening, and appraisal</b> , (B) a governance strategy to manage the project portfolio execution, (C) a public expenditure reviews to assess policy alignment, effectiveness and efficiency to standardize public expenditures and identify opportunities for savings and (D) the preparation of a portfolio of technically appraised projects; (E) design and implementation of budgeting systems and practices, <b>including a management system for the transfers of financial resources from the State of Alagoas to municipalities and organizations</b> ; (ii) the delivery of capacity building for government officials on public investment and expenditure management practices, to support the implementation of the above-mentioned activities; and (iii) the carrying out periodic staff surveys to assess reform implementation and support change management.
e. Asset Management	(...) (v) the procurement of energy efficient hardware to support the roll out and implementation of the above-mentioned activities.	(...) (v) the procurement of hardware to support the roll out and implementation of the above-mentioned activities.
<b>Schedule 1 Part 2. Management Systems in Strategic Sectors</b>		
a. Education	Provision of support to SEDUC for, <i>inter alia</i> : (i) the development and implementation of IT systems to digitalize and improve enrollment and class formation; (ii) the design and implementation of a teacher allocation system; and (iii) the carrying out of communication campaigns and capacity building to support the implementation of the above-mentioned activities.	Provision of support to SEDUC for, <i>inter alia</i> : <b>(i) the development and implementation of IT financial systems allowing a more efficient allocation and monitoring of fiscal resources, public assets, planning and expenditure management</b> ; and (ii) the carrying out of communication and capacity building to support the implementation of the above-mentioned activities.
c. Social Assistance	Provision of support for SEADES for, <i>inter alia</i> : (i) the development and implementation of systems to support cash transfers and agreements with municipalities to implement social programs; (ii) the digitalization of service delivery of internal operations; and (iii) the carrying out of communications and capacity building to support the implementation of the above-mentioned activities.	Provision of support for SEADES for, <i>inter alia</i> : <b>(i) the development and implementation of a financial management system for social assistance co-financing to support the management of transferred funds to municipalities; (ii) the business process remodeling at the Borrower's level to increase efficiency and enable operational and financial analysis</b> ; and (iii) the carrying out of communication and capacity building to support the implementation of the above-mentioned activities.



Table 2: Alagoas Summary of Estimated of Fiscal Savings

Sub-component	Conservative assumptions	Estimated Savings (million)
1.1 Human Resources	<ul style="list-style-type: none"> <li>Reduced annual growth rate of the wage bill;</li> <li>Savings from the implementation of automated audits</li> </ul>	R\$41.9 (US\$8.2)
1.2 Pensions	<ul style="list-style-type: none"> <li>Reduced unconformities in the pensions payments;</li> </ul>	R\$6.9 (US\$1.4)
1.3 Procurement	<ul style="list-style-type: none"> <li>Reduced price paid per product</li> </ul>	R\$244.6 (US\$47.8)
1.4 Public Investment management, transfers and debt management	<ul style="list-style-type: none"> <li>Reduced cost and time overruns</li> <li>Increased execution rate of projects</li> </ul>	R\$280.3 (US\$54.8)
1.5 Asset Management	<ul style="list-style-type: none"> <li>Increased return from the exploitation of real estate assets;</li> <li>Reduced expenditures with real estate assets</li> </ul>	R\$57.4 (US\$11.2)
2.1 Education	<ul style="list-style-type: none"> <li>Reduced number of classes;</li> <li>Reduced teachers idle workload;</li> <li>Reduced expenditures with meal and transport management;</li> </ul>	R\$57.4 (US\$22.9)
2.2 Health	<ul style="list-style-type: none"> <li>Reduced health administrative costs;</li> <li>Increased reimbursement from the federal government for SUS procedures.</li> </ul>	R\$42.6 (US\$8.4)
2.3 Social Assistance	<ul style="list-style-type: none"> <li>Reduced operational costs (fuel, trips, per-diem, paper, mail);</li> <li>Increased execution rate of social assistance planned budget.</li> </ul>	R\$19.4 US\$3.8)

Table 3: Changes to PDO and Intermediate Results Indicators

PDO Indicator	Unit	Baseline	End-Target (2028)	Rationale for changes
<b>PDO Level Indicator</b>				
<b>PDO#4 on Management in Sectors Revised</b> <i>Original:</i> Classrooms at less than 50 percent of capacity.	Percentage	3.00	0.00	<b>Dropped.</b>
<b>Intermediate Results Indicators</b>				
<b>Management Systems in Strategic Sectors</b>				
<b>IRI #1</b> <i>Original:</i> Hospitals with a hospital management system implemented and operational <i>Revised:</i> Hospitals with hospital cost management system implemented and operational	Number	0.00	5.00	<b>Revised formulation.</b> The scope of the indicator and target remain the same. The indicator has been clarified to focus on efficiency in the use of resources.
<b>IRI #3</b> <i>Original:</i> Municipalities implementing the new management system for social services <i>Revised:</i> Municipalities that implemented the new financial management system for social services co-financing.	Percentage	0.00	80.00	<b>Revised formulation.</b> The scope of the indicator and target remains the same. The indicator has been clarified to focus on efficiency in the use of resources.
<b>IRI #4</b> <i>Added:</i> Schools with meal financial program complying with federal regulations	Percentage	0.00	40.00	<b>Added.</b> The adequation of schools procurement to federal regulations will bring savings to the sector. This will be the M&E indicator for the education sector.
<b>Whole of Government Management Systems</b>				
<b>IRI #8</b> Women-owned businesses registered in the State's procurement system and eligible to participate in public bids	Percentage	N/A	15	<b>Dropped.</b>



**III. SUMMARY OF CHANGES**

	Changed	Not Changed
Results Framework	✓	
Other Change(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Components and Cost		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓





**The World Bank**

Progestão Alagoas: Public Sector Management Efficiency (P177070)

---

#### IV. DETAILED CHANGE(S)



**Results framework**

COUNTRY: Brazil

Progestão Alagoas: Public Sector Management Efficiency

**Project Development Objectives(s)**

Improve efficiency in public resource management in selected departments of the State of Alagoas

**Project Development Objective Indicators by Objectives/ Outcomes**

Indicator Name	PBC	Baseline	End Target
<b>HRM &amp; Pensions</b>			
Public sector workforce replacement rate (Percentage)		0.98	0.97
<b>Procurement</b>			
Time between opening and finalizing the procurement process (Days)		163.00	120.00
<b>Public Investment Management</b>			
Public investment project time overruns (Days)		350.00	200.00
<b>Management in Sectors (Action: This Objective has been Marked for Deletion)</b>			
Classrooms at less than 50 percent of capacity (Percentage)		3.00	0.00
<b>Action: This indicator has been Marked for Deletion</b>			
<b>Asset Management</b>			
Net fixed property income (Text)		R\$ 0 million	R\$ 5.2 million



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<b>Whole-of-Government Management Systems (Action: This Component has been Revised)</b>							
Payroll irregularities (Text)		N.A					0.3 percent
State public agencies or institutions conducting strategic workforce planning (Percentage)		5.00					75.00
Pension payroll irregularities (Text)		N.A					0.3 percent
Use of price reference system on bidding documents for goods and services (Yes/No)		No					Yes
Women-owned businesses registered in the state's procurement system and eligible to participate in public bids (Text)		N.A.					15 percent
<b>Action: This indicator has been Marked for Deletion</b>							
Public investment projects prepared and selected in line with PIM methodology (Percentage)		0.00					100.00
Integrated dashboard for municipal transfers with operational information and accessible to the public (Yes/No)		No					Yes



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Implementation of public hearings on government's capital investments (Yes/No)		No					Yes
Inventory of State ICT Infrastructure (Yes/No)		No					Yes
Public real estate with complete legal documentation (Percentage)		0.00					70.00
<b>Management Systems in Strategic Sectors (Action: This Component has been Revised)</b>							
Hospitals with an expenditure management system implemented and operational (Number)		0.00					5.00
<b>Action: This indicator has been Revised</b>							
Percent of municipalities using the new management system for financial reporting (Percentage)		0.00					65.00
Municipalities that implemented the new financial management system for social services co-financing (Percentage)		0.00					80.00
<b>Action: This indicator has been Revised</b>							
Percentage of schools with meal financial program		0.00	0.00	10.00	20.00	30.00	40.00



---

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
complying with federal regulations (Percentage)							
<i>Action: This indicator is New</i>							

---



## ANNEX 1. REVISED BACKGROUND AND ACTIVITIES INFORMING CHANGES TO THE LOAN AGREEMENT

### A. Institutional Context

1. **Human Resource Management.** In 2021, the State Government's wage and pension bill amounted to 50.5 percent of its net current revenue, almost 10 percentage points below the Fiscal Responsibility Law threshold, with 41,459 active staff and 34,091 retired employees. The main factor behind the wage bill growth of active personnel between 2007 and 2019 was salary increases. In this period, the average salary grew by approximately 2.5 percent annually in real terms. At the same time, the number of public employees decreased by an average rate of 1.2 percent. The State aims to gradually change the composition of the public sector workforce to better align skills with service delivery needs, starting with a reduction in non-essential staff in the central departments, including administrative and menial jobs that are likely to be discontinued with the introduction or increase in digital services. The replacement rate of public officials in non-frontline service delivery positions dropped to 0.985 over the past five years. 1,443 permanent non-frontline public officials and 2,089 non-frontline service delivery staff will retire in the next four years, providing an opportunity to align the state's workforce and service delivery needs. At present, the State's Human Resource Management (HRM) function is poorly equipped to take advantage of the upcoming wave of retirements. Workforce planning in Alagoas is process-driven. Rigid HRM practices provide limited opportunities for building new skills and career advancement within the public sector, affecting staff motivation. Public sector workers in Alagoas are better educated than the average worker in the state: 48 percent have at least tertiary education, compared to 13 percent for all sectors. However, in-service skills development has been neglected. Poor talent and career management has led to wage bill growth without increased delivery capacity. Workforce planning and the application of modern HRM practices are hindered by the poor quality of information available to the Secretary of Planning (SEPLAG) which relies on an incomplete employee registry managed in fragmented spreadsheets. SEPLAG intends to invest in a new Human Resource Management Information System (HRMIS), strengthen strategic workforce planning, informed by functional reviews of the public administration, and make use of artificial intelligence for automated wage bill audits.

2. **Pensions.** A rapid increase in pension expenditures has put additional pressure on Alagoas' fiscal sustainability. From 2015 to 2018, pensions expenditures grew 4.3 percent annually. Expenditure on inactive staff accounts for 39 percent of personnel expenditures today, as compared with 26 percent in 2015. In 2020, Alagoas implemented major reforms: increasing the contribution rate increased from 11 percent to 14 percent and the minimum retirement ages. However, reforms have yet to tackle the large number of pensioners: there are now 0.97 retirees and pensioners for each active employee. In 2019, the pension system annual deficit amounted to R\$1.182 billion, covered by the state, representing approximately 20 percent of the government's net income according to World Bank projections. The Public Servants' Pension Plan (RPPS) is managed by *Alagoas Previdência (AP)*, an autonomous entity. It uses largely manual processes and spreadsheets, outsourced annual actuarial analyses, a rented application to carry out simulations and the government's payroll system. One of the mandatory requirements of the federal pension reform of 2019 is that the pension benefit management agency integrates the calculation of benefits and payment for the executive, legislative, and judiciary employees under one system. Alagoas will need to establish a pension management information system, strengthen tools and training if it is to successfully implement these reforms.

3. **Procurement.** State government spending on procurement has increased at an average rate of 14 percent over the last four years and amounted to approximately R\$1.5 billion, 14.3 percent of total expenditure, in 2020. Alagoas' public procurement system is partially centralized: a Central Procurement Agency (*Agência de Modernização e Gestão de Processo, AMGESP*) is responsible for the common items while line agencies are responsible for procurement that requires specific technical knowledge. Even though AMGESP manages a substantial part of public procurement, it has limited information on procurement activities across the State government. The information that is available is consolidated in a basic spreadsheet. Price data is only available at the time of budgetary execution, there is no systematic reporting on



acquisition processes or compliance with procurement policy commitments, such as the requirement that at least 30 percent of government purchases are supplied by SMEs. A 2018 survey revealed that just 513 procurement processes, 25 percent of the total, followed fully competitive procedures. Most of procurement processes had a small number of bidders, short deadlines for proposal submissions, and purchase modalities that were not conducive to competitive pricing. Procurement information on the State government's transparency portal is limited to the total number of processes by procurement modality. AMGSEP could generate substantial savings by promoting competitive processes, consolidating demand across State agencies, strengthening procurement planning and monitoring using a modern procurement information system.

4. **Public Investment Management.** Between 2016 and 2020, Alagoas maintained public investment close to 8 percent of total expenditures, well above the 4.3 percent average of all Brazilian states. Transfers to municipalities finance an important part of capital investments and accounted, in 2020, to 2.5 percent of the State's budget. Despite the significant share of resources allocated to public investment, Alagoas' public investment system is underdeveloped, resulting in poorly prepared projects, causing implementation delays and frequent time and cost overruns. A review of a small sample of investment projects shows an average of 350 days of time overruns and 7 percent of cost overruns in execution. In the absence of a consolidated public investment management information system, it is difficult to assess the policy alignment and efficiency of State and municipal capital spending, time, and cost overruns, or monitor project performance. The State Secretariat for Planning, Management and Assets (SEPLAG) intends to put in place an information system for public investment management and transfers. This will help standardize procedures for project screening, appraisal, selection, implementation, monitoring and evaluation. Information systems will also help improve the quality and timeliness of information made available to the public. Mechanisms will need to be put in place to ensure effective consultation of those affected by public investment.

5. **Asset Management.** The National Treasury, through Decree n.10,540/ 2020, has put in place accounting standards that will require Alagoas to strengthen its asset management systems by 2023. Alagoas does not have a comprehensive registry of movable and immovable assets, less than 25 percent of the State's real estate has complete documentation, and there are no structured processes for the destination of goods. Authorities estimate that total real estate assets are valued in more than R\$ 1.9 billion. Lack of effective asset management contributes to inefficiencies, with properties left empty, poorly maintained, and unnecessary expenditures on rent: revenue from leases and sales of public property amounts to around BRL 8.1 million while the State spends around BRL 11.1 million on property rents (2020). The State created a joint-stock company Alagoas Assets (*Alagoas Ativos*) in 2017 with responsibility for the management of State properties, with a view to mobilizing funds from the capital markets. The company is still not fully operational. Less than 20 percent of properties are registered, and the total amount of properties is still unknown. About 850 of the known properties that are not fully catalogued are considered alienable. Further work is needed to put in place adequate governance arrangements and management systems for decision-making. Control and management of movable assets is also deficient: acquisition of movable assets is decentralized, there is no central registry and procedures require weekly manual signing of the State's inventory. The State needs to conduct energy audits to identify potential savings. The State intends to acquire an inventory management information system, using infrared reading equipment, to reduce the administrative cost of movable assets management and strengthen controls. Asset management problems are particularly acute for information technology where decentralized management has led to a proliferation of hardware and software, limited interoperability and information sharing, security concerns, duplication of assets, higher acquisition and operating costs. Strengthened ICT governance will not only increase productivity and enhance the government's digitalization efforts but also help improve the efficiency of administrative services.

6. **Health.** In Alagoas, 89 percent of the population depends on the public health system. Health spending amounted to 12.6 percent of the State budget in 2021, with hospital and outpatient care, including general administration, accounting for more than 80 percent of the State health expenditures. The State's plans to inaugurate 10 new large



regional hospitals (five are operational and five to become operational in the next two years) will put even greater pressure on State budget. A high proportion of hospital admissions are associated with diseases of the circulatory system (12 percent), digestive system (12 percent), respiratory system (11 percent), and neoplasms (10 percent) that are particularly demanding in terms of services and the costs of health procedures. The State budget on the health function peaked during COVID-19 pandemic, reaching R\$2,359.5 million (US\$460.7 million) in 2021, amounting to 17.9 percent of the State revenues. In recent years, Alagoas has expanded its activities in this field, increasing its total budget by 89.8 percent from 2018 to 2022. In this context, the State Secretariat of Health (*Secretaria de Estado da Saúde, SESAU*) intends to secure efficiency gains through management reforms. Health management information systems are particularly weak, with approximately 80 percent of health units using paper-based records. There is limited integration across information systems for services, administrative and financial data, human resources, and health indicators. Health data is rarely used for service delivery planning and decision-making. The Federal Unified Health System (*Sistema Único de Saúde, SUS*) reimburses States for health services delivered by hospitals against evidence of health services effectively provided. The Ministry of Health (MOH), which pays for services delivered according to SUS arrangements, reimburses partially the State of Alagoas, and the remainder (R\$15 million in 2022 – equivalent to US\$2.9 million) is funded by the State Secretariat of Health (SESAU). Much of the shortfall is due to poor record keeping and deficiencies in processing health expenditures. This deficit further compromises the state budget for the health sector. There are limited data in systems to support systematic control of the supply chain, costs, compliance, and workforce allocation. SESAU has an agreement with the government of Pernambuco (PE) to use their hospital management information system in Alagoas' regional high-complexity health units; however, this will require considerable customizations. The hospital management system will be used for planning, and budgeting. The system is expected to increase recovery of expenditure by SUS improving compliance in its processing whilst simultaneously improving the reliability and transparency of financial statements.

**7. Education.** Alagoas ranks 17th in the national evaluation for secondary education quality, among the 26 Brazilian States and Federal District: only 21 percent of students have an appropriate proficiency level in Portuguese and 2 percent in mathematics. Middle school students perform slightly better with proficiency rates of 26 percent in Portuguese and 9 percent in mathematics. In the state, just 47 percent of students finish secondary school at the right age, with completion rates of 64 percent and 83 percent for middle and primary schools. Alagoas ranks second to last among Brazilian states in the percentage of 15-17 years old enrolled in a public or private high school. Expenditures in the education function amounted to R\$1.8 billion in 2020, 66 percent more than the allocation in 2015 (R\$1.08 billion). The Secretary of Education (*Secretaria da Educação do Estado de Alagoas, SEDUC*) is responsible for over 179,000 students in 307 schools across 102 municipalities, providing education to 80 percent of high school students, 16 percent of middle school and 4 percent of primary school. Other educational providers are private institutions, accounting for less than 18 percent of overall enrollments, and municipal education departments, responsible for 38,878 students in early childhood education and 61,011 in kindergarten schools. The SEDUC payroll includes 5,835 teachers and the educational data management is not integrated to the HRMIS, as consequence SEDUC still uses paper based tools and spreadsheets to plan class formation, student enrollment, and teacher assignments, causing management errors and financial inefficiencies. Between 2018 and 2020, the State returned unused transfer funds to the Federal Government that amounted to R\$31.5 million (equivalent to US\$6.2 million). In 2019 the expenditures with student meals and students transport amounted to R\$24 million (US\$4.7 million), and R\$76.2 million (US\$14.9 million) respectively. The SEDUC does not have any system for controlling financial planning and execution of meal and transport contracts and transfers. These are made using lagged information since SEDUC does not have reliable real-time data on student enrollment in its system. SEDUC intends to implement an integrated financial management system that will allow a better allocation and monitoring of fiscal resources, and public assets. A first conservative estimate demonstrates that the State can have savings of approximately R\$23 million in five years by leveraging the system to perform a more efficient process of class formation and a further R\$7.2 million annually by improving the process of teacher allocation vis a vis resources available.





**8. Social Assistance.** Alagoas' Unified Social Assistance System (*Sistema de Assistência Social Unificado, SUAS*) operates 136 basic protection units (CRAS), 101 special protection units (CREAS and CPOP), and 62 high complexity care services in its municipalities, to support those that live in poverty across the State. The State co-finances SUAS with the municipalities and provides technical support to ensure adequate coverage and quality of the services. The State budget on the social assistance function peaked during COVID-19 pandemic, reaching R\$168.5 million (US\$32.9 million) in 2021, amounting to 1.3 percent of the State revenues, though the execution rate of this resources was low: 75.7 percent. In recent years, Alagoas has expanded its activities in this field, increasing its total budget by 80 percent from 2020 to 2021, and by 126 percent from 2021 to 2022, to R\$381.8 million (US\$74.5 million). From 2018 to 2022, the State transferred resources annually to SUAS, vis a vis the planned budget represented a financial execution of only 83.2 percent. The State Secretariat for Social Assistance and Development (SEADES) recognizes the need to strengthen its financial management systems to ensure compliance with federal standards, reducing unnecessary expenditure, improve transparency and accountability for performance. SEADES seeks to improve the coordination and monitoring of the co-financing. Municipalities currently use mainly manual, fragmented systems to manage State and federal financial transfers for SUAS activities, manage SUAS-related personnel costs, travel, and supplies. The State intends to implement a new management system that will include functionalities for improved financial and disbursement projections in transfers' action plan; tracked financial records for the rendering of accounts; and managed social assistance public assets to maximize potential value and cash flow. Resource allocation and productivity will be improved with modern financial management and benefits management systems, as well as strengthened monitoring capacity, and data use for decision-making and cost-effective service provision.

## **B. Project Activities**

**9. Project Components.** As per the original project design, the components and costs will remain the same, even with slight modifications in the proposed activities. Specific interventions were defined after consultation with government officials. They are based on their impact on improvements in efficiency and fiscal management, as well as their implementation readiness. The Investment Project Financing (IPF) operation is structured around three main components which support interlinked actions to improve the efficiency and fiscal sustainability of Alagoas public sector expenditures, namely: whole-of-government systems; management systems in strategic sectors; and project and change management. The description of activities of each-sub-component below will inform the proposed changes which will be reflected in the Loan Agreement. There are no changes for the sub-components 1.1, 1.2, 2.2, 3.1, and 3.2.

### **Component 1: Whole-of-Government Management Systems**

**10. Sub-Component 1.3: Public Procurement (US\$7.1 million).** SEPLAG-AMGESP retain overall responsibility for the sub-component implementation. Revised activities include: (i) development of a procurement strategy, and an implementation plan for the State's purchases; (ii) development and implementation of a centralized e-procurement system, including the redesign and automation of key processes to ensure cost-effective acquisitions; (iii) development and implementation of an integrated digital system for processing and analyzing data and managerial information in public procurement and contract management, including data aggregation; (iv) development and implementation of artificial intelligence tools using electronic invoices, strategic sourcing methodology and spend analysis tools to plan procurement strategies; (v) development and implementation of digital systems that support contract management functions and the procurement low value, non-complex goods and services; (vi) development and implementation of a system that certifies enterprises and automatizes data aggregation; (ix) training for suppliers to participate in public procurement processes; (viii) development and implementation of e-marketplace solution for procuring off-the-shelf goods, stationery and products through an online platform that integrates state's agencies and suppliers; (ix) capacity building for officials working in procurement and to support the rollout and implementation of new tools; (x) communications and capacity building for businesses to support the roll-out of these initiatives; and (xi) the acquisition of hardware to support the deployment of the above mentioned activities.



11. **Sub-Component 1.4: Public Investment Management and Budgeting (US\$6.2 million).** SEPLAG and SEFAZ retain overall responsibility for the sub-component. Revised activities include, *inter alia*: (i) development and implementation of a public investment management system, integrating project preparation, screening and appraisal; (ii) preparation of a portfolio of technically appraised, implementation ready projects; (iii) design and implementation of a governance strategy to manage the project portfolio execution; (iv) design and implementation of public expenditure reviews to assess policy alignment, effectiveness and efficiency to standardize public expenditures and identify opportunities; (v) design and implementation of budgeting systems and practices, including the development and implementation of a management system for the transfer of resources from the State of Alagoas to municipalities and organizations, thus allowing for digital monitoring of project preparation, implementation and accounting; (vi) capacity building for State and municipal government officials on public investment and expenditure management practices, to support the rollout and implementation of new tools; and (vii) periodic staff surveys to assess reform implementation and support change management.

12. **Sub-Component 1.5: Asset Management (US\$9 million).** SEPLAG retain overall responsibility for the sub-component. Revised activities include: (i) hiring of technical support to assess up-to-date information of real estate properties, including geospatial data, area, occupation rate, valuations and registry's status; (ii) development and implementation of a comprehensive and public asset management system; (iii) acquisition and implementation of a system for identification and recording of movable assets; (iv) development and implementation of a system for mapping costs of information and communication technologies (ICTs), including identification of synergies between government-to-government systems, interoperability, and a governance strategy for new acquisitions and maintenance; and (v) capacity building on asset management practices and support the rollout and implementation of the above mentioned activities.

## **Component 2: Management Systems in Strategic Sectors**

13. **Sub-Component 2.1: Education (US\$6.5 million).** SEDUC retain overall responsibility for the sub-component. Revised activities include: (i) development and implementation of IT financial systems allowing a more efficient allocation and monitoring of fiscal resources, public assets, planning and expenditure management; and (ii) communications and capacity building to support the implementation of the above-mentioned activities.

14. **Sub-Component 2.3: Social Assistance (US\$2 million).** SEADES retain overall responsibility for the sub-component. Revised activities include: (i) development and implementation of a financial management system for social assistance co-financing to support the management of social assistance funds transferred to 102 municipalities and its rollout; (ii) business process remodeling at the state level, registration in the management information system to increase efficiency and enable operational and financial analysis, higher quality and integration of data, reduced redundancy of information and streamlined processes for improving the monitoring and evaluation on the use of financial resources; (iii) carrying out of communication and capacity-building to support the rollout and implementation of new tools.



## ANNEX 2 PROGESTÃO PROGRAM FRAMEWORK

### PROGESTÃO PROGRAM FRAMEWORK

- 1. The Ministry of Economy developed the Progestão Program and established a partnership with the World Bank to support State governments' public sector management reforms.** The objective of the Progestão Program, as stated in Memorandum of Understanding between the National Secretariat of Treasury (*Secretaria do Tesouro Nacional, STN*) and the World Bank, is to develop the fiscal, budget and asset management of the Brazilian governments through actions that aim at reducing and rationalizing public spending with long term results to contribute to the fiscal sustainability of state entities. The Progestão Program recognizes that the state fiscal crisis is largely a result of structural problems in public sector management. The Progestão Program will provide technical assistance to help participating States improve efficiency in public administration and public expenditure. The Progestão Program was gazetted in the *Diario Oficial* on May 19th, 2021, providing a line of credit of US\$1 billion guaranteed by the Federal Government, with US\$250 million available every year until 2024.<sup>1</sup>
- 2. The Progestão Program supports the Economic and Institutional pillars of the Government's National Economic and Social Development Strategy for 2020-2031 (*Estratégia Nacional de Desenvolvimento Econômico e Social – ENDES*).** Under these two pillars, ENDES seeks to: promote national per capita GDP growth; increase the productivity of the Brazilian economy; harness the potential of the workforce by increasing its skills and employability; and improve public sector governance by increasing the efficiency and effectiveness of government actions.
- 3. The Progestão Program comprises a series of projects (SOP) that finance technical assistance in line with restrictions imposed by the Senate Resolution 43/2001 on access to international financing.** Compliance with Senate Resolution 43/2001 restricts Progestão project financing to the direct inputs required to develop and implement management systems, including consultancy services, capacity building activities and information technology. This prevents the financing of Progestão projects using results or policy-based lending instruments, thereby excluding development policy lending, programming for results, or investment lending with performance-based conditions. A multi-phase programmatic approach (MPA) was considered but deemed inappropriate because the direct beneficiaries of Progestão projects are sector institutions (through efficiency gains) rather than service users such school students or hospital patients (through improvements in the quality and quantity of services). The Series of Operations allows Progestão projects to adopt some of the elements of the MPA: the Bank will implement State projects following a similar approach and structure as part of a national program; the State projects will benefit from shared learning, experience, management innovations, and IT solutions.
- 4. The Progestão Program is open to all 26 States and the Federal District.** The Ministry of Economy waived the need for participating States to have a CAPAG A or B ratings – usually a requirement for access to federal guarantees for external financing – thereby opening the program to States that are not in compliance with the Fiscal Responsibility Law. Participating States must commit to the implementation of reforms in Progestão Program priority areas. They must collaborate with the Bank in conducting a fiscal sustainability assessment using fiscal modeling to determine the size of the fiscal adjustment needed to put State finances on a sustainable trajectory and identify the fiscal measures needed to bring the State into alignment with the Fiscal Responsibility Law. Individual Progestão projects are subject to approval by the National Treasury Secretariat (STN). Each loan is approved by the Government of Brazil's External Financing Committee (COFIEX). The Bank supports States in the preparation of their COFIEX proposals and initiates project preparation after COFIEX approval. The Progestão Program prioritizes States that have demonstrated commitment to the implementation of management reforms and those States where Bank assistance is expected to have the greatest impact in terms of restoring a State's fiscal balance.

---

<sup>1</sup> Memorandum of Understanding between the Ministry of Economy and World Bank, "Fiscal Sustainability Program, Efficiency and Effectiveness of Public Spending in the States and Federal District PROGESTÃO. Operational Regulations of the Program." ([Link](#))



5. **States participating in the Progestão Program will implement a common set of reforms albeit with some variation in approach and scope.** The Program components align with the reform priorities identified by the Federal Government focused on core seven whole-of-government functions: human resource management; pensions; public procurement; public investment management; debt management; state-owned enterprises; and asset management. The Memorandum of Understanding (MOU) between the Bank and the Ministry of Finance identifies an indicative list of eligible activities and results indicators for each of these areas of intervention. The Program also supports the implementation of management reforms that will deliver improvements in administrative and expenditure efficiency in Brazil’s priority sectors: health, education, and social assistance. These sectors account for approximately 40 percent of State level expenditure, ranging from 39 to 50 percent. National Legislation requires that 25 percent of expenditure goes to education and 12 percent to health. Some States spend over 17 percent of their budget on health according to the System of Health Public Budget Information (SIOPS).

6. **State governments identify priority areas of support for their Progestão projects in consultation with the Bank.** Projects will prioritize investments in management systems that are expected to have the greatest fiscal impact, guided by the results of the fiscal sustainability assessment. Table 1 summarizes priority areas covered and activities targeted by each State project under preparation and/or approved of the Progestão Program. The following criteria are used to screen the technical assistance activities supported by the Bank: *Strategic Alignment*, clear demand from the State government and the participating institutions, requests fall under scope of Program, and the Bank has the appropriate technical skills to support implementation; *Implementation Capacity*, the participating institution has the capacity to undertake the reform with Bank’s support and ensure sustainability after the project, implementation can be finalized within project’s duration, and transaction costs are reasonable; *Impact on Beneficiaries*, the proposed reform can deliver efficiency gains and simultaneously ensure improvements in the quality and/or quantity of services, and particularly services that will benefit the poor and vulnerable.

**Table 1: Areas of Intervention across Projects**

Area/State	Alagoas 07/21/22	Mato Grosso 08/23/22	Piauí 01/17/23 (est)	Acre 07/02/23 (est)	Tocantins 07/02/23 (est)
<b>Human Resources</b>					
Workforce sizing and dashboard	(new)	(new)	(new)	(new)	(new)
MRM Information System	(new)			(upgrade)	(upgrade)
Automated audit of the payroll	(new)	(new)	(new)	(new)	(new)
<b>Pensions</b>					
Pension management system	(upgrade)	(upgrade)	(upgrade)	(new)	(upgrade)
Central management of pension benefits	(new)	(new)	(new)	(new)	(new)
Pension investment review and management	(new)	(new)		(new)	
<b>Procurement</b>					
Procurement information system	(new)	(upgrade)	(upgrade)	(new)	(upgrade)
E-marketplace solution	(new)	(new)			
Contract management system	(new)		(upgrade)	(upgrade)	(upgrade)
<b>Public Investment, Transfer and Debt Management</b>					
PIM information system	(new)	(upgrade)	(upgrade)	(new)	(new)
PPP and concession management system				(new)	
Project portfolio governance	(upgrade)	(upgrade)	(upgrade)	(upgrade)	(upgrade)
Cash management system				(new)	
Transfer management system	(new)	(upgrade)	(new)	(new)	(upgrade)
Debt management system		(new)		(new)	(upgrade)
<b>State Owned Enterprises</b>					
Financial management system for SOEs				(new)	
<b>Asset Management</b>					
Registry the real estate assets	(upgrade)	(upgrade)	(upgrade)	(upgrade)	(upgrade)
Asset management system	(new)	(upgrade)		(upgrade)	(upgrade)
Fleet management system	(new)			(upgrade)	(new)



Area/State	Alagoas 07/21/22	Mato Grosso 08/23/22	Piauí 01/17/23 (est)	Acre 07/02/23 (est)	Tocantins 07/02/23 (est)
Architecture enterprise for IT solutions	(new)	(new)	(new)	(new)	(new)
<b>Health</b>					
Hospital expenditure management system	(new)	(new)	(upgrade)	(upgrade)	(new)
Health expenditure review			(new)	(new)	(new)
<b>Education</b>					
Integrated management information system to align class formation with financial allocations	(new)				
Meal Financial MIS			(new)	(new)	(new)
Transport Financial MIS			(new)	(new)	(new)
MIS to monitor resources transferred to schools			(new)		(new)
<b>Social Assistance</b>					
Integrated financial management system for co-financing of social assistance programs	(new)	(new)	(new)	(new)	(new)

7. **Implementation of Progestão Projects is the responsibility of the State Finance or the Planning/Administration Secretariat.** State governments are required to establish a Project Management Unit in the State Finance or Planning/Administration Secretariat by means of a “*Portaria*” or other appropriate legal instrument before the first disbursement of funds. The implementing agency is required to sign cooperation instruments with the other beneficiary agencies or agencies directly involved in the implementation of the project, establishing roles responsibilities between them and with the PMU, and designating a representative to lead project activities and results.

8. **Progestão supports a learning agenda and collaboration across Progestão Program partners.** The World Bank and the National Council of Secretaries of Administration (*Conselho Nacional de Secretários de Administração*, CONSAD), will facilitate knowledge exchange across participating States and support implementation through specific thematic working-groups (see Box 1). Working groups were formed during Program preparation in partnership with the National Council of State Secretaries of Administration (CONSAD), the National Council of State Secretaries of Planning (CONSEPLAN) and it is expected that that the National Council of Secretaries of Finance (COMSEFAZ) will join. Working groups will facilitate learning, the exchange of experience, collaboration on operational matters and potentially joint procurements of critical inputs such a training, consultancy services and information technology. In addition to a permanent agenda (meeting at least once a year), States will be able to request *ad hoc* workshops to present and discuss specific project-related issues that can be discussed by the network of specialists and practitioners, such as developing Terms of Reference for similar systems.

9. **Monitoring and reporting on Progestão Program implementation will focus on the results of individual Progestão Projects.** While the MOU between the Bank and the Ministry of Economy identifies an indicative set of indicators for each area of whole-of-government reforms and the Bank has prepared a similar set of indicators for the strategic sectors and cross-cutting themes, Progestão Projects will share the same PDO but will not necessarily apply all the elements of a common results framework. Consequently, it will not be possible to consolidate results information for all elements of the program across all projects.

10. **Progestão Projects will report on progress in implementation and against their results framework every six months.** The Bank will undertake implementation support missions every six months. The Implementation Status and Results (ISR) report will be shared with the State Government and the Ministries of Planning and of Finance. An Implementation Completion and Results Report (ICR) will be prepared by the Bank within six months of closing of each Progestão Project. The World Bank will hold an evaluation seminar with the State Government and Ministries of Planning and of Finance to present the results achieved, promote the dissemination of information and the exchange of experience. This seminar may inform preparation of the ICR.



**BOX 1: PROGESTÃO PROGRAM CONSAD KNOWLEDGE EXCHANGE PARTNERSHIP**

**Innovation and Digital Government.** The first workshop on Digital Government took place in May 2019 led by CONSAD and the National Association of State Information and Communication Technology Entities (ABEP-ICT) with the aim of identifying a shared agenda for State and Federal Governments. This group will be the main platform to discuss the use of new technologies and the digitalization of services. Since innovation and digital government are relevant to all Progestão Program components, some of the participants for this group will be drawn from other thematic areas.

**Human Resources.** The working group on human resources comprises of state secretaries of public administration and/or planning (18 States have participated already), representatives from the Federal Government and academics. There have been three workshops in which the participants agreed on the key HRM issues affecting the country and the establishment of an online practitioner network with continuous information exchanges.

**Procurement.** The national learning agenda on this topic will focus, among other topics: (i) on the generation and use of data to guide new policies, technologies, and reforms; and (ii) the use of artificial intelligence to identify “red flags” for fraud and incentivize the use of transformative ways of doing public procurement applying innovative and disruptive methodologies and technologies. The availability of data, as a reflection of the procurement systems in place, significantly differs across states. Some states will be interested in learning how to implement centralized procurement systems for the first time, others will be interested in discussing how to leverage procurement data to inform policy.

**Public Investment Management.** A working group will be formalized with CONSAD or CONFAZ and the learning agenda on this topic will focus on the generation of data to guide new policies, methodologies and implementation strategies, and screening of public investments.

**Asset Management.** A working group will be formalized with CONSAD. The learning agenda on this topic will focus on the generation of data to guide new policies and reforms. Experience across states varies considerably, with some states having established asset management systems while others have rudimentary, decentralized, paper-based systems.

## WHOLE-OF-GOVERNMENT MANAGEMENT SYSTEMS

### *Human Resource Management*

11. **Brazil’s public sector human resource system is characterized by a high public sector wage premium and a fragmented, rigid, and seniority-based career system.** Brazil’s government employs approximately 12 percent of the entire labor force and, in 2013, public sector remuneration amounted to 13.1 percent of GDP, which represents almost a third of the total economy wide remuneration.<sup>2</sup> Brazil’s total government employment is lower than that of OECD countries (around 18 percent) yet it is rather costly, exceeding that of upper-middle income countries and that of Latin America and the Caribbean (LAC). Over the period 2007-2017, overall spending on public servants increased by 48 percent in real terms. This is partly driven by constitutional mandated floors for expenditure in certain sectors: states must spend at least 12 percent of net tax revenues on health and the federal government and municipalities least 15 percent. In the early 2000’s governments at all levels expanded employment through the creation of new ministries and secretariats, autonomous institutions, and SOEs. This structural expansion was also accompanied by overall growth in both personnel and wages, which together with complex local legislation that guarantees numerous benefits, has led to significant fiscal pressure. Compensation is a key driver of the high costs of Brazil’s bureaucracy. Civil servants benefit from generous starting salaries, automatic salary increases, and particularly large pension

<sup>2</sup> Brazil Public Expenditure Review (2016)





benefits. There is a significant public sector wage premium: up to 96 percent at federal level and 36 percent in States. At the municipal level, real wages have followed a similar rising trend. In 2020, four States<sup>3</sup> surpassed the limits on wage and benefits payments of 60 percent of expenditures contained in the Fiscal Responsibility Law. In the State of Minas Gerais, for example, personnel expenditure reached 79.2 percent of expenditure. A 2019 World Bank study shows that five States<sup>4</sup> will have to reduce spending on employed and retired civil servants by an average of 2 percent annually until 2022 in real terms if they are to comply with the Fiscal Responsibility Law.

Table 1: Potential Activities and Results in Human Resource Management

Activities	Results
Develop and implement integrated systems (hardware/software) with assessments and models that result in reduced personnel expenses. Right-size (optimal dimensioning) software and efficient workforce allocation. Streamline the rules for career progression and promotion. Streamline the hiring of servers, including temporary and commissioned employees, especially in strategic sectors. Adapt State rules to the federal regime. Develop payroll management and audit software. Customize or develop new Human Resource Management Information System	Establishment of Strategic Workforce Planning System Reduced number of new hires. Reduced number of payroll irregularities. Reduced personnel expenses as a percentage of current net revenue. Increased number of organs using results of dimensioning the workforce. Number of career plans. Reduced delays in paying salaries.

**Public Sector Pensions**

12. **Brazil’s public pension system is costly.** In 2018, total expenses of the system stood at 12.7 percent of GDP, with 8.6 percent of GDP spent on pensioners affiliated with the national social pensions scheme for private sector (RGPS, *Regime Geral da Previdência Social*) and 4.1 percent of GDP spent on the civil servant pension regime (RPPS, *Regimes Próprios da Previdência Social*). Within the RPPS, about half of the spending (47 percent in 2018) is attributable to the federal RPPS, while the remaining half covers subnational civil servant pensions. The national RGPS pension scheme is under fiscal pressure due to the rapid aging of the population, early retirement ages, and highly subsidized minimum benefits. The main drivers of increasing RPPS pension spending are a large wave of civil servants hired in 1980s currently reaching retirement, especially generous benefits of civil servants hired before 2003, steep seniority-related wage increases culminating in high pensions, and exemption of uniformed personnel from the 2003 reform. Assessment of the fiscal impacts of pensions on State and municipal governments is challenging. Data on wages and pensions of civil servants employed at executive, legislative, and judiciary branches of the government is not unified, is rarely audited, and contains errors. Data on remuneration histories on uniformed personnel, even though part of the executive branch of the government, is often not available at all. These issues often lead to uneven application

<sup>3</sup> As per the Brazilian Treasury in the RGF report about 2020 states finances, Minas Gerais, Rio Grande do Norte, and Paraíba have surpass the limit. [\(Link\)](#)

<sup>4</sup> Minas Gerais, Mato Grosso do Sul, Rio Grande do Norte, Rio de Janeiro e Rio Grande do Sul. World Bank. “Gestão de Pessoas e Folha de Pagamento no Setor Público Brasileiro”. [\(Link\)](#)



of pension rules, exacerbated by perverse human resource policies, including approval of pre-retirement wage increases for the sole purpose of permanently increasing pension payments.<sup>5</sup>

13. **The national pension reform of October 2019 made an important contribution to curbing pension expenditure growth.** The most significant change for the RGPS scheme was the gradual elimination of the early retirement option, which was formerly available at any age as long as the length of service requirement was reached. Savings will increase gradually, reaching 2 percent of GDP in 10 years, and 4.4 percent of GDP in 30 years, without exposing lower income population to the risk of reduced incomes. However, the reform does not eliminate the projected growth in pension deficits, which will continue to increase, albeit at a slower pace, from current 1.2 percent of GDP to 4.9 percent of GDP by 2050. The adoption of RPPS reform measures by over 2,000 sub-national governments requires approvals by the respective State and municipal assemblies. As of October 2021, twenty-five States had implemented reforms with estimated savings of over R\$100 billion over the next ten years. States have typically introduced: changes in the retirement age, benefit formulae, and transition rules for currently active public servants; gradual elimination of the early retirement option; increases in the pension contribution rate by approximately 3 percent; reduced survivor pensions and percentual accumulation of benefits; and new rules for teachers and public security officer's pensions. However, some subnational governments are still to approve pension rule changes, while others have opted for less stringent reforms than the federal RPPS. Furthermore, the 2019 reform measures, even if fully implemented, are likely to slow rather than halt the growth of pension expenditures for most subnational governments over the next 2-3 decades. Under these circumstances, additional efforts to contain expenditure is needed, including better controls and auditing of benefits assignment, payment, and termination processes.

**Table 2: Potential Activities and Results in Public Sector Pensions**

Activities	Results
Implementation of new features into the pension management system that result in integration with all state HR systems; Increased transparency and autonomy of the “Área do Servidor” by extending the services available for the pensioners and retirees online; Development and implementation of an unified management system of pension and survivor records of all branches of government in the state; Elimination of inconsistencies from retiree and survivor records; Strengthening of controls and cross-checking of benefit attribution processes; Allowing for cross-checks with other databases and enabling actuarial analyses; Enabling the assessment of the impacts of pension reforms and human resource actions for active employees on future pension expenditures;	Streamlined certification process of sub-national RPPSs with federal authorities. Savings from elimination and correction of noncompliant pension records Time reduction in the process for benefit concession. Currently over 120 days on average. Number of branches that adopted the unified management system

<sup>5</sup> The October 2019 reform does not apply to security and military personnel, which constitute around a third of the membership of state RPPS and which were also exempt from the 2003 pension reform.





Activities	Results
Ensuring increased transparency of pension calculations.	

**Public Procurement**

14. **While the federal legal framework for public procurement is solid and transparent and takes precedence over those of subnational levels, the institutional arrangements for State and municipal procurement systems vary, most States lack adequate procurement information systems, and most States face capacity constraints.** The regulatory framework requires that open competitive bidding is the default procurement method, as defined by Article 37 of the Constitution, and all procurement opportunities, regardless of estimated cost, should be published on the internet and/or official gazettes. However, procurement arrangements vary across Brazil’s States and municipal governments. Over the last decade, there has been a trend towards centralization of public procurement across the Brazilian States. A 2021 survey carried out by CONSAD found that 20 out of 27 States, including the Federal District, had adopted a centralized model where a central agency/department conducts most public procurement but delegates some processes to procuring agencies. Federal and State governments have not put in place structured staff development programs beyond training in regulatory requirements. States and municipalities have made limited progress in implementing procurement. In the absence of procurement information systems, lack of adequate data poses a significant constraint to effective procurement planning, monitoring and policy alignment. Most subnational governments have difficulties in estimating demand. State secretaries procure the same products but at different times with different instruments, resulting in price variations that could be avoided through consolidation of government demand. CONSAD found significant delays in procurement processing, with the highest average bidding times in national competitive bidding (307 days), international competitive bidding (230 days), and national limited bidding (198 days).

**Table 3: Potential Activities and Results in Public Procurement**

Activities	Results
Update State regulatory framework for public procurement, in line with Federal legislation. Simplify and streamline procurement procedures. Replace price registration mechanism with database generated from electronic invoices. Develop and implement integrated procurement information systems. Develop and implement materials and inventory allocation and management models. Establish e-Marketplace solutions Develop and implement a strategic sourcing methodology.	Increased use of the Reference Price System in acquisitions. Reduced time between opening and finalization of procurement processes. Reduced bidding times. Reduced price paid per product. Increased procurement through e-marketplace platforms. Automation of the analysis of reference prices for cost estimation. Increased State procurement staff with requisite skills.

**Public Investment Management**

15. **Brazil lacks a well-regulated public investment management system at both the federal and subnational levels.** About two-thirds of public investments (excluding SoEs) are undertaken by subnational governments and 38 percent of public investment is executed by SOEs. Brazilian States spent on average 4.3 percent of their budgets on public investments in 2020,



ranging from a high of 9.4 percent to a low of 1.4 percent. The latest PIMA (2018) shows that Brazil is well far behind regional peers and emerging market economies in the application of systems for project planning, appraisal, selection, and project management. States lack formal screening and appraisal procedures and clear technical criteria to guide project selection. Project sponsors are often responsible for project appraisal without independent review. At State level, projects are rarely screened before detailed preparation starts, seldom undergo substantive economic appraisal and where they are appraised the agency proposing the project often takes the lead. Shortcomings in project preparation hinder financial planning for multi-year investments and State budgets. Misaligned incentives, capacity constraints and weaknesses in planning, selection and appraisal procedures contribute to the selection of projects with dubious economic benefits, delays in design and completion of projects, significant risks in procurement, cost and time overruns, incomplete projects, and the failure to operate and maintain assets efficiently. Brazil has increased its use of PPPs to leverage private financing for infrastructure and services. Brazil’s stock of PPP and concession projects reached more than 10 percent of GDP in 2014, more than three times the average of other BRICS higher than other emerging and LAC economies. However, the cost-effectiveness of many PPPs is questionable, there are regular renegotiations of contracts, cost overruns, delays in completion, and a high incidence of corruption. In this context, the creation of additional space for investment will not lead to improvements in infrastructure and economic growth without improvements in the governance of public investment. PIM Reforms in Brazilian States focus on putting in place systems with rigorous technical standards for each step of the project cycle as a requirement for entry into the State’s investment pipeline and project approval. Further work is needed on the adoption of a more strategic approach to public investment and investment portfolio management.

**Table 4: Potential Activities and Results in Public Investment Management**

Activities and Outputs	Results
<p>Establish and implement procedures and criteria for project identification, screening, preparation, appraisal, and approval.</p> <p>Integrate public-private partnerships and concessions in the project cycle.</p> <p>Develop and implement integrated public investment management information systems that strengthen controls and facilitate project and portfolio management.</p> <p>Undertake portfolio reviews to assess the policy-alignment and effectiveness of the investment portfolio and pipeline.</p>	<p>Increased share of public investment projects prepared and selected in line with PIM methodology.</p> <p>Improved transparency through publication on project and portfolio related information.</p> <p>Reduced public investment project time and cost overruns.</p> <p>Improved monitoring of inter-governmental transfers through publication of information on financial and physical performance.</p>

**Debt Management**

16. **Average debt of Brazilian subnational governments is increasing at a rate of 6.6 percent and currently stands at 86.2 percent of State revenues, with the debt stock of Rio de Janeiro and Rio Grande do Sul exceeding the debt limit of 200 percent of net current revenue defined by Federal Senate Resolutions.** Most of this debt comprises internal and external loans (89.8 percent) and unpaid and overdue judicial debts (7.7 percent). States lack contractual, operational, administrative, and accounting information and financial data related to debt maturity for debt management operations and decision making. Most States do not have debt management modules integrated into their financial management information systems or dedicated debt management information systems, relying on spreadsheets instead. This hinders effective debt management. Use of spreadsheets raises security and data reliability concerns. It is difficult and time consuming to consolidate information of the contracts and statements. Potentially unreliable projections can result in inaccurate financial flow planning, even exposing the State to the risk of default. The National Treasury’s Integrated Debt System (*Sistema Integrado de Dívida, SID*) could be used



by subnational governments. SID is a collection of modules that work together to facilitate recording, monitoring, production of data and reports, and preparation of payment obligations. The information system enables debt managers to monitor the flows that affect the inventory and maturity of liabilities so that they are able to verify with high accuracy the amounts to be paid through their own records, rather than merely paying the invoices received by creditors. A robust, well-functioning and user-friendly system allows governments to strengthen their debt management environment, connecting with other applications, such as payment systems, central securities depository, and the FMIS.

Table 5: Potential Activities and Results in Debt Management

Activities and Outputs	Results
<p>Align State and national accounting and treasury management regulations and practices.</p> <p>Develop and implement integrated debt management information systems, including modelling, assessment of terms of agreements, and contract management.</p> <p>Strengthen cash management, financial management and risk management practices.</p>	<p>Reduced debt service costs.</p> <p>Reduced debt service and payment irregularities.</p>

**State Owned Enterprises (SOEs)**

17. **Brazil has a large SOE sector with uneven performance.** The sector comprises 203 Federal SOEs, mainly concentrated in finance, oil and gas, and the postal service, and a further 302 State SOEs. State SOEs are concentrated in finance (35 SOEs), sanitation (28), habitation (25), transport (24), regional development (20), gas and derivatives (19), energy (19) and food supply (19). State SOEs are found in all States but are concentrated geographically in the northeast region (93) and the southeast (63). 46 percent of State SOEs are dependent, receiving funds from the controlling institution to cover payroll, operating and investment. The proportion of State SOEs that are independent is highest the finance, gas and derivatives, energy and sanitation sectors. In 2020, 44 percent of SOEs were loss making – 66 percent of the dependent State SOEs – up from 35 percent in 2019. The largest losses were sustained by State SOEs in the transport sector. In 2020, 41 of the State SOEs were in the process of liquidation, over half of which were loss making.<sup>6</sup>

18. **The SOE Statute of June 2016 improved the governance of national and State SOEs though implementation is still incomplete.** The Statute was a response to civil society pressure following the *Lava Jato* investigations that directly involved PETROBRAS. The new regulation requires SOEs to establish Fiscal, Audit, and Eligibility Committees, measures to increase transparency regarding the policy goals pursued by the enterprises and a ensure a separation of the mandates of senior public officials and SOE board members. Nearly all State SOEs have established at least one of these committees and just over half have established all three (72 percent of the State SOEs that are profitable and 46 percent of the loss-making firms). All SOEs are required to publish an annual statement of their public policy objectives but only 32 percent do so. Reforms have also allowed more participation of the private sector in areas that had been almost exclusive to SOEs and the creation of mixed enterprises, leading to greater interest in the valuation of public enterprises and the adoption of practices that can maximize SOE equity value. There are no centralized SOE monitoring functions in place at State level. Instead, SOEs are followed up by the line ministries and secretariats in the sectors of their operations. However, recently a few State Secretariats of Finance have

<sup>6</sup> Tesouro Nacional: "As empresas dos estados brasileiros: um panorama das empresas estatais estaduais". [\(Link\)](#)



started to collect information on the State SOE and PPP portfolios with the objective of monitoring overall performance and potential fiscal risks.

**Table 6: Potential Activities and Results in State Owned Enterprises**

Activities	Results
Align the governance framework for SOEs at State level with federal regulations. Establish and implement central monitoring and reporting functions for State SOEs. Strengthen SOE risk management, strategic and reporting functions. Strengthen SOE valuation and privatization process and adopt practices that maximize the companies' equity value.	Regular performance monitoring reports on SOEs prepared and available online. Fiscal risks assessments carried out and included in State budget documents. Increased SOE valuations. Increased number of SOEs participating in capital markets and private sector participation in SOEs.

**Asset Management**

19. **States are beginning to explore options for improving the return on physical assets, rationalizing real estate portfolios, and disposing of assets where they are not needed.** Some States have established specialized asset management institutions to manage this process, usually following one of two models: holding companies that concentrate both movable and immovable public assets or real estate investment funds. At the federal level, the National Treasury's has issued an Implementation Plan of Asset Accounting Procedures and, through Decree n.10,540/ 2020, established mandatory minimum requirements for the accounting and control systems to be implemented by the year 2023. Implementation of the asset reporting standard and management reforms is hindered by the lack of comprehensive, up-to-date registries of physical assets and valuations. Most States have yet to develop public asset management strategies that align asset holdings with future needs.

20. **Alongside traditional real estate and equipment assets, Brazilian States have invested heavily in Information and Communication Technology (ICT).** Most States have a limited integration of ICT, with each agency procuring and managing its own ICT equipment and services. State agencies often use standalone platforms with different standards which are not necessarily interoperable. This increases costs, causes inefficiencies and delays, prevents access to critical information, worsens the clients' experience, poses security risks, and increases the risks to business continuity in the event of disasters. The use of information technologies to deliver public services in Brazil is still characterized by a highly bureaucratized processes that hinders innovation and marked by disintegrated and outdated digital solutions. The COVID-19 pandemic underscored the importance of having an adequate strategy and governance structure to manage ICT assets with adequate governance and procedures to avoid duplication of activities, reduce costs, and improve efficiency.

**Table 7: Potential Activities and Results in Asset Management**

Activities	Results
Put in place regulations and institutional arrangements for a centralized asset management function. Identify, evaluate and register immovable and movable assets.	Reduced asset management costs. Increased number of public real estate with complete legal documentation. Reduced share of unoccupied State-owned buildings. Reduced expenditures on rent and Increased rent revenue.



Develop and implement integrated asset management information systems. Develop and implement ICT governance frameworks and strategies	Reduced building security, maintenance and utility expenses. Increased number of mapped ICT systems Reduced ICT system support expense.
--	---

## MANAGEMENT SYSTEMS IN STRATEGIC SECTORS

### Health

21. **The creation of the Unified Health System (*Sistema Único de Saúde – SUS*) in 1988, establishing universal health coverage funded by the state, has led to remarkable improvements in access, financial protection, and health outcomes, but an aging population will place a heavy burden on the health care system in coming years.** Nationwide, approximately 70 percent of the population depends exclusively on SUS, rising to 85 percent in the poorest States. Brazilian States are mandated to spend at least 15 percent of their revenues on health services. Many States exceed this target. The Family Health Strategy (*Estratégia de Saúde da Família, ESF*), the community-based primary health care program, has delivered significant improvements in maternal and child health care. Infant mortality rates fell by 60 percent from 30.3 deaths per 1,000 live births in 2000 to 12.4 deaths per 1,000 live births in 2019. Life expectancy at birth increased by 5.7 years, from 70.2 years to 75.9 years over the same period, though life expectancy is still five years below the OECD average. An aging population now poses a new set of challenges. The share of the population 65 years or older is expected to increase from 9.9 percent of the population in 2017 to 21.9 percent in 2050.<sup>7</sup> Aging has already contributed already to a shift in hospital demand toward chronic-degenerative and other Non-Communicable Diseases (NCDs) which require more complex treatments and are expensive to treat. In most of Brazilian States, these conditions are managed through the network of high-complexity hospital facilities which are the State government’s responsibility. In this scenario, costs will need to be controlled if the State public sector is to remain viable and respond to the changing health needs of the population.

22. **The search for a new health management model focuses on hospitals.** There is significant scope to improve fiscal efficiency in health service delivery by converting many of the smaller hospitals into intermediate care facilities; concentrating services in the larger general hospitals; improving hospital expenditure management systems; and putting in place guidelines for financial management. The hospital management information systems provide an effective solution for hospitals to reduce the costs of administrative and clinical transactions, by generating reliable records of financial transactions, and at the same time, provide better service to their consumers. Information systems strengthen operational control; automate the process of collecting, collating and retrieving patient information; and provide managers, doctors and hospital staff with the decision support system for financial management and cost-effective service provision.

**Table 8: Potential Activities and Results in Health**

Activities and Outputs	Results
Design and implement hospital expenditure management information system to enable operational and financial analysis Design and implement health care costing systems. Implement training for hospital directors.	Number of hospitals with hospital management system implemented and operational Number of hospital directors trained in hospital management Cost-reduction of administrative and clinical transactions, through implementation of an effective IT solution to State high-complexity hospitals

<sup>7</sup> OECD (2021) *OECD Reviews of Health Systems. Brazil.* [\(Link\)](#)



Activities and Outputs	Results
	Increased health service costs reimbursed by the Federal Government

**Education**

23. **Brazil’s education sector is characterized by generous spending as a share of GDP, poor outcomes compared to peers, and significant inefficiencies.** Brazil science and reading scores in the Program for International Student Assessment (PISA) have stagnated since 2009, and math scores since 2012. According to the 2018 World Development Report, if Brazil continues to improve at the current rate, it will take 75 years to reach the OECD’s average score in math and 263 years to reach the OECD average for reading. Poor educational performance is not a consequence of inadequate spending. Increases in the education spending combined with declining enrollment in public schools led to a 217 percent real increase in the annual average spending per student from 2000 to 2015. The Constitution earmarks 25 percent of State and municipal tax revenues for education. This contributes to inefficiency of education spending by requiring increases in spending in line with increases in tax revenues without an adequate focus on efficiency and learning outcomes. It also leads to unequal levels of per-student spending across States in Brazil, where the wealthier spend considerably more than poorer municipalities and States, where needs are greater. Studies show that local governments are not using education budgets wisely. If all municipalities and States could reach the efficiency frontier, it would be possible to increase performance in terms of passing rate and student achievement by 40 percent at the primary and lower secondary education and up to 18 percent at upper secondary level with the same level of public spending. About 40 percent of this improvement performance could be achieved by administrative reforms. State government has identified school meals and transportation programs as offering potential for efficiency saving. Studies show positive benefits from improvements in the efficiency of school transportation from shorter routes (less travel time), reduced operating costs (less fuel), and improved quality of service for student. The literature on school meal programs shows a relationship between high-quality meals and cost-effectiveness, school attendance, learning, and health outcomes.

**Table 9: Potential Activities and Results in Education**

Activities and Outputs	Results
Develop and implement an integrated educational financial management system to enable operational and financial analysis of teacher payroll and assignments, student enrollment, and contracts. Design and implement a financial management system for school meal planning and contracting Design and implement a financial management system for school transport routes planning and contracting	Reduced number of classrooms at less than 50 percent of capacity to increase efficiency in the use of available resources. Savings on the teacher payroll, school meal and school transport contracts.

**Social Assistance**

24. **While Brazil’s the Unified Social Assistance System (*Sistema de Assistência Social Unificado, SUAS*) provides a comprehensive safety net, there is scope for efficiency gains through improvements in management systems and the use of information systems.** SUAS comprises three main pillars: social insurance institutions, such as the Rural Pension Program (*Previdência Social Rural, PSR*); benefits, such as transfers for disabled people and the elderly above 65 years with family income per capita of less than 25 percent of minimum wage known as Continuous Assistance Allowance (*Benefício de Prestação Continuada, BPC*); and programs for targeted income support, such as the *Bolsa Família* (PBF) conditional cash transfer program. Since its creation in 2005, SUAS has built one of the largest public service networks with representation in all municipalities



through more 8,000 Social Assistance Reference Centers (*Centros de Referência de Assistência Social, CRAS*), 2,500 Specialized Social Assistance Reference Centers (*Centros de Referência de Assistência Social Especializada, CREAS*), and 300 homeless population Reference Centers (*Centro de Referência Especializado para Pessoas em Situação de Rua, POP*).<sup>8</sup> The SUAS network provides access to services to millions of citizens, including the 20.2 million cash transfers families (august 2022) and over 4.7 million BPC beneficiaries. The States co-finance the SUAS programs and services delivered through the service network, providing training and technical support for decentralized management. The fragmentation of the assistance program creates duplication, non-standardized processes, and inefficiencies. Planning, financial management and monitoring, and control could be improved through the use of information technology, leading to administrative efficiency gains and improved cost-effective service provision.

25. **Progestão will strengthen participating State government’s capacity to manage the provision of social assistance through municipalities.** The program will support State government initiatives including: the development and implementation of the SUAS co-financing financial management system; business processes remodeling, including reporting, norms, and rules for financial management integration in municipalities; and training and capacity-building activities for professionals to operate the new system. This will consolidate the use of the *Cadastro Único* as a tool to inform cost-effective decision-making; monitoring of family attendance records vis a vis financial resources allocated, and systemic integration with other management and fiduciary control instruments Investment in governance and financial management will reduce costs and improve the quality of service for the target population.

**Table 10: Potential Activities and Indicators in Social Assistance**

Activities	Results
Develop and implement the SUAS co-financing financial management system. Support for process mapping, reporting, norms and rules for management integration in municipalities. Training and capacity-building for professionals to use the system.	Implementation and use of the automatic reporting capabilities in the system in at least 20 percent of the municipalities by the second year and 90 percent by the fifth year. Improved financial management and resource allocation. Better use of staff time by automating financial execution. Reduction of paper-based processes.

<sup>8</sup> Official data from the Ministry of Citizenship. Available at: <https://aplicacoes.mds.gov.br/snas/vigilância>.



**The World Bank**

Progestão Alagoas: Public Sector Management Efficiency (P177070)

---