



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
PROGESTÃO MATO GROSSO: PUBLIC SECTOR MANAGEMENT EFFICIENCY
APPROVED ON AUGUST 23, 2022
TO
STATE OF MATO GROSSO

GOVERNANCE

LATIN AMERICA AND CARIBBEAN

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ABBREVIATIONS AND ACRONYMS

BRL	Brazilian Real
CAPAG	Payment Capacity Assessment (<i>Capacidade de Pagamento</i>)
CRAS	Basic protection unit (<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
MT PAR	Mato Grosso Projects and Participations (<i>MT Participações e Projetos</i>)
MTPREV	Mato Grosso State Pensions (<i>Mato Grosso Previdência</i>)
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
SEFAZ	State Secretariat of Finance (<i>Secretaria da Fazenda</i>)
SEPLAG	Secretary of Planning and Management (<i>Secretaria de Planejamento e Gestão</i>)
SES	State Secretariat of Health (<i>Secretaria de Estado da Saúde</i>)
SETASC	State Secretariat for Social Assistance and Citizenship (<i>Secretaria de Estado da Assistência Social e Cidadania</i>)
SME	Small and Medium Enterprises
SOP	Series of Projects
STN	National Secretariat of Treasury (<i>Secretaria do Tesouro Nacional</i>)
SUS	Federal Unified Health System (<i>Sistema Único de Saúde</i>)
ToC	Theory of Change



BASIC DATA

Product Information

Project ID P178339	Financing Instrument Investment Project Financing
Environmental and Social Risk Classification (ESRC) Low	
Approval Date 23-Aug-2022	Current Closing Date 30-Jun-2028

Organizations

Borrower State of Mato Grosso	Responsible Agency Secretariat of Finance - Mato Grosso
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Project Development Objective (PDO)

Original PDO

Improve efficiency in public resource management in selected departments of the State of Mato Grosso.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-94360	23-Aug-2022			30-Jun-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

1. **The Progestão Mato Grosso: Public Sector Management Efficiency project is the second 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.** The Progestão – MT was approved by the Board of Directors on August 23, 2022 in the amount of USD 40 million and has a counterpart funding of USD 10 million. The project promotes fiscal sustainability through five whole-of-government functions (human resource management, pensions, public investment management, asset management, and procurement) and two strategic sectors (health 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 Mato Grosso (SoMT) 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 Mato Grosso. Following agreement with the authorities on the scope and approval of the project 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 the end of 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 15, 2023, the SoMT 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, the SoMT and the Bank agreed to revise the Loan Agreement to respond to the concerns raised: (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; (iii) demonstrating the fiscal and financial impacts of the proposed activities.

II. DESCRIPTION OF PROPOSED CHANGES

6. This Restructuring Proposal seeks the approval of the Country Director for the Progestão Mato Grosso: Public Sector Management Efficiency project (Progestão – MT) 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 of 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 to fiscal, financial, and asset management; (iii) estimate the fiscal and financial impacts of the proposed activities. The changes are reflected in the following:

- a. Table 1 presents changes to the Loan Agreement.
- b. Table 2 presents a new table that provides estimates of fiscal savings generated by the project activities.
- c. Table 3 presents changes to the Results Framework: two (2) intermediate level indicators on health and social assistance and drop two (2) intermediate indicators on gender and sustainable procurement.
- d. Annex 1 presents the rationale of the institutional and sectoral context that informs the proposed changes to the Loan Agreement.
- e. 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 Mato Grosso 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
Schedule 1: Part 1: Whole-of-Government Management Systems		
b. Pensions Management	(...) (v) the procurement of energy efficient hardware;	(...) (v) the procurement of hardware;



Sections	Original Text	Revised Text
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	(...) (iv) procurement of energy efficient hardware to support the implementation of the above mentioned activities.	(...) (iv) procurement of hardware to support the implementation of the above mentioned activities.
e. Asset Management	(...) (iii) the identification of opportunities to improve energy efficiency; (iv) the carrying out of energy audits for selected government properties, focused on reduced energy consumption; (v) the carrying out of capacity building on asset management practices and support the rollout and implementation of new tools; (vi) procurement of energy efficient hardware to support the implementation of the above mentioned activities.	(...) (iii) the carrying out of capacity building on asset management practices and support the rollout and implementation of new tools; (iv) procurement of hardware to support the implementation of the above mentioned activities.
Schedule 1 Part 2. Management Systems in Strategic Sectors		
a. Health	(...) (iv) the procurement of energy efficient hardware to support the implementation of the above mentioned activities.	(...) (iv) the procurement of hardware to support the implementation of the above mentioned activities.
b. Social Assistance	Provision of support for SETASC to improve efficiency of the social assistance management system through, inter alia: (i) the design and implementation of an integrated financial management system to facilitate the execution of social assistance programs; (ii) the development and implementation of a transparency panel to support decision-making in social assistance; (iii) the automation of social protection services, providing faster access to services and reducing operational costs; (iv) the carrying out of communication and capacity-building activities to support the implementation of new tools; and (v) the procurement of energy efficient hardware to support the implementation of the above mentioned activities.	Provision of support for SETASC to improve efficiency of the social assistance management system through, inter alia: (i) the design and implementation of an integrated financial management system for social assistance co-financing to support the management of transferred funds to municipalities; (ii) the business process remodeling at the state level to increase efficiency and enable operational and financial analysis; (iii) the carrying out of communication and capacity-building activities to support the implementation of new tools; and (iv) the procurement of hardware to support the implementation of the above mentioned activities.

Table 2 : Progestão Mato Grosso Estimated Fiscal Savings

Sub-component	Conservative assumptions	Savings
1.1 Human Resources	<ul style="list-style-type: none"> Reduced annual growth rate of the wage bill; Savings from the implementation of automated audits 	R\$119.1 million (US\$23.3 million)



Sub-component	Conservative assumptions	Savings
1.2 Pensions	<ul style="list-style-type: none"> Reduced unconformities in the pensions payroll; 	R\$15.3 million (US\$3 million)
1.3 Procurement	<ul style="list-style-type: none"> Reduced price paid per product 	R\$145.9 million (US\$28.5 million)
1.4 Public Investment management, transfers and debt management	<ul style="list-style-type: none"> Reduced cost and time overruns Increased execution rate of projects 	R\$295.3 million (US\$57.7 million)
1.5 Asset Management	<ul style="list-style-type: none"> Increased return from the exploitation of real estate assets; Reduced expenditures with real estate assets 	R\$19.7 million (US\$3.9 million)
2.1 Health	<ul style="list-style-type: none"> Reduced health administrative costs; Increased reimbursement from the federal government for SUS procedures. 	R\$90.9 million (US\$17.8 million)
2.2 Social Assistance	<ul style="list-style-type: none"> Reduced operational costs (fuel, trips, per-diem, paper, mail); Increased execution rate of social assistance planned budget. 	R\$30.6 million (US\$6 million)

Table 3: Changes to Intermediate Results Indicators

PDO Indicator	Unit	Baseline	End-Target (2028)	Rationale for changes
Intermediate Results Indicators				
Whole of Government Management Systems				
IRI #8 Public Procurement Processes with sustainability criteria	Percentage	27	50	Dropped.
IRI #9 Women-owned businesses registered in the State’s procurement system and eligible to participate in public bids	Percentage	N/A	15	Dropped.
Management Systems in Strategic Sectors				
IRI #13 <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	Revised formulation. The scope of the indicator and target remain the same. The indicator has been clarified to focus on efficiency in the use of resources.
IRI #14 <i>Original:</i> Municipalities using new financial management system to provide reports on social assistance services <i>Revised:</i> Municipalities that implemented the new financial management system for social services co-financing.	Percentage	0.00	65.00	Revised formulation. The scope of the indicator and target remains the same. The indicator has been clarified to focus on efficiency in the use of resources.



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		✓

IV. DETAILED CHANGE(S)



The World Bank

Progestão Mato Grosso: Public Sector Management Efficiency (P178339)



Results framework

COUNTRY: Brazil

Progestão Mato Grosso: Public Sector Management Efficiency

Project Development Objectives(s)

Improve efficiency in public resource management in selected departments of the State of Mato Grosso.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	End Target
Improve efficiency in public resource management in selected departments of the State of Mato Grosso			
Public sector workforce replacement rate for non frontline service delivery staff (Number)		0.98	0.97
Time between opening and finalizing the procurement process (Days)		195.00	120.00
Investment Budget execution rate (Percentage)		55.50	70.00
Net fixed property income (Number)		15.10	20.10

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Component 1: Whole-of-Government Management Systems			
Payroll irregularities (Text)		0.00	-0.30



Indicator Name	PBC	Baseline	End Target
State public agencies and institutions conducting strategic workforce planning (Percentage)		0.00	50.00
Performance of the state pension fund relative to the average for Brazilian states (Percentage)		0.00	0.10
Public hearing on public investments by state or through transfers to municipalities (Yes/No)		No	Yes
Integrated dashboard for municipal transfers with operational information and accessible to the public (Yes/No)		No	Yes
Pension payroll irregularities (Text)		0.00	-0.30
Use of price reference system in competitive bidding processes (Percentage)		0.00	80.00
Public procurement processes with sustainability criteria (Percentage)		27.00	50.00
Action: This indicator has been Marked for Deletion			
Women-owned businesses registered in the state's procurement system and eligible to participate in public bids (Percentage)		0.00	15.00
Action: This indicator has been Marked for Deletion			
Public investment projects prepared and selected in line with PIM methodology (Percentage)		0.00	100.00
Inventory on State ICT Infrastructure (Yes/No)		No	Yes
Public real estate with complete legal documentation (Percentage)		15.00	80.00
Component 2: Management Systems in Strategic Sectors			
Hospitals with hospital cost management system implemented and operational (Number)		0.00	5.00



The World Bank

Progestão Mato Grosso: Public Sector Management Efficiency (P178339)

Indicator Name	PBC	Baseline	End Target
Action: This indicator has been Revised			
Municipalities that implemented the new financial management system for social services co-financing. (Percentage)		0.00	65.00
Action: This indicator has been Revised			
Municipalities with capacity building on the new social assistance services management system (Percentage)		0.00	80.00

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

A. Institutional Context

1. **Human Resource Management.** The World Bank's micro-data analysis shows that the main factor behind the wage bill growth of active personnel between 2009 and 2016 was salary increases. In this period, the average salary grew in real terms by approximately 6.5 percent annually while the number of employees increased at an average rate of 2.2 percent annually. In 2018, Mato Grosso implemented a freeze on new hires and discontinued automatic wage increases. This helped reduce personnel expenditures, with wage bill dropping to below the Fiscal Responsibility Law threshold of 60 percent of total net current revenue in 2020, as compared with 68.18 percent in 2018. In 2020, the State had 54,972 active and 39,746 retired employees. Wage bill growth resumed in January 2022 with a 7 percent increase based on the Annual General Review (*Revisão Geral Anual*) for all public officials. Around 15 percent of active employees will retire between 2022 and 2024. While this will put pressure on the pension system, it does provide an opportunity to review HRM practices and align hiring and talent management with future public sector needs. The State has a structured HRM information system that provides secure data, providing a good foundation for developing new technological solutions. However, the State's HRM practices are largely manual and process-driven, providing limited opportunities for skills development, career advancement, and movement within the public sector. Poor HR planning and career management has led to wage bill growth without a commensurate increase in delivery capacity. Women represent 56 percent of tenured positions but occupy just 34 percent of leadership positions hired from outside the government and 41 percent of the top 10 percent highest-paid positions. The Secretariat of Planning (SEPLAG) intends to invest in the workforce planning system, use artificial intelligence for automated wage bill audits, and conduct a functional review of the public administration careers and positions.

2. **Procurement.** Mato Grosso recently created a Procurement Unit in SEPLAG, to centralize public procurement for standard purchases. However, Secretariats and entities continue to carry out other items that require a more technical preparation of bidding documents. The State Government spent approximately R\$1.25 billion a year on public procurement between 2017 and 2020, peaking at nearly R\$1.4 billion in 2020, averaging 7 percent of State expenditure. In 2020 and 2021 the State undertook 1,712 public procurement processes, with the Secretariat of Public Security and the State Health Fund undertaking the largest number (375 and 305, respectively), totaling R\$854 million. Actual procurement spending could be much higher. Weak reporting systems fail to capture all of the procurement undertaken by secretariats and entities. The State lacks standard requirements for public bidding processes, with buyers using different modalities, evaluation criteria, bidding formats, often resulting in different prices for equivalent items. Bidding is waived in approximately 45 percent of procurement processes. The COVID-19 pandemic reinforced the need to improve these processes, and highlighted structural challenges, especially in procurement for the health sector. The State Court of Accounts has launched a dashboard (*Radar de Controle Público*) to increase transparency and controls in public spending. The State intends to streamline public procurement procedures, strengthen the use of data for analysis and strategic management, thereby improving efficiency and value in public spending.

3. **Public Investment Management.** Mato Grosso's public investment amounted to 4.5 percent of State expenditures in 2020, slightly higher than the average for Brazilian States (4.1 percent) but down from the average of 6 percent achieved in the period 2015-2017. Investments picked up again in 2021 when it was 76 percent higher between January and August than the same period in 2020. The State Government lacks the guidelines, methodologies and institutional governance structures needed to ensure high standards for the preparation, screening, selection, and management of its public investment projects. Weak public investment management practices contribute to frequent adjustments to projects, time and cost overruns. There is no central institution responsible for the review and approval of public investments. *MT Participações e Projetos S/A* (MT Par) promotes and prepares public-private partnership projects, but



this entity also lacks standardized tools and procedures for project preparation, appraisal and approval. The State intends to put in place a management information system for public investment projects and public private partnerships which will allow the State to standardize project preparation and approval procedures and improve the quality of information on projects and resources. The State will also put in place an information system to manage the investment resources transferred to municipalities.

4. **Health.** Mato Grosso's large area (904,000 km², about the area of France and Germany combined) and low population density (6.9 inhabitants per km²), pose significant challenges to the delivery of health services across the State. Life expectancy at 80.1 years for women and 73.9 years for men is slightly above the national averages of 79.5 and 72.2 years. The top four causes of death are heart disease, stroke, chronic pulmonary disease, and diabetes (interpersonal violence and road accidents are in third and fourth place). As the population ages, the incidence of chronic disease will increase placing additional burdens on the health care system. 83 percent of the population depends on the public health system. The State budget on the health function peaked during COVID-19 pandemic, reaching R\$2,242 million (US\$437.9 million) in 2021, amounting to 13.3 percent of the State revenues. In recent years, Mato Grosso has expanded its activities in this field, increasing its total budget by 35.1 percent from 2019 to 2022. Initial estimates point to an increase of 80 percent in the cost of health care provision during the COVID 19 pandemic. Despite the significant investment, health management systems are weak. The Federal Unified Health System (*Sistema Único de Saúde, SUS*) reimburses States for health services delivered by hospitals against evidence of services effectively provided. The Ministry of Health (MOH), which pays for services delivered according to SUS arrangements, reimburses partially the State of Mato Grosso, and the remainder (R\$27 million in 2021 – equivalent to US\$5.3 million) is funded by the State Secretariat of Health (SES). 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. Most of Mato Grosso's hospitals use paper-based records for monitoring health service provision. There are limited data in systems to support systematic control of the supply chain, costs, compliance, and workforce allocation. Health data is rarely used for service delivery planning and decision-making. The SES intends to implement a hospital management system in the high complexity facilities under its management (regional and referral hospitals) to improve planning and budgeting. The system is expected to deliver efficiency by increasing recovery of expenditure by SUS improving in its processing, while simultaneously improving the reliability of financial statements.

5. **Social Assistance.** In Mato Grosso, the Secretary of State for Social Assistance and Citizenship (*Secretaria de Estado da Assistência Social e Cidadania, SETASC*) is responsible for the state management of SUAS, develop training actions to improve the execution of activities in the 141 municipalities, and co-funding medium and high complexity social services, as well as eventual benefits. Municipalities' Social Assistance Reference Centers (*Centro de Referência de Assistência Social, CRAS*) offer services, programs, and benefits to mitigate social risks, including family protection and assistance and services for people with disabilities and the elderly. The State budget on the social assistance function peaked during COVID-19 pandemic, reaching R\$294.3 million (US\$57.9 million) in 2021, amounting to 1.1 percent of the State revenues, though the execution rate of this resources was low: only 68 percent. From 2018 to 2022, the State transferred, on average, R\$136.6 million annually to SUAS, vis a vis planned budget of R\$210.2 million. It represents a financial execution of only 65 percent. In recent years, Mato Grosso has expanded activities in this field, reaching R\$1 billion in social benefits to households in 2020. The ID-CRAS (*Indicador de Desenvolvimento dos Centros de Referência de Assistência Social, CRAS Development Index*) measures financial execution and integration across municipalities' social services and benefits. In 2018, Mato Grosso's ID-CRAS rating, ranked 7th in Brazil, but 19 percent of municipalities' CRAS scores were "lower than expected quality," an increase from 16.2 percent in 2017. SETASC seeks to improve the coordination and monitoring of the co-financing. Municipalities currently use manual and fragmented systems to manage state and federal fund transfers to SUAS activities, 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. Weak service management leads to overlaps and gaps in service provision. Resource allocation and productivity could be improved with modern financial management and benefits management systems, strengthened monitoring capacity, and data use for decision-making.

B. Project Activities

6. **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 Mato Grosso public sector expenditures, namely: whole-of-government systems; management systems in strategic sectors; and project and change management. The proposed changes will be reflected by stating in the Loan Agreement the revised activities of each-sub-component. There are no changes in the activities list for the sub-component 1.1 and component 3.

7. **Sub-Component 1.2: Pensions (US\$2.4 million).** MTPREV retain overall responsibility for the sub-component implementation. Revised activities include, *inter alia*: (i) the development and implementation of an actuarial impact calculation system; (ii) the design and implementation of a pension financial asset and liability management system; (iii) carrying out a full financial audit of all pension benefits and payments; (iv) design and implementation of a pension fund investment management strategy; (v) the procurement of hardware; and (vi) the carrying out of communications and capacity building to support implementation of the above mentioned activities.

8. **Sub-Component 1.3: Public Procurement (US\$10 million).** SEPLAG retain overall responsibility for the sub-component implementation. Revised activities include, *inter alia*: (i) the development and implementation of: (A) a fiscally sustainable procurement strategy, (B) a centralized e-procurement system, including the redesign and automation of key processes, (C) an inventory management system integrated to procurement, including an e-marketplace portal, (D) a strategic sourcing methodology to help identify demand for goods and services across the Borrower's entities, (E) a system that certifies enterprises and automatizes data aggregation, and (F) a capacity building program for civil servants working in procurement; (ii) the application of artificial intelligence using electronic invoices and to identify and reduce fraud and corrupt practices; and (iii) the procurement of hardware to support the deployment of the above mentioned activities.

9. **Sub-Component 1.4: Public Investment Management and Budgeting (US\$6.9 million).** SEPLAG and SEFAZ retain overall responsibility for the sub-component. Revised activities include, *inter alia*: (i) the development and implementation of: (A) a public project management system for the Borrower's investments, integrating project preparation, screening, and appraisal, (B) an electronic tool for the management of the portfolio of technically appraised, implementation ready projects, (C) a governance strategy to manage the project portfolio execution, (D) a management system for monitoring the transfer of resources from the Borrower to its municipalities and to non-governmental organizations, and (E) a fiscally sustainable budgeting system; (ii) the carrying out of periodic staff surveys to assess reform implementation and support change management; (iii) capacity building for the Borrower's civil servants on public investment and expenditure management practices, to support the rollout and implementation of new tools; and (iv) procurement of hardware to support the implementation of the above mentioned activities.

10. **Sub-Component 1.5: Asset Management (US\$12.7 million).** SEPLAG retain overall responsibility for the sub-component. Revised activities include, *inter alia*: (i) the assessment and update of information on the Borrower's real



estate properties; (ii) the development and implementation of: (A) a comprehensive public asset management system, and (B) a system for mapping costs of information and communication; (iii) the carrying out of capacity building on asset management practices and support the rollout and implementation of new tools; (iv) procurement of hardware to support the implementation of the above mentioned activities; and (v) the sizing of server storage to guarantee enough space for information technology tools and system implemented under the Project.

11. **Sub-Component 2.1: Health (US\$5 million).** SES retain overall responsibility for the sub-component. Revised activities include, *inter alia*: (i) the implementation of an expenditure review to identify cost structure and assess budgeting practices in the Borrower's public health units; (ii) the implementation of systems to support budgeting and expenditure management in the Borrower's health units; (iii) the carrying out of communication and capacity-building activities to support the implementation of new tools; and (iv) the procurement of hardware to support the implementation of the above mentioned activities.

12. **Sub-Component 2.2: Social Assistance (US\$1.8 million).** SETASC retain overall responsibility for the sub-component. Revised activities include: (i) the design and implementation of an integrated 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; (iii) the carrying out of communication and capacity-building activities to support the implementation of new tools; and (iv) the procurement of hardware to support the implementation of the above mentioned activities.



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 2024.¹
- 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.

¹ 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)
Human Resources					
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)
Pensions					
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)	
Procurement					
Procurement information system	(new)	(upgrade)	(upgrade)	(new)	(upgrade)
E-marketplace solution	(new)	(new)			
Contract management system	(new)		(upgrade)	(upgrade)	(upgrade)
Public Investment, Transfer and Debt Management					
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)
State Owned Enterprises					
Financial management system for SOEs				(new)	
Asset Management					
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)
Health					
Hospital expenditure management system	(new)	(new)	(upgrade)	(upgrade)	(new)
Health expenditure review			(new)	(new)	(new)
Education					
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)
Social Assistance					
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 with be shared with the State Government and the Ministry of Planning and 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 Ministry of Planning and 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.² 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

² 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 States³ 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 States⁴ 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

³ 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. [\(Link\)](#)

⁴ 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.⁵

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

⁵ 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.⁶

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

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



Table 6: Potential Activities and Results in State Owned Enterprises

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

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
<p>Put in place regulations and institutional arrangements for a centralized asset management function.</p> <p>Identify, evaluate and register immovable and movable assets.</p> <p>Develop and implement integrated asset management information systems.</p>	<p>Reduced asset management costs.</p> <p>Increased number of public real estate with complete legal documentation.</p> <p>Reduced share of unoccupied State-owned buildings.</p> <p>Reduced expenditures on rent and Increased rent revenue.</p> <p>Reduced building security, maintenance and utility expenses.</p> <p>Increased number of mapped ICT systems</p>



Develop and implement ICT governance frameworks and strategies	Reduced ICT system support expense.
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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 2050.⁷ 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. Financial 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 Increased health service costs reimbursed by the Federal Government

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



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*).⁸ The SUAS network

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



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.