



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-Nov-2022 | Report No: PIDA34790

**BASIC INFORMATION****A. Basic Project Data**

Country Brazil	Project ID P179046	Project Name Progestão Acre: Public Sector Management Efficiency	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 07-Nov-2022	Estimated Board Date 07-Feb-2023	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) State of Acre	Implementing Agency State Secretariat of Planning	

Proposed Development Objective(s)

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

Components

Component 1: Whole-of-Government Management Systems

Component 2: Management Systems in Strategic Sectors

Component 3: Project and Change Management

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	45.00
Total Financing	45.00
of which IBRD/IDA	40.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	40.00
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Non-World Bank Group Financing



Counterpart Funding	5.00
Borrower/Recipient	5.00
Environmental and Social Risk Classification	
Low	
Decision	
The review did authorize the team to appraise and negotiate	

Other Decision (as needed)

B. Introduction and Context

Country Context

- The largest economy in South America and 8th largest in the world, Brazil has seen large swings in economic activity in the last decade, further exacerbated by the COVID-19 crisis.** In 2020 the Brazilian economy experienced its worst contraction in recorded history, with a real gross domestic product (GDP) per capita reduction of 4.7 percent (compared to the previous record of -4.4 percent in 2015). Large economic swings have prevented real growth in GDP per capita, which in 2020 was slightly lower than in 2010 (US\$14,550 and US\$14,873 respectively at constant 2017 prices).
- In 2021, the economy grew at 4.6 percent, recovering the losses from the COVID-19 crisis.** Economic activity began to accelerate in the third quarter of 2020 as global demand for commodities and manufactured products boosted output and as the roll-out of the vaccine campaign (79.1 percent of the population is fully vaccinated, over 170 million people) supported service sector activity which grew 4.7 percent in 2021. Despite shortages of inputs and higher production costs, industry showed a strong recovery with 4.5 percent growth. The recovery served to nearly restore the pre-crisis GDP per capita levels reaching US\$14,615 in 2021.
- The recovery was also driven by a large countercyclical fiscal response to support households and firms, swiftly implemented by the Government of Brazil (GoB).** The fiscal stimulus package cost R\$789.5 billion (or 10.6 percent of GDP – equivalent to US\$154.2 billion) in 2020, of which around 37.0 percent (R\$321.8 billion – equivalent to US\$62.8 billion) went toward cash transfers to vulnerable households. As of December 2021, the increase in spending allocated to the health sector in 2020 and 2021 was equivalent to US\$20.9 billion.
- Poverty rates are estimated to have increased to 18.7 percent in 2021 and are projected to remain at similar levels through 2023.** About 18 million low-income households are supported by the new Help Brazil (*Auxílio Brasil*) program (which replaces the previous Family Basket (*Bolsa Família*) Program), with a minimum transfer of R\$600 (US\$117) per month approved by the government. However, inflation is expected to erode the real value of the transfers. The 25 percent increase in food prices between 2020-Q1 and 2021-Q3 has contributed to an increase in the proportion of households running out of food in the last 30 days (9.4 percent before the pandemic vs. 18.1 percent by 2021-Q3) according to the Brazil COVID-19 Phone Survey.¹

¹ The World Bank. 2022. Brazil Poverty and Equity Assessment: Looking Ahead of Two Crises. Washington D.C.: World Bank.



5. **A restrictive monetary policy to tame domestic inflation, uncertainties about the pace of fiscal consolidation, and higher global risks are expected to slow economic growth in 2022 and 2023.** Inflationary pressures, high interest rates (13.7 percent as of July 2022), the decrease in workers' average real income, and the erosion of the confidence in the federal spending rule due to the government's decisions to increase current expenditures during the electoral period are translating into higher risk premiums and increasing domestic financing costs for the government and the private sector. GDP growth is expected to decelerate to 1.5 percent in 2022 and 0.8 percent in 2023, and mildly accelerate to 2 percent in 2024 on the back of easing inflation and reduced uncertainty post elections.

6. **Fiscal sustainability is the most urgent macroeconomic challenge for Brazil.** GoB adopted in 2016 a constitutional amendment to limit federal primary expenditure growth to inflation that imposes a reduction of three percentage points of GDP on all primary expenditures by 2030. Despite recent adjustments to the spending cap to widen the fiscal space to cover the cost of cash transfers in 2022, the authorities have reiterated their commitment to observing the federal spending cap (anchor for the fiscal framework). Measures supporting the spending cap include pension reforms adopted in 2019, a civil service pay freeze, and tight control of discretionary spending, including at the sub-national level. Anchored by the fiscal rule, public debt is expected to peak at around 83 percent of GDP by 2025 before declining steadily to 81 percent by 2030.

7. **Brazil's state governments are in a dire fiscal situation.** Brazil's States have extensive service delivery responsibilities in health, education, social protection, security, and environment. Before the pandemic, 7 out of the 26 Brazilian States and the Federal District had declared a state of fiscal calamity, 17 out of 27 state governments were not eligible to borrow under federal rules due to limited creditworthiness related to liquidity and solvency concerns, and 20 had delayed payments to public servants and/or providers at some point. In 2020 state governments experienced improved fiscal outcomes despite the negative effects of the health crisis, with just 12 States ineligible to borrow. This was due to the large federal transfers to address the COVID-19 pandemic (R\$97 billion, 1.4 percent of GDP – equivalent to US\$19 billion), through the federal social protection program – *Auxílio Emergencial* – that helped maintain a reasonable level of economic activity and contributed to tax revenue increases. As these temporary measures wind down in 2022 and beyond, the states' fiscal position will deteriorate rapidly if state governments do not implement reforms to reduce expenditures.

State of Acre Context

8. **Acre, a landlocked state located in the northern region of the country, covers an area of 164,183,431 km² (2 percent of the national territory), with a population of 906,876² (0.4 percent of Brazil's) spread across 22 municipalities.** Acre's per capita GDP of R\$15,300 (US\$2,988) in 2020 is the 6th lowest in Brazil, and the Gini Index of 0.539 is below the national average (0.575). Acre's Human Development Index (HDI) is one of the lowest in the country (0.719, below Brazil's average of 0.76). Around 41.4 percent of the population live in extreme poverty³. The level of urbanization (72.6 percent) is well below the national average (84.2 percent), but is expected to increase rapidly in the coming years.

9. **Acre ranks 4th from the bottom of Brazil's 27 States on the Competitiveness Ranking of the States⁴ (*Ranking de Competitividade dos Estados, 2022*) with an overall score of 31.8 out 100.** Acre's score on the public sector efficiency dimension was 37.5 out of 100, placing the State in the bottom five of the ranking. The

² Official data available at: <https://www.ibge.gov.br/cidades-e-estados/ac.html>

³ Official data available at: http://aplicacoes.mds.gov.br/sagi-paineis/analise_dados_abertos/

⁴ The Competitiveness Ranking of the State is a tool created by the Centre of Public Leadership (*Centro de Liderança Pública, CLP*) that provides comparative data for subnational governments. Data is normalized with a 0-100 (minimum-maximum parameter) to aggregate different variables in the same index. The Ranking is used to inform the main performance goals of State strategic plans.



State scores particularly poorly on infrastructure development (14.4) placing Acre in second lowest place and in lowest place for water (26.3) and sanitation (9.2). While scores for fiscal performance are slightly higher (58.9) than those for other indicators, Acre still ranks 21st out of 27 states and is placed 19th for fiscal sustainability.

10. The State of Acre has seen rapid growth in revenues and expenditures since 2019, but the State remains highly dependent on transfers from the Federal Government and has very limited budget flexibility. Fiscal adjustment during the 2015-2016 recession allowed the Acre to achieve a CAPAG rating “B” when the rating was introduced in 2017 and the State has managed to retain the B rating since then, thereby providing access to credit operations with guarantees from the Federal Government. State expenditures increased from 36.9 percent of State GDP in 2015 to 53.3 percent in 2021⁵, largely driven by growth in recurrent expenditures. Current expenditures account for 90.7 percent of total expenditures and capital expenditures 9.3 percent. Budget flexibility is constrained by large personnel expenditures (59.5 percent of total expenditure in 2021), statutory transfers to municipalities (8 percent) and statutory assignments to education and health sectors. Acre’s revenue-to-GDP ratio increased 36.4 percent in 2015 and 50.1 percent in 2021, with much of this increase occurring since 2019, largely driven by increases in Federal transfers. Acre remains heavily dependent on transfers from the Federal Government which accounted for 63.3 percent of State revenues in 2021.

Sectoral and Institutional Context

11. The State of Acre has requested the World Bank’s assistance to consolidate recent reforms and improve efficiency in whole-of-government public sector management systems and service delivery in sectors under the Progestão Program. Progestão Acre will help tackle public sector management and public sector inefficiencies through investments in management reforms and information systems in human resource management; pensions; public procurement; public investment management; intergovernmental transfers; state-owned enterprises, and asset management. Progestão Acre also supports investments in management reforms and information systems in three strategic sectors: health, education, and social assistance.

Human Resources

12. Growth in personnel expenditures presents a serious threat to Acre’s fiscal sustainability. In 2020, the State surpassed the limits established by the Fiscal Responsibility Law (Complementary Law 101/2000), with the wage bill reaching 60.7 percent of net current revenue. Between 2010 and 2019, the number of public officials remained unchanged, but then increased by 10 percent in 2020 and 2021. Acre’s government applies a model based on a partial centralization of its public procurement. Approximately two thirds of the active staff (32,269) are employees on permanent contracts and two thirds of those on permanent contracts are women. In recent years the state filled vacancies with employees under temporary contracts instead of performing a strategic realignment of the workforce. In 2021 the State hired around 7,200 temporary workers, mostly in the education sector. Salaries and benefits are determined independently by the State’s 22 departments and agencies, each with its own career plans for public officials (*Plano de Cargos, Carreiras e Remuneração*, PCCR) which cover 497 different positions, with differential impacts and escalation pressures in the wage bill. Acre’s payroll increased on average 7 percent per year in the 2017-2021 period and is expected to continue growing at this pace going forward, reaching R\$4,390 million (US\$857.4 million) in 2022 and R\$5,700 million (US\$1,113 million) by 2025.

13. Strengthened human resources policy and management functions will help limit wage bill growth. In 2022 the State converted its human resources management information system (HRMIS), *Turmalina*, into a web-based system and added new functionalities. However, many of the HR transaction processes are still paper-based and further work is needed to automate and integrate HRM processes, putting in place functionalities to

⁵ Official data available Table I-D of “Contas Anuais” SICONFI at: <https://siconfi.tesouro.gov.br/siconfi/index.jsf>



manage staff performance, monitor and record the hiring and removal of temporary staff, and to conduct overall controls over staff recruitment and retirement of active personnel.

Pensions

14. **The State Pension Agency (AcrePrevidência) is responsible for managing the pension fund for all public sector employees and civil and military officials.** As of May 2022, a total of 12,240 retired employees and another 2,685 dependents were registered and received pensions from the State. Between 2015 and 2021, expenditures on retired personnel and pensioners increased 8.8 percent annually (reaching R\$67.7 million – US\$13.2 million - in 2021). Since 2016, pensions have been paid with funds from State Treasury. In 2020, the State government launched an important pension reform, including an increase in the contribution rate of public officials from 11 to 14 percent of their salaries. This helped reduce the annual pension deficit from R\$805 million (US\$157.2 million) in 2020 to R\$663 million (US\$129.4 million) in 2021.

15. **The State government intends to further strengthen the current pension systems.** The current version of the pension management system (*Sistema de Concessão Previdenciária, SISAP*), has limited interface with *Turmalina*, hindering effective integration of pensions with HRM. Management and payment of benefits to pensioners and retirees still operates with a desktop version. A significant share of transactions is reconciled manually using annual reports sent from the State's Public Prosecutor Office and the three branches of the state, increasing the delays and errors. The State intends to: integrate all legislative, judiciary, and executive staff pension payrolls through an interface with SISAP, strengthen the pensions database and introduction of systematic audits of the pension payroll to prevent duplicate benefit payments; expand the services available online to pensioners and retirees; improve revenue management and strengthen the investment strategy for pension fund assets; and expand the capacity of professionals to manage the investment funds. Digitalization will help transition to paperless" management of pension benefits and increase transparency to users through the use of services portal and the "AcrePrevi" application.

Public Procurement.

16. **Public procurement accounts for 7.5 percent of the State's total expenditures, amounting to R\$560 million (US\$109.3 million) in 2021.** Acre's procurement expenditures increased on average of 9 percent per year in the period of 2017 to 2021. Consumables account for 32 percent of all procurement expenses, amounting to R\$182 million (US\$35.5 million) in 2021. The Subsecretary of Procurement (*Secretaria Adjunta de Licitações, SELIC*), under the Cabinet Secretariat of the Governor (*Casa Civil*), is responsible for centralizing procurement of the State as outlined in Decree 10.802/2021. SELIC conducted 891 bidding processes in 2021 and 369 in the first five months of 2022. However, procurement remains fragmented. Under State Complementary Law 387/2021, line agencies undertake health and infrastructure procurement. There are four procurement information systems which are not interoperable and are built on outdated platforms (the Government Resource Planning (GRP) system; Comprasnet; the Electronic Information System (SEI); and the Licon System, developed by the State Court of Accounts (*Tribunal de Contas do Estado, TCE*). SELIC manually compiles data from these systems. Data collected is unreliable and fragmentation hinders effective monitoring of bidding processes and the comparison prices for equivalent items procured by the State. The State created a purchasing center in 2009 with the aim to support more centralized procurement but its functions were limited to the execution of bidding processes with each agency deciding and conducting procurement transactions in an unstructured way and without an institutional integrated strategy that can lead to scale and savings for the State.

17. **The State government intends to modernize its procurement procedures and replace its procurement management system.** The COVID-19 pandemic highlighted the need to improve procurement processes, especially in the health sector. The State will review and update its entire procurement procedures to introduce



improvements in procurement planning, electronic invoice, grouping of bulk purchases, and use of electronic price registration. GRP will be replaced for a customized procurement management system. Artificial intelligence tools will be used to support procurement planning. Improved transparency and more efficient processes will increase confidence in the State as a buyer and generate cost savings for the State.

Public Investment Management and Budgeting

18. **Public investment spending in Acre averaged 4.8 percent of net current revenue between 2017 and 2021, around the Brazilian average.** During this period there were significant variations in investment budget, ranging between R\$448 million (US\$87.5 million) implemented in 2018 to R\$165 million (US\$32.2 million) in 2019 and increasing again to R\$258 million (US\$50.3 million) in 2020. Project management tools are poorly developed, lacking clear criteria, processes, and regulations to screen, appraise, prioritize, and evaluate public investment projects, resulting in frequent project revisions, implementation delays and cost overruns. Project selection is supposed to be based on the medium-term plan (*Plano Plurianual*, PPA), but in practice has limited links to a long-term strategy. The State is highly dependent on credit operations for financing public investment and this drives the selection a significant share of its projects. In 2021 the State of Acre created the Management Council of Public-Private-Partnerships (PPPs) under the Secretariat of Planning (*Secretaria de Estado de Planejamento e Gestão*, SEPLAG) and Cabinet Secretariat (*Casa Civil*). Project proponents are now required to submit a formal statement of interest document for projects (*manifestação de interesse em projetos*, MIP), but there are no supporting information systems for PPP portfolio and project management. SEPLAG has no personnel or structure with the required capacity to lead this agenda.

19. **The State intends to strengthen core systems for public investment management.** State is currently preparing the State Development Plan which will support the preparation of a portfolio of implementation-ready projects. The State also intends to establish a Project Management Office (PMO) to manage and monitor strategic projects with the support from United Nations Development Program (UNDP). Alongside these initiatives, the State will need to put in place rigorous, evidence-based procedures, and operational guidance and tools for public investment management across the project cycle. The development of a new integrated investment management system and a broad capacity building program will support the implementation of the new procedures.

Intergovernmental Transfers

20. **Brazilian States and Municipalities depend on a complex web of multiple funding mechanisms.** In Acre, SEPLAG is responsible for the management of transfers from central government which include transfer agreements (*convênios*), partnerships with non-governmental organizations (NGOs), funded transfers, and ad-hoc allocations awarded by sponsoring elected officials (*emendas parlamentares*). 53 percent of total transfers are geographically earmarked funds allocated by elected officials. States receive and provide financial management support and oversight for funds transferred to Municipalities and NGOs. The State of Acre currently manages 234 active funds/transfers with municipalities and NGOs, and another 174 recently closed funds valued at undergoing expenditure compliance verification. Procedures for the management of these funds are not standardized. Transfers to municipalities and NGOs are managed through excel sheets and an in-house system maintained by SEPLAG, which identifies the municipality, quantity, and number of resources for each transfer. The State intends to strengthen management and oversight of the transfer system by developing an integrated information system to support decision-making, monitor expenditure quality, and ensure accountability. The information system will help standardize procedures for funding proposals, workplans, publication, document verification, physical and financial monitoring, and approval of expenditures during the project cycle.

Debt Management



21. In 2021, Acre's consolidated debt was R\$4,176 million (US\$815.6 million), equivalent to 76.4 percent of State net current revenue, the 9th highest debt to revenue ratio among Brazilian States. State debt mostly comprises financial obligations and external financing. Debt service is registered and monitored using spreadsheets and other manual tools, resulting in an operational risk with a potential financial impact to the State and lack of transparency regarding debt levels and terms. The State tried to develop a management tool in-house that could be used with the financial management system (*Safira*) but the extended development time and reduced technical capacity paralyzed the project. Implementation of an information system to manage the debt cycle, including negotiations, monitoring and payments, will help to standardize procedures in the debt management process, improve efficiency and risk management. Aggregated data will allow managers and technicians to prepare and access customized reports to analyze the debt portfolio, organizing the debt by currency, creditors, interest rate type and other indexes based on the maturity profile. Capacity building for State officials will support the implementation of procedural reforms and the skills needed for the development of a medium-term debt strategy for Acre. The State Government is currently exploring IT solutions from other national and subnational departments.

State-Owned-Enterprises (SOEs)

22. The State of Acre operates 12 SOEs that deliver critical services to households and companies including water and sanitation, energy, oil and gas, and financial services. However, the financial situation of Acre's SOEs is weak: they are all highly subsidized by transfers from the State Treasury to cover personnel expenses, general costs and capital expenses of the companies. The water and sanitation company (*Serviço de Água e Esgoto do Estado do Acre*, SANEACRE) performs particularly poorly. Only 64 percent of the population have access to treated water and 14 percent have access to the urban sewage system. SANEACRE operates with a deficit resulting from unregistered users, water losses and inefficient commercial transactions. There is no reliable data on the services delivered, the user database is outdated, and the current management system does not offer functionalities of customized reports, payment installment, invoicing and other essential decision-making features. A study conducted by the National Bank of Social and Economic Development (*Banco Nacional de Desenvolvimento Econômico e Social*, BNDES) in 2017 recommended that the only viable solution to address Acre's sanitation difficulties would be the concession of the services to the private sector. Law 14.026/2020, the New Sanitation Regulatory Framework (*Novo Marco Regulatório do Saneamento*) acknowledged this recommendation. Nonetheless, the State capital and other municipalities continue to use SANEACRE to deliver water and sanitation services. The State Government intends to strengthen SANEACRE's management systems with a view to improving efficiency. SANEACRE will implement a sanitation management information system available at the Brazilian Public Software Portal (*Portal do Software Público Brasileiro*) that will improve efficiency in user registry, billing, charges, debt and helpdesk. SANEACRE will also implement management tools to identify and quantify corporate risks and introduce incentives to increase operational efficiency and reduce SANEACRE's administrative costs.

Asset Management

23. The State government owns approximately 1,700 properties with most of them located in the capital city of Rio Branco. From 2016 to 2020 the average revenue from real estate assets was R\$436,000 (US\$85,156) per year, with a quarter from property rents and the rest from sales. Property acquisitions peaked in 2017 at R\$8.8 million (US\$1.7 million), and averaged R\$753,757 (US\$147,218) per year in the period of 2018 to 2020. The State's expenditures on rents are not publicly available. Responsibility for real estate management was transferred from the State General Attorney (*Procuradoria Geral do Estado*, PGE) to the Secretariat of Planning by Law n. 3.885/2021. All State properties are registered in the new asset management system. However, records are outdated, data is incomplete, and the state cannot identify unoccupied and illegally occupied



properties. The property system is not linked to the accounting system. As a result, state officials cannot use the current information for management purposes and decision making, optimizing asset occupation and use (by the public or private sector), or for the sale of properties through an open and competitive process. The State intends to customize the real estate system under development and develop additional systems for vehicle fleet management to better manage the public sector transport costs and fuel consumption.

24. Digital systems and IT infrastructure are increasingly part of what is traditionally referred to as network sectors like energy, water and sanitation and transport. A modern public sector and society depends on a well-functioning set of IT assets to ensure that their other systems and services function. The State of Acre does not have a coherent strategy for its IT systems and infrastructure investments to ensure well planned and well-designed hardware and software solutions that deliver maximum impact and value for their investment. Decentralized management of information technology has led to a proliferation of IT assets, systems with limited interoperability and information sharing, security concerns, duplication of assets, and costly acquisition and operational costs. The State government intends to strengthen its management systems for technology assets by undertaking systematic inventories, developing appropriate policies and investing in an architectural enterprise of systems, to optimize information gathered, used and connected.

Health

25. Acre has seen a considerable improvement in health outcomes over the last twenty-five years, largely driven by the expansion of a universal health care system. Infant mortality rates fell from 33.5/1,000 live births in 1998 to 15.8/1,000 in 2020, and life expectancy increased from 68.5 to 74.8 over the same period. However, Acre's ageing population (demographic transition) has been accompanied by an increase in chronic-degenerative diseases (epidemiological transition), with high incidence of circulatory system disease, neoplasia, and respiratory infections. As observed in other states, approximately 70 percent of all deaths were attributable to non-chronic diseases (NCDs) in 2019. A high proportion of hospital admissions are associated with these non-communicable diseases that are particularly demanding in terms of services and the costs of health procedures.

26. State expenditures on health services peaked during the Covid-19 pandemic, reaching R\$830 million (US\$162.1 million) in 2021, amounting to 13.2 percent of State revenues, above the 12 percent statutory allocation to the health sector. Public sector health services cover about 95 percent of the State's population. Most of the high-complexity care is provided in eleven large hospitals. 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. Most of Acre'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. The Secretariat of Health (*Secretaria de Estado da Saúde, SESACRE*) intends to develop two management information systems. First, it intends to expand the implementation of the hospital management information system acquired for the Emergency Hospital of Rio Branco (HUERB), to all high complexity facilities under its management, aiming to improve planning, budgeting, health services management, and support evidence-based decision making, but, especially, recover expenditure incurred and not reimbursed by SUS due to shortcoming in processing. Second, SESACRE intends to assess the current use of telehealth technologies to deliver health care, which has already shown several advantages in the State, generating cost savings of about R\$2.6 million (US\$0.5 million) a year, and the ability to provide care to people with mobility limitations and those in remote areas who do not have access to medical facilities.

Education

27. The Secretariat of Education (*Secretaria de Estado de Educação, Cultura e Esportes do Acre, SEE*) runs 619 schools delivering education services to 154,175 students from primary to upper secondary education,



including adult education and inclusive education. Primary and lower secondary education (1st to 9th grades) account for 60 percent (91,111 students) of enrollment in the State network, with 72 percent of the schools in rural areas. Acre receives fiscal transfers from the federal government to implement education programs, such as the National School Meal Program (*Programa Nacional de Alimentação Escolar*, PNAE) and the National Program of Support to School Transportation (*Programa Nacional de Apoio ao Transporte Escolar*, PNATE). SEE transfers resources to regional administrations, municipalities and schools operationalize these programs, representing 18 percent of the SEE's annual budget.

28. The SEE intends to develop tools to support the implementation of education program while maintaining an appropriate balance between central oversight and local execution to promote equity and greater efficiency. Delivery of quality school meals and transportation services requires complex logistics due to the low population density, the diverse geographic conditions, and the heterogeneity in school and class size. SEE still uses paper-based tools and spreadsheets to monitor the resource transfers without supporting information systems. Bus routes are defined without considering geolocation of schools and students' residences. Poor planning of school meal deliveries and uneven access to markets leads to delivery delays, waste of food, noncompliance of federal or state regulations and high prices. SEE will implement a management system for school meals and transportation processes to improve planning, budgeting, procurement management, monitoring, and support evidence-based decision-making.

Social Assistance

29. The Social Assistance System (*Sistema Único de Assistência Social*, SUAS) is co-financed by the State and municipalities. 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. SUAS support for low-income families in Acre covers at least 54 percent of the population, according to the Unified Registry data (*Cadastro Único*). This includes the indigenous population estimated in 2021 at 23,000 people spread across remote rural areas. 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 2019, Acre's ID-CRAS rating, ranked 6th lowest in Brazil. Several municipalities do not provide essential Integrated Social Policy services (*Política de Atenção Integral à Família*, PAIF). The State lacks robust systems for monitoring the quality of SUAS services, transfers to and management of resources by municipalities and NGOs. Administrative systems are manual and fragmented. Weak service management leads to overlaps and gaps in service provision. Secretariat of Social Assistance, Human Rights and Women Policies (*Secretaria de Estado de Assistência Social, dos Direitos Humanos e de Políticas para as Mulheres*, SEASDHM) intends to implement a financial management information system to support activities with municipalities, including project preparation, physical and financial execution, and results monitoring. Resource allocation and productivity will be improved with modern financial management and benefits management systems, strengthened monitoring capacity, and data use for decision-making.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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



Key Results

- Public Sector Workforce replacement rate of non-frontline service delivery staff (Percentage, Baseline: 1.01; Target: 0.96)
- Time between opening and finalizing the procurement processes (Days, Baseline: 120; Target: 75)
- Project Investment Cost overruns per year (Percentage, Baseline: 6.2; Target: 2)
- Share of public real estate with complete legal documentation (Percentage, Baseline: 0; Target: 75)
- Number of branches contributing to the Central Management Unit for the Public Servant Pension Regime (Number, Baseline: 1; Target: 4)

D. Project Description

30. **The Investment Project Financing (IPF) operation is structured around three main components which support interlinked actions to improve Brazilian States' public sector expenditures efficiency and fiscal sustainability: whole-of-government functions; management systems in strategic sectors; and project and change management.** The project scope and structure are aligned with the Progestão Program. The State has requested assistance in all of the Program components. Specific interventions in sectors were defined after consultation with government officials and based on their impact on improvements in efficiency and fiscal management, and their implementation readiness. The project will support the development of management systems in health, education, and social assistance.

Component 1. Whole-of-Government Management Systems (US\$31.7 million)

31. **Sub-Component 1.1: Human Resource Management (US\$7.5 million). Implementing Agency: SEPLAG.** Activities include: (i) strategic workforce right-sizing of selected agencies and departments; (ii) design and implementation of workforce right-sizing platform integrated with the human resources management system to identify core competencies of public officials and organizations' adequate hiring needs; (iii) implementation of a personnel management dashboard, including dynamic distribution of the workforce, replacement alarms and automated reallocation documentation; (iv) development and implementation of a management analytics and artificial intelligence system for automated payroll audit to reduce errors and fraud; (v) automation of human resources management services and other processes identified through the strategic workforce planning; (vi) redesign and implementation of human resource services and processes based on the strategic workforce planning; (vii) design and implementation of new functionalities to the State's HRMIS; (viii) periodic staff surveys to assess reform implementation and support change management; (ix) communications and capacity building to support the rollout and implementation of new tools; and (x) procurement of energy-efficient hardware to support the rollout and implementation of new tools.

32. **Sub-Component 1.2: Pensions (US\$2 million). Implementing Agency: AcrePrevidencia.** Activities include: (i) design and implementation of pension management system functionalities that support pension payroll audit, unify management of benefit concession for all branches of government (legislative, judiciary, executive, and the Public Prosecutor's Office), and improve the users' interface and access to services through the digital platform; (ii) expansion and update of the pension record management information system to increase efficiency and enable operational, actuarial, and financial analyses to reduce costs and allow for better long term financial



planning; (iii) procurement of energy-efficient hardware to support the implementation of these systems; and (iv) capacity building to support the deployment and implementation of new tools.

33. Sub-Component 1.3: Public Procurement (US\$7 million). Implementing Agency: SEPLAG. Activities include: (i) development of a sustainable procurement strategy and an implementation plan to help embed procurement efficiency across the State's purchases; (ii) development and implementation of an integrated digital system for processing and analyzing data and managerial information in public procurement and contract management; (iii) redesign and automation of key processes and flows to ensure cost-effective acquisitions; (iv) design and implementation of an inventory management system integrated to procurement; (v) design and implementation of a strategic sourcing methodology to help identify demand for goods and services across the government; (vi) application of artificial intelligence using electronic invoices to identify and reduce fraud and corrupt practices; (viii) development and implementation of a system that certifies enterprises and automatizes data aggregation; (ix) capacity building and certification program for officials working in procurement across the state; (x) development and implementation of digital systems that support contract management functions and procurement of low value, non-complex goods and services; and (x) procurement of energy efficient hardware to support the deployment of these systems.

34. Sub-Component 1.4: Public Investment Management and Budgeting (US\$7.2 million) Implementing Agencies SEPLAG and SEFAZ. Activities include: (i) development and implementation of a public project management system for State's investments, 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 a methodology for sustainable budgeting systems and practices for projects; (v) redesign and implementation of the processes and systems oriented to the development of public-private partnerships; (vi) development and implementation of a management system for the transfer of resources from the State of Acre to municipalities and organizations, allowing for digital monitoring of project preparation, implementation and accounting; (vii) design and implementation of a cash management information system; (viii) development and implementation of a debt management information system, including a guarantee and a contractual module; (ix) capacity building for State and municipal government officials on sustainable public investment and expenditure management practices, to support the rollout and implementation of new tools; and (x) periodic staff surveys to assess reform implementation and support change management.

35. Sub-Component 1.5: State Owned Enterprises (US\$2 million). Implementing Agency: SANEACRE. Activities include: (i) implementation of an information management system for sanitation, including modules of billing, charges, registry entries, financial, debt, and service interface; (ii) implementation of georeferencing software to integrate information of availability and customer usage; (iii) design and implementation of a telemetry system, including a governance strategy to reduce losses and increase efficiency of the operation; (iv) introduction of communication and capacity-building activities to support the rollout and implementation of new tools; and (v) procurement of energy efficient hardware to support the rollout and implementation of new tools.

36. Sub-Component 1.6: Asset Management (US\$6 million). Implementing Agency: SEPLAG. Activities include: (i) 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 modules in the public asset management system that includes a climate risk assessment of real estate assets, a strategy panels and information for decision making and fleet management; (iii) energy audits based on CCB methodology for selected government properties, focused on reducing energy consumption; (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 new tools.

Component 2. Management Systems in Strategic Sectors (US\$11.3 million)

37. **Sub-Component 2.1: Health (US\$5.5 million). Implementing Agency: SESACRE.** Activities include: (i) an expenditure review to identify cost structure and assess budgeting practices in the state's public health units; (ii) implementation of information system to support budgeting and expenditure management in the state's health units; (iii) implementation of a system to manage virtual consultations; (iv) introduction of communication and capacity-building activities to support the rollout and implementation of new tools; and (v) procurement of energy efficient hardware to support the rollout and implementation of new tools.

38. **Sub-Component 2.2: Education (US\$4 million). Implementing Agency: SEE.** Activities include: (i) cost-benefit analysis on school transportation models and school meal procurement procedures, disaggregated by region, to support the decision-making on the system's functionalities and scope; (ii) development and implementation of IT systems to improve management of transferred resources from the federal government, student enrollment and classroom formation, document monitoring and other transactional tools of the Secretariat; (iii) design and implementation of a student transport system; (iv) design and implementation of a school meals system, and (v) capacity building to support the rollout and implementation of new tools.

39. **Sub-Component 2.3: Social Assistance (US\$1.8 million). Implementing Agency: SEASDHM.** Activities include: (i) design and implementation of an integrated management system to facilitate the execution of social assistance programs, including financial management, cash transfer programs and management of other benefits, as well as internal registries; (ii) development and implementation of a transparency panel to support decision-making in social assistance; (iii) automation of social protection processes, providing faster access to services and reducing operational costs; (iv) communication and capacity-building to support the rollout and implementation of new tools; and (v) procurement of energy-efficient hardware to support the rollout and implementation of the above-mentioned activities.

Component 3. Project and Change Management (US\$ 2 million)

40. **Sub-Component 3.1: Project Management Unit (US\$1.5 million) Implementing Agency: SEPLAG.** Activities for project management include: (i) procurement, financial management, and environmental and social safeguards (staff, equipment, and operating costs); (ii) development and implementation of a grievance redress mechanism and management information system, in coordination with the Comptroller General (CGE) the institution mandated with this function; and (iii) communications and capacity building to support project management functions.

41. **Sub-Component 3.2: Change Management (US\$0.5 million). Implementing Agency: SEPLAG.** Activities include: (i) development of change management strategy for each core government area encompassing on incentives, processes and skills; (ii) consulting services, studies, and surveys to support project implementation; (iii) carrying out process reviews before information systems are developed; (iv) just-in-time support, as needed and as agreed with the Bank, including advisory services to the *Procuradoria* and technical teams during implementation, and knowledge exchange activities; and (v) communications and capacity building to support the rollout and implementation of new tools.



Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

42. **Based on the results of the environmental and social risks and impacts screening, this project is rated as low risk under the Bank' Environmental and Social Framework.** The following Environment and Social Standards (ESSs) were found relevant during project preparation: ESS1—Assessment and Management of Environmental and Social Risks and Impacts; ESS2—Labor and Working Conditions; ESS3—Resource and Efficiency and Pollution Prevention and Management; ESS7—Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities; ESS8—Cultural Heritage; and ESS10—Stakeholder Engagement and Information Disclosure. A detailed analysis of the relevance of each applicable ESS is presented in the project's Environmental and Social Risk Summary. The Client will carry out an environmental and social assessment through an environmental and social issues scoping exercise that will be publicly consulted and disclosed within 30 days after project effectiveness. The Borrower has prepared an Environmental and Social Commitment Plan (ESCP), including the relevant elements of a Stakeholder Engagement Plan (SEP) to ensure information disclosure as well as stakeholder and citizen feedback and a Labor Management Procedures (LMP) to ensure terms and working conditions in line with the requirements of ESS2. The ESCP was disclosed on the Borrower' website on November 1, 2022.

43. **Environmental Risk.** Progestão Acre does not foresee infrastructure works or other on-the-ground activities with environmental impacts and risks that need to be managed. No future construction of physical infrastructure investments, spatial plans, and natural resources management regulations are expected as a result of technical assistance activities supported by the project. The project is expected to have a positive impact on the environment through: systematic screening and assessment of public investment; development and implementation of a public procurement strategy; rationalization of movable assets and improved energy efficiency; and) reductions in consumables, travel time, and energy consumption through the digitalization of public administration services.

44. **Social Risk.** Progestão Acre is not expected to have adverse social impacts. Project activities do not require land acquisition, do not lead to restrictions on land use or involuntary resettlement. They are not expected to have adverse impacts on Indigenous Peoples and other vulnerable and disadvantaged social groups. Increased efficiency of public services in the different sectors is expected to mostly benefit vulnerable and disadvantaged social groups who rely heavily on public health and social protection networks. Progestão Acre will improve the transparency of human resource management, procurement, public investment, and asset management processes. It will create opportunities for public consultation around public investment projects and the administrative reform agenda. The project will strengthen the State Government's grievance redress mechanisms.

E. Implementation



Institutional and Implementation Arrangements

45. **Acre's Secretariat of Planning and Management (SEPLAG) will lead project implementation.** Specific implementation arrangements include: a Steering Committee (SC), a Project Management Unit (PMU), interagency agreements between SEPLAG and implementing agencies, and inter-state thematic working groups for the learning agenda.

46. **SEPLAG.** The Secretariat will lead the project and host the PMU. The project will leverage SEPLAG's experience in managing externally financed operations, including recent projects with the Bank. The State Government has selected SEPLAG as the main implementing agency because it has the qualified and tenured staff, greater continuity of staffing across changes in administration, a mandate to coordinate reform programs across government, and experience in working with agencies through the planning and budget process, as well as experience with large technical assistance projects.

47. **Steering Committee (SC).** The Steering Committee is an advisory body comprising representatives of the agencies participating in the project. The representatives are the Secretaries or Deputy Secretaries appointed to the Committee by the State Governor. The SC will be chaired by SEPLAG. The SC may temporarily invite agencies with direct or indirect involvement in the program to participate. The State will establish the SC by decree and maintain it throughout project implementation. The SC will provide strategic guidance and oversight of the reforms and project implementation. It will be responsible for the overall policy coordination and policy guidelines, strategic guidance, set priorities, resolve conflicts, and ensure inter-agency collaboration where needed and monitor progress of the project.

48. **Project Management Unit (PMU).** The PMU will support project implementation and coordination with the participating secretariats. SEPLAG will establish the PMU by decree and all key staff described in the Project Operations Manual (POM) should be appointed before project effectiveness. Other positions must be filled no longer than 30 days after project effectiveness. A Project Manager will head the PMU. The Project Manager will report to the Secretary of Planning. The primary responsibility of the PMU will be to oversee and ensure operational compliance with Procurement Regulations and World Bank policies, including the environmental and social policy, as defined in the financing agreement, the Project Operations Manual (POM), and the Disbursement and Financial Information Letter (DFIL).

49. **Interagency agreements.** SEPLAG, ACREPREVIDÊNCIA, SEFAZ and SANEACRE will implement activities under Component 1. The State Secretariats of Health (SESACRE), Education (SEE) and Social Assistance (SEASDHM) will implement sub-components under Component 2. SEPLAG will implement Component 3 which supports the PMU. SEPLAG appoint responsibilities of the implementing secretariats by decree, establishing the specific objectives, attributions, and timeframe for implementation of project activities. The State's decree will establish that participating agencies will designate a focal point responsible for project implementation and monitoring of progress. Legally autonomous agencies should sign exclusive interagency agreements with SEPLAG no longer than 30 days from project effectiveness.

50. **Thematic working groups.** At the national level, thematic working groups established through CONSAD will bring together technical teams and high-level officials from across the country. These working groups will be a key mechanism for exchanging views on both technical challenges and implementation issues among the Brazilian States and with the Federal Government. In addition to a permanent high-level agenda (meetings at least once a year), States will be able to request *ad hoc* workshops to discuss specific project-related issues presented by the network of specialists and practitioners. Thematic groups on human resources, digital government, procurement, and asset management have already been formed during the Program's preparation



in partnership with the CONSAD. The National Council of State Secretaries of Planning (CONSEPLAN) and the National Council of Secretaries of Finance (CONFAZ) are expected to join. The thematic groups will serve as a sounding board to continuously improve processes and procedures to make interventions more effective.

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APPROVAL

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