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Report No:PAD5186

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$40 MILLION

TO THE

STATE OF ACRE

FOR A

PROGESTÃO ACRE: PUBLIC SECTOR MANAGEMENT EFFICIENCY PROJECT

June 28, 2023

Governance Global Practice
Latin America and Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 15, 2023)

Currency Unit = BRL

BRL = US\$0,21

US\$ = BRL 4.82

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

| | |
|-----------|--|
| ABEP-ICT | National Association of State Information and Communication Technologies |
| AM | Accountability Mechanism |
| BNDES | National Bank of Social and Economic Development (<i>Banco Nacional de Desenvolvimento Econômico e social</i>) |
| CAPAG | Payment Capacity Assessment (<i>Capacidade de Pagamento</i>) |
| CBA | Cost Benefit Analysis |
| CEL | Special Bidding Committee (<i>Comissão Especial de Licitações</i>) |
| CFC | National Accounting Council (<i>Conselho Federal de Contabilidade</i>) |
| CGE | State Comptroller General (<i>Controladoria Geral do Estado</i>) |
| COFIE | Commission for External Financing |
| CONSAD | National Council of State Secretaries of Administration (<i>Conselho Nacional de Secretarios de Estado de Administração</i>) |
| COMSEFAZ | National Committee of State Secretariats of Finance (<i>Comitê Nacional dos Secretarios de Fazenda dos Estados e DF</i>) |
| CONSEPLAN | National Council of State Secretaries of Planning (<i>Conselho Nacional de Secretarios de Estado de Planejamento</i>) |
| COTS | Commercial-Off-The-Shelf |
| CPF | Country Partnership Framework |
| CRAS | Social Assistance Reference Center (<i>Centro de Referência da Assistência Social</i>) |
| CREAS | Specialized Social Assistance Reference Center (<i>Centro de Referência Especializado de Assistência Social</i>) |
| DFIL | Disbursement and Financial Information Letter |
| ESCP | Environmental and Social Commitment Plan |
| ESS | Environment and Social Standard |
| FM | Financial Management |
| FMA | Financial Management Assessment |
| FMIS | Financial Management Information System |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GoB | Government of Brazil |
| GRP | Government Resource Planning |
| GRM | Grievance Redress Mechanism |
| HDI | Human Development Index |
| HR | Human Resource |
| HRM | Human Resource Management |
| HRMIS | Human Resource Management Information System |
| IAASB | International Auditing and Assurance Standards Board |
| IADB | Inter-American Development Bank |
| IACM | Internal Audit Capability Model (<i>Modelo de Capacidade de Auditoria Interna</i>) |
| ICR | Implementation Completion and Result Report |
| ICT | Information and Communication Technologies |
| ICU | Intensive Care Unit |
| ID-CRAS | CRAS Development Index |
| IFAC | International Federation of Accountants |
| IFRs | Interim Financial Reports |

| | |
|----------|--|
| IIA | Institute of Internal Auditors (<i>Instituto de Auditores Internos</i>) |
| IPF | Investment Project Financing |
| IPSAS | International Public Sector Accounting Standards |
| ISA | International Standards on Auditing |
| ISR | Implementation Status and Results Report |
| IT | Information Technology |
| LDO | Annual Budget Circular (<i>Lei de Diretrizes Orçamentárias</i>) |
| LMP | Labor Management Procedures |
| LOA | Annual Budget (<i>Lei Orçamentária Annual</i>) |
| M&E | Monitoring and Evaluation |
| MCASP | Accounting Manual applied to the Public Sector (<i>Manual de Contabilidade aplicado ao Setor Público</i>) |
| MoE | Ministry of Economy (<i>Ministerio da Economia</i>) |
| MoU | Memorandum of Understanding |
| NAP | National Adaptation Plan |
| NBCTSP | Public Sector Accounting Standards (<i>Normas Brasileiras de Contabilidade aplicada ao Setor Público</i>) |
| NCD | Non-communicable Diseases |
| NDC | Nationally Determined Contribution |
| NGO | Non-Governmental Organization |
| OECD | Organisation for Economic Cooperation and Development |
| PAD | Project Appraisal Document |
| PAIF | Integrated Social Policy Services (<i>Política de Atenção Integral à Família</i>) |
| PBF | Bolsa Familia Program |
| PCCR | Plan of Positions, Careers and Remuneration (<i>Plano de Cargos, Carreiras e Remuneração</i>) |
| PDO | Project Development Objective |
| PHC | Primary Health Care |
| PIM | Public Investment Management |
| PIPCP | Property Accounting Procedures Implementation Plan (<i>Plano de Implantação de Procedimentos Contábeis</i>) |
| PISA | Program of International Student Assessment |
| PMO | Project Management Office |
| PMU | Project Management Unit (<i>Unidade de Gestão do Programa</i>) |
| PNAGE | National Support Program of Management and Planning Modernization of the States and Federal District (<i>Programa Nacional de Apoio a Modernização da Gestão e do Planejamento dos Estados Brasileiros e Distrito Federal</i>) |
| PNATE | National Program of Support to School Transportation (<i>Programa Nacional de Apoio ao Transporte Escolar</i>) |
| POM | Project Operations Manual |
| PPA | Medium-Term Plan (<i>Plano Plurianual</i>) |
| PPP | Purchasing Power Parity |
| PPSD | Project Procurement Strategy for Development |
| PROFISCO | Program of Support to Revenue Authorities Management of Brazil (<i>Programa de Apoio à Gestão dos Fiscos do Brasil</i>) |
| PRRF | Fiscal Recovery Regime Program (<i>Programa do Regime de Recuperação Fiscal</i>) |
| RF | Results Framework |
| RGPS | General Social Security System (<i>Regime Geral da Previdência Social</i>) |
| RPPS | Personal Social Security System (<i>Regime Próprio da Previdência Social</i>) |

| | |
|----------|--|
| RREO | Budget Execution Reports (<i>Relatório Resumido de Execução Orçamentária</i>) |
| SAFIRA | Budget, Financial and Accounting Management System (<i>Sistema de Administração Orçamentária, Financeira e Contábil</i>) |
| SAIN | Secretariat of International Matters (<i>Secretaria de Assuntos Internacionais</i>) |
| SANEACRE | Water and Sanitation Company of Acre (<i>Serviço de Água e Esgoto do Estado do Acre</i>) |
| SC | Steering Committee |
| SCD | Systematic Country Diagnostic |
| SEAD | State Secretariat of Administration (<i>Secretaria de Estado de Administração</i>) |
| SEASD | State Secretariat of Social Assistance and Human Rights (<i>Secretaria de Estado de Assistência Social e dos Direitos Humanos</i>) |
| SEE | State Secretariat of Education, Culture and Sports (<i>Secretaria de Estado da Educação, Cultura e Esportes</i>) |
| SEFAZ | State Secretariat of Finances (<i>Secretaria de Estado da Fazenda</i>) |
| SEI | Electronic Information System |
| SEP | Stakeholders Engagement Plan |
| SEPLAN | State Secretariat of Planning (<i>Secretaria de Estado de Planejamento</i>) |
| SESACRE | State Secretariat of Health (<i>Secretaria de Estado da Saúde</i>) |
| SICONFI | System of Fiscal and Accounting Information for the Public System (<i>Sistema de Informações Contábeis e Fiscais do Setor Público</i>) |
| SIOPS | System of Health Public Budget Information (<i>Sistema de Informações sobre Orçamentos Públicos em Saúde</i>) |
| SISAP | Pension Management System (<i>Sistema de Concessão Previdenciária</i>) |
| SMEs | Small and Medium Enterprises |
| SOE | State Owned Enterprises |
| SOP | Series of Projects |
| SPD | Standard Procurement Documents |
| STEP | Systematic Tracking of Changes in Procurement |
| STN | National Secretariat of Treasury (<i>Secretaria do Tesouro Nacional</i>) |
| SUAS | Social Assistance Public System (<i>Sistema Único de Assistência Social</i>) |
| SUS | Unified Health System (<i>Sistema Único de Saúde</i>) |
| TCE | State Court of Accounts (<i>Tribunal de Contas do Estado</i>) |
| ToRs | Terms of Reference |
| UNDP | United Nations Development Programme |



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DATASHEET

BASIC INFORMATION

| | | |
|--------------|---|--|
| Country(ies) | Project Name | |
| Brazil | Progestão Acre: Public Sector Management Efficiency | |
| Project ID | Financing Instrument | Environmental and Social Risk Classification |
| P179046 | Investment Project Financing | Low |

Financing & Implementation Modalities

| | |
|---|--|
| <input type="checkbox"/> Multiphase Programmatic Approach (MPA) | <input type="checkbox"/> Contingent Emergency Response Component (CERC) |
| <input checked="" type="checkbox"/> Series of Projects (SOP) | <input type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Performance-Based Conditions (PBCs) | <input type="checkbox"/> Small State(s) |
| <input type="checkbox"/> Financial Intermediaries (FI) | <input type="checkbox"/> Fragile within a non-fragile Country |
| <input type="checkbox"/> Project-Based Guarantee | <input type="checkbox"/> Conflict |
| <input type="checkbox"/> Deferred Drawdown | <input type="checkbox"/> Responding to Natural or Man-made Disaster |
| <input type="checkbox"/> Alternate Procurement Arrangements (APA) | <input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS) |

| | |
|------------------------|-----------------------|
| Expected Approval Date | Expected Closing Date |
| 24-Jul-2023 | 29-Dec-2028 |

Bank/IFC Collaboration

No

Proposed Development Objective(s)

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

Components

| Component Name | Cost (US\$, millions) |
|----------------|-----------------------|
|----------------|-----------------------|



| | |
|--|-------|
| Component 1: Whole-of-Government Management Systems | 31.70 |
| Component 2: Management Systems in Strategic Sectors | 11.30 |
| Component 3: Project and Change Management | 2.00 |

Organizations

| | |
|----------------------|-------------------------------|
| Borrower: | State of Acre |
| Implementing Agency: | State Secretariat of Planning |

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 |
|--|-------|

Non-World Bank Group Financing

| | |
|---------------------|------|
| Counterpart Funding | 5.00 |
| Borrower/Recipient | 5.00 |

Expected Disbursements (in US\$, Millions)

| WB Fiscal Year | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|----------------|------|------|-------|-------|-------|-------|
| Annual | 1.00 | 5.00 | 7.50 | 8.50 | 9.50 | 8.50 |
| Cumulative | 1.00 | 6.00 | 13.50 | 22.00 | 31.50 | 40.00 |

INSTITUTIONAL DATA



Practice Area (Lead)

Governance

Contributing Practice Areas

Education, Health, Nutrition & Population, Social Protection & Jobs

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category

Rating

| | |
|---|---------------|
| 1. Political and Governance | ● Moderate |
| 2. Macroeconomic | ● Moderate |
| 3. Sector Strategies and Policies | ● Moderate |
| 4. Technical Design of Project or Program | ● Moderate |
| 5. Institutional Capacity for Implementation and Sustainability | ● Substantial |
| 6. Fiduciary | ● Substantial |
| 7. Environment and Social | ● Low |
| 8. Stakeholders | ● Low |
| 9. Other | |
| 10. Overall | ● Moderate |

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No



Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

| E & S Standards | Relevance |
|---|------------------------|
| Assessment and Management of Environmental and Social Risks and Impacts | Relevant |
| Stakeholder Engagement and Information Disclosure | Relevant |
| Labor and Working Conditions | Relevant |
| Resource Efficiency and Pollution Prevention and Management | Relevant |
| Community Health and Safety | Not Currently Relevant |
| Land Acquisition, Restrictions on Land Use and Involuntary Resettlement | Not Currently Relevant |
| Biodiversity Conservation and Sustainable Management of Living Natural Resources | Not Currently Relevant |
| Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities | Relevant |
| Cultural Heritage | Relevant |
| Financial Intermediaries | Not Currently Relevant |

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Loan Agreement, Schedule 2, Section I.A

1. The Borrower shall:

- (a) through SEPLAN be responsible for the overall management, coordination and oversight of the Project, including the Project’s administrative, procurement, environmental and social requirements, disbursement, financial management and monitoring and evaluation responsibilities, as set forth in the Project Operations Manual (“POM”);
- (b) establish and thereafter maintain, throughout Project implementation:
 - (i) a Project Management Unit (“PMU”) in SEPLAN; and
 - (ii) not later than thirty (30) days after the Effective Date, Project Implementation Units (“PIUs”) in each of the Implementing Agencies;
 all with staffing, functions and responsibilities acceptable to the Bank, for the implementation of the Project, as set



forth in the POM;

(c) without limitation to the provisions of paragraph (b) of this Section A.1, and not later than sixty (60) days after the Effective Date, complete the staffing of the PMU and PIUs as set forth in the POM; and

(d) not later than sixty (60) days after the Effective Date:

(i) establish and thereafter maintain throughout Project implementation a Steering Committee chaired by SEPLAN, an advisory body responsible for the Project oversight, strategic guidance, and coordination, with composition, functions and responsibilities set forth in the POM and acceptable to the Bank: and

(ii) appoint all members of the Steering Committee.

Sections and Description

Loan Agreement, Schedule 2, Section I.A (continued)

2. Except as the Bank shall otherwise agree, the Borrower shall not amend, abrogate, suspend, repeal, waive, or fail to enforce any provision under the decree mentioned in paragraph (b) of Section 5.01 of this Agreement.

Conditions

| | | |
|-----------------------|------------------------------|---|
| Type Effectiveness | Financing source IBRD/IDA | Description Loan Agreement, Article V, 5.01 (a) the Project Operations Manual has been adopted in form and substance satisfactory to the Bank; and (b) the Borrower has issued a decree, in form and substance satisfactory to the Bank, setting out the respective responsibilities in Project implementation of the Implementing Agencies and establishing the PMU. |
| Type Disbursement | Financing source IBRD/IDA | Description Loan Agreement, Schedule 2, Section III, B.1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed USD 8,000,000 may be made for payments made prior to this date but on or after the date falling twelve (12) months before the Signature Date, for Eligible Expenditures. |





I. STRATEGIC CONTEXT

1. **This Project Appraisal Document (PAD) presents the Progestão Project in the State of Acre, the fourth operation in a Series of Projects (SoP) under the Progestão Program designed to assist the Brazilian states in implementing reforms that will improve efficiency in public expenditures.** As stated in the Memorandum of Understanding (MoU) between the National Secretariat of Treasury (*Secretaria do Tesouro Nacional*, STN) and the World Bank, the objective of the Progestão Program is to support the preparation and execution of the budget and asset management of Brazilian governments. This would be achieved through actions aimed at reducing and rationalizing public spending with long term results, thereby contributing to the fiscal sustainability of state entities. The Acre Progestão project promotes fiscal sustainability through six whole-of-government functions (including human resource management, pensions, procurement, public investment management, state-owned enterprises, and asset management), as well as three strategic sectors (health, education, and social assistance). It will be implemented over a five-year period. These focus areas were selected applying the Progestão Program selectivity criteria, namely: strategic alignment; implementation capacity; and impact on beneficiaries.

2. **The Progestão Program encompasses a series of Investment Project Financing (IPF) operations to ensure technical support from the World Bank during project implementation.** The Program seeks to improve the efficiency of public expenditures in Brazilian states through investments in management reforms and information systems that will improve administrative and expenditure efficiency. The Federal Government proposes to devolve additional responsibilities to the state Governments – while at the same time achieving efficiency improvements so that the states can “do more with less.” The Commission for External Financing (COFIE), the Government's council responsible for approving externally financed operations, approved the Progestão Program on May 19, 2021, with an envelope of US\$1,000 million in federal guarantees for participating states. States participate on a voluntary basis, submitting proposed Progestão projects to the COFIE for approval. The Program and projects are aligned with the objectives of the Federal and State Governments to improve efficiency, identify budgetary savings, while also sustaining or improving service delivery performance. Detailed information about the Progestão Program Framework is presented in Annex 2.

A. Country Context

Brazil Context

3. **Brazil's economy continues to recover, with GDP growing at 2.9 percent in 2022, propelled by a successful COVID-19 vaccination campaign, rising demand for services, and fiscal stimulus.** The labor market improved through 2022, including for women and youth, as unemployment fell to 7.9 percent by December 2022 (down from a peak of 11.1 percent in December 2021). Persistent inflation (5.6 percent as of February 2023) has prompted the tightening of monetary policy rate (13.75 percent as of February 2023) to anchor 2023-24 inflation expectations. Improved revenues, gradual economic recovery and elevated prices of commodities boosted fiscal results in 2022, with the 12-month primary surplus of the public sector reaching 1.2 percent of GDP and public debt declining to 72.9 percent of GDP as of January 2023 (a 5.4 percent reduction). GDP growth is expected to slow to 0.8 percent in 2023 due to the lagged effects of domestic monetary tightening, persistent inflation, and the deceleration of the global economy, and to mildly accelerate to 2.0 percent in 2024 on the back of a more accommodative monetary policy, easing inflation and higher global growth. Fiscal balance is expected to deteriorate in 2023 as projections indicate a primary deficit of 0.7 percent of GDP, reflecting the higher social expenditures in 2023 and lower economic activity.

4. **With the economic recovery, poverty is expected to have declined from 28.4 percent in 2021 to 25 percent in 2022¹, responding to increased job opportunities and expansion of the cash transfer program.** A real increase in the minimum wages combined with a major overhaul of the cash transfer program Family Basket (*Bolsa Família*) and a

¹ Based on the recently published US\$6.85 PPP line for UMIC economies.



planned introduction of additional benefits to families with children are expected to drive poverty down to 23.9 percent in 2023. Further reduction in poverty rates may occur as the economy recovers but, despite the social gains of earlier decades, poverty disparities remain. Before the pandemic, one in five Brazilians were chronically poor: the onset of the pandemic widened pre-existing inequalities and today nearly half of Brazil's children – the country's future workforce – are growing up in poor households.

5. **Fiscal sustainability is the most urgent macroeconomic challenge for Brazil.** In 2016, GoB adopted a constitutional amendment to limit federal primary expenditure growth to inflation and imposing 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 government response to shocks between 2020 and 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.

6. **Brazil's state governments are in a dire fiscal situation.** Brazil's states have extensive service delivery responsibilities in health, education, social protection, and public security. Before the pandemic, 7 out of the 26 Brazilian states and the Federal District had declared a state of fiscal calamity. In addition, 17 out of 27 state governments were not eligible to borrow under federal rules due to limited creditworthiness related to liquidity and solvency concerns. In this context, 20 state governments 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 pandemic, with just 12 states ineligible to borrow. This was due to the large federal transfers to address the COVID-19 pandemic (R\$97 billion, US\$20.1 billion², or 1.4 percent of GDP), through the federal social protection program *Auxílio Emergencial*. These transfers helped to 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 positions will deteriorate rapidly if state governments do not implement reforms to reduce expenditures.

State of Acre Context

7. **Acre, a landlocked state located in the northern region of the country, covers an area of 164,183 square kilometers (km²) (that is, 2 percent of the national territory), with a population of 906,876³ (or 0.4 percent of Brazil's) spread across 22 municipalities.** Acre's per capita GDP of R\$15,300 (US\$3,174) 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 (that is, 0.719, below Brazil's average of 0.76). Around 41.4 percent of the population live in extreme poverty⁴. The level of urbanization (72.6 percent) is well below the national average (84.2 percent). However, it is expected to increase rapidly in the coming years.

8. **Acre ranks 4th from the bottom of Brazil's 27 states on the Competitiveness Ranking of the states⁵ (*Ranking de Competitividade dos Estados, 2022*) with an overall score of 31.8 out of 100.** Acre's score on the public sector efficiency dimension was 37.5 out of 100, placing the State in the bottom five of this ranking. The State scores particularly poorly on infrastructure development (14.4) placing Acre in the second lowest place and in lowest place for water (26.3) and sanitation (9.2). Scores for fiscal performance are slightly higher (58.9) than those for other indicators. However, Acre still ranks 21st out of 27 states, and it is placed 19th for fiscal sustainability.

9. **The State of Acre has seen rapid growth in revenues and expenditures since 2019, but the State remains highly**

² Conversion rate as of June 15, 2023 for all US\$ figures in the PAD

³ Official data available at: <https://www.ibge.gov.br/cidades-e-estados/ac.html>

⁴ Official data available at: http://aplicacoes.mds.gov.br/sagi-paineis/analise_dados_abertos/.

⁵The Competitiveness Ranking of the State is a tool created by the Centre of Public Leadership (*Centro de Liderança Pública*, CLP). It 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.



dependent on transfers from the Federal Government and has very limited budget flexibility. Fiscal adjustment during the 2015-2016 recession allowed the State of Acre to achieve a Payment Capacity Assessment (CAPAG) rating of “B” when the rating was introduced in 2017. Since then, the State has managed to retain the B rating, 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 2021⁶, largely driven by growth in recurrent expenditures. Current expenditures account for 90.7 percent of total expenditures and 9.3 percent of capital expenditures. Budget flexibility is constrained by large personnel expenditures (59.5 percent of total expenditures in 2021), statutory transfers to municipalities (8 percent), and statutory assignments to the education and health sectors. Acre’s revenue-to-GDP ratio increased 36.4 percent in 2015 and to 50.1 percent in 2021, with much of this increase occurring since 2019. It was 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.

B. Sectoral and Institutional Context

10. **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 specifically pertaining to: 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 to improve fiscal efficiency.

Human Resources

11. **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 revenues. Between 2010 and 2019, the number of public officials remained unchanged, but then increased by 10 percent in 2020 and 2021. Approximately two thirds of the active staff (32,269) are employees on permanent contracts. 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). This includes over 497 different positions, with differential impacts and escalation pressures on the wage bill. Acre’s payroll increased by an average of 7 percent per year in the 2017-2021 period, and it is expected to continue growing at this pace in the future, reaching R\$4,390 million (US\$910.8 million) in 2022 and R\$5,700 million (US\$1,182 million) by 2025.

12. **Strengthened human resource policy and management functions will help limit wage bill growth.** In 2022 the State convert edits human resource management information system (HRMIS), *Turmalina*, into a web-based system and added new functionalities. However, many of the human resource (HR) transaction processes are still paper based. Thus, further work is needed to automatize and integrate human resource management (HRM) processes, putting in place functionalities to manage staff performance, monitor and record the hiring and removal of temporary staff, as well as institute overall controls over staff recruitment and retirement of active personnel.

Pensions

13. **The Pension Institute of the State (AcrePrevidência) is responsible for managing the pension fund for all public sector employees and civil and military officials.** Acre’s retirement age is relatively low at just 55 years old when

⁶ Official data available Table I-D of “Contas Anuais” SICONFI at: <https://siconfi.tesouro.gov.br/siconfi/index.jsf>



compared with other states (61.5 years). 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\$1,184 million (US\$245.6 million) in 2021. Since 2016, pensions have been paid with funds from the 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\$167 million) in 2020 to R\$663 million (US\$137.6 million) in 2021.

14. The State government intends to further strengthen the pension system. The current version of the pension management system (*Sistema de Concessão Previdenciária*, SISAP), has limited interface with *Turmalina*, thus hindering effective integration of pensions with the HRMIS. The 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, thereby increasing the delays and errors. As such, the State intends to do the following: (i) integrate all legislative, judiciary, and executive staff pension payrolls through an interface with the SISAP; (ii) strengthen the pensions database; (iii) introduce systematic audits of the pension payroll to prevent duplicate benefit payments; (iv) expand the services available online to pensioners and retirees; (v) improve revenue management; (vi) strengthen the investment strategy for pension fund assets; (vii) expand the capacity of professionals to manage the investment funds. Digitalization will help the transition to "paperless" management of pension benefits. It will also increase transparency for users through the use of services portal and the "AcrePrevi" application.

Public Procurement.

15. Public procurement accounts for 7.5 percent of the State's total expenditures, amounting to R\$560 million (US\$116.2 million) in 2021. Acre's procurement expenditures increased an average of 9 percent per year in the period from 2017 to 2021. Consumables account for 32 percent of all procurement expenses, amounting to R\$182 million (US\$37.8 million) in 2021. The Secretariat of Administration (*Secretaria de Estado de Administração*, SEAD) is now responsible for centralizing procurement of the State. Through the centralized procurement structure, the State conducted 891 bidding processes in 2021 and 369 in the first five months of 2022. However, procurement remains fragmented. Under the State Complementary Law 387/2021, line agencies undertake health and infrastructure procurement. There are four procurement information systems which are not interoperable. They are built on outdated platforms (the Government Resource Planning - GRP system; the Comprasnet; the Electronic Information System - SEI; and the Licon System, developed by the State Court of Accounts (*Tribunal de Contas do Estado*, TCE). Acre 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 of supporting more centralized procurement. However, its functions were limited to the execution of bidding processes, with each agency deciding on and conducting procurement transactions in an unstructured way - and without an institutional integrated strategy that can lead to scale and savings for the State.

16. 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 all its procurement procedures to introduce improvements in procurement planning, electronic invoicing, the grouping of bulk purchases, and the use of electronic price registration. The GRP will be replaced by a customized procurement management system. Artificial intelligence tools will also be used to support procurement planning. Improved transparency and more efficient processes will increase confidence in the State as a buyer, while also generating cost savings for the State.

Public Investment Management and Budgeting

17. Public investment spending in Acre averaged 4.8 percent of net current revenues between 2017 and 2021,



which is around the Brazilian average. During this period there were significant variations in the State's public investment spending, with R\$448 million (US\$92.9 million) implemented in 2018, falling to R\$165 million (US\$34.2 million) in 2019, and then increasing again to R\$258 million (US\$53.5 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). However, in practice, it 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 of 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*, SEPLAN) 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). However, there are no supporting information systems for the PPP portfolio and project management. In addition, the SEPLAN has no personnel or structure with the required capacity to lead this agenda.

18. **The State intends to strengthen core systems for public investment management.** The 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 support from the United Nations Development Program (UNDP). Alongside these initiatives, the State will need to put in place rigorous, evidence-based procedures, as well as provide 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

19. **Brazilian states and municipalities depend on a complex web of multiple funding mechanisms.** In Acre, the SEPLAN is responsible for the management of transfers from the central government. This includes transfer agreements (*convênios*), partnerships with non-governmental organizations (NGOs), funded transfers, and ad-hoc allocations awarded by sponsoring elected officials (*emendas parlamentares*). In this regard, 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 the municipalities and NGOs. The State of Acre currently manages 234 active funds/transfers with municipalities and NGOs, amounting to R\$1,200 million (US\$249 million). Another 174 recently closed funds valued at R\$1,400 million (US\$290.5 million) are undergoing expenditure compliance verification. Procedures for the management of these funds are not standardized. Transfers to the municipalities and NGOs are managed through Excel sheets and an in-house system maintained by the SEPLAN. The system identifies the municipality, quantity, and number of resources for each transfer. The State intends to strengthen the 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, publications, document verification, physical and financial monitoring, and approval of expenditures during the project cycle.

Debt Management

20. **In 2021, Acre's consolidated debt was R\$4,176 million (US\$866.4 million), equivalent to 76.4 percent of the State's net current revenue, the 9th highest debt to revenue ratio among Brazilian states.** State debt is mostly comprised of 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 adverse financial impact to the State. There is also a lack of transparency regarding debt levels and terms. The State tried to develop an in-house management tool that could be used with the financial management system (SAFIRA). However, the extended development time and reduced technical capacity paralyzed the project. The implementation of an information system to manage the debt



cycle, including negotiations, and monitoring and payments will help to standardize procedures in the debt management process and improve efficiency and risk management. The 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 information technology (IT) solutions from other national and subnational departments.

State-Owned-Enterprises (SOEs)

21. **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. 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, including a billing loss of 62.1 percent and a revenue loss of 46.3 percent. SANEACRE's administrative costs amount to R\$51.2million (US\$10.6 million) annually, compared with total billing of just R\$25.7 million (US\$5.3 million). SANEACRE's revenue shortfall arises from unregistered users, water losses and inefficient commercial transactions. There is no reliable data concerning the services delivered, and the user database is outdated. The current management system does not offer functionalities for customized reports, payment installments, 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, and the New Sanitation Regulatory Framework (*Novo Marco Regulatório do Saneamento*) acknowledged this recommendation. Nonetheless, the Acre's municipalities continue to use the State services, provided by 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*). It is expected to improve efficiency in the user registry, billing, charges, debt, and the 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

22. **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\$90,456) per year, with a quarter coming from property rents and the rest from sales. Property acquisitions peaked in 2017 at R\$8.8 million (US\$1.8 million), and averaged R\$753,757 (US\$156,381) per year for the period from 2018 to 2020. The State's expenditures on rents are not publicly available. The responsibility for real estate management was transferred from the State General Attorney (*Procuradoria Geral do Estado*, PGE) to the Secretariat of Planning and Management (now, Secretary of Administration) 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, as well as develop additional systems for vehicle fleet management to better manage the public sector transport costs and fuel consumption.



23. **Digital systems and IT infrastructure are increasingly part of what is traditionally referred to as network sectors, such as 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 well. 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. The decentralized management of information technology has led to a proliferation of IT assets, and systems. There is limited interoperability and information sharing. In addition, there are 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

24. **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 a 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-communicable diseases (NCDs) in 2019. A high proportion of hospital admissions are associated with these non-communicable diseases, which are particularly demanding in terms of services and the costs of health procedures.

25. **State expenditures on health services peaked during the COVID-19 pandemic, reaching R\$830 million (US\$172.2 million) in 2021, amounting to 13.2 percent of State revenues, which is 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. Hospitals operated on a budget of R\$54.5 million (US\$11.3 million) in 2021. 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. SUS reimbursed Acre R\$43 million (US\$8.9 million), with the balance of R\$11.5 million (US\$2.4 million) funded by the State Secretariat of Health (*Secretaria de Estado da Saúde, SESACRE*). Much of the shortfall is due to poor record keeping and deficiencies in processing health expenditures. 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. SESACRE intends to develop two management information systems. First, it intends to expand the implementation of the hospital expenditure management information system acquired for the Emergency Hospital of Rio Branco (HUEBR), to all high complexity facilities under its management. It would aim to improve planning, budgeting, health services management, and increase recovery of expenditure by SUS improving compliance in its processing. The system is expected to deliver efficiency increasing recovery of expenditure by SUS improving compliance in its processing, while simultaneously improving the reliability and transparency of financial statements.

Education

26. **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) accounts for around 59 percent (91,111 students) of enrollment in the State network, with 72 percent of the schools located in rural areas. Expenditures in the education function amounted to R\$2,095 million (US\$434 million equivalent) in 2022, 48 percent more than the allocation in 2018 (R\$1,411 million, equivalent to US\$292.7 million). 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, which then operationalize these programs. These transfers represent 18 percent of the SEE's annual budget. The State Treasury complementation to PNATE amounts to R\$32.5 million (US\$6.7 million) annually.

27. The SEE intends to develop tools to support the implementation of education programs, while also maintaining an appropriate balance between central oversight and local execution to increase fiscal sustainability and promote equity in the sector. The delivery of school meals and transportation services requires complex logistics due to the low population density, the diverse geographic conditions, and the heterogeneity in terms of schools and class sizes that poses additional fiscal constraints to the State budget. The SEE still uses paper-based tools and spreadsheets to monitor the resource transfers without supporting management information systems, causing management errors and financial inefficiencies. Bus routes are defined without considering the geographical location of schools and students' residences. Poor planning of school meal deliveries and uneven access to markets leads to delivery delays, waste of food, noncompliance with federal or state regulations, and high prices. The SEE does not have any system for controlling financial planning and execution of meal and transport contracts and transfers. SEE will implement a management system that will allow a better allocation and monitoring of fiscal resources, public assets, and planning and contracting of the school meals and transportation. The system is expected to improve efficiency in school management, reducing expenditures. A first conservative estimate demonstrates that the State can have savings of approximately R\$45 million (equivalent to US\$9.3 million) in the next ten years, by leveraging the system to perform a more efficient process of transport management.

Social Assistance

28. State budget on the social assistance function peaked during the COVID-19 pandemic, reaching R\$68.3 million (US\$14.2 million) in 2020, amounting to one percent of State revenues, though the execution of this resources was low: only 49 percent. The Social Assistance System (*Sistema Único de Assistência Social, SUAS*) is co-financed by the State and the municipalities. From 2018 to 2022, the State transferred, on average, R\$36.5 million (US\$7.6 million) annually to SUAS, vis a vis a planned budget of R\$50.9 million (US\$ 10.6 million). It represents a financial execution of 71.7 percent. The 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, as well as 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*). 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 was the 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 transfers to finance the SUAS services, and management of resources by municipalities and NGOs. Administrative systems are operated manually and are fragmented. Weak service management leads to overlaps and gaps in service provision, and a limited capacity to plan expenditures vis a vis resources transferred. The Secretariat of Social Assistance, and Human Rights (*Secretaria de Estado de Assistência Social e dos Direitos Humanos, SEASD*) seeks to improve the coordination and monitoring of the co-financing of SUAS. The State intends to implement a new management information system that will include functionalities for improved financial and disbursement projections in transfers' action plan; tracking financial records for the rendering of accounts; and managing social assistance public assets to maximize potential value and cash flow. Resource allocation and productivity will be improved with modern financial management and benefits management systems, as well as strengthened monitoring capacity, and data use for decision-making and cost-effective service provision.



C. Relevance to Higher Level Objectives

29. **Acre Progestão is aligned with the State's Medium-term Plan (PPA) for 2020-2023.** The project supports six programs listed in the PPA, including: Healthy Acre; Education for All the population; Inclusiveness, Efficiency and transparency in management functions; Public employees' pension; and Internal control and societal development. The PPA intends to strengthen management tools, expand the use of new technologies, and promote creative and innovative solutions to improve the efficacy and effectiveness of service delivery. Acre's next planning cycle for 2024-2027 will also incorporate the proposed activities of Progestão. The Project is also aligned with the Secretariat of Finances (*Secretaria de Estado da Fazenda*, SEFAZ), and the SEPLAN Strategic Plans, which seek to ensure the quality and efficiency of public services through improvements in the areas of human resources management, procurement, public investment, intergovernmental transfers, and asset management. The Project supports this objective through investments in information systems, as well as technical assistance to improve processes and governance in critical areas.

30. **The project is aligned with the World Bank Group's Country Partnership Framework (CPF) 2018-2023 (Report #113259-BR) discussed by the Executive Directors on July 13, 2017 and confirmed by the corresponding Performance and Learning Review (PLR) dated May 24, 2022.** The CPF and PLR propose to align new lending with the challenges identified in the Systematic Country Diagnostic. Progestão Acre will support CPF Focus Area 1 (Fiscal consolidation and government effectiveness), which is aligned with objective 1.1 "Strengthen fiscal management at all levels of government, and objective 1.2 "Increase fiscal sustainability and fairness of pension system, and effectiveness of social protection systems." The CPF states that "restraining growth in current expenditures and enhancing public sector efficiency will be key for increasing domestic public savings". It stresses that "greater attention can be given to the quality of public spending" considering inefficient and poorly targeted spending commitments. The CPF proposes support to help the GoB consolidate, disseminate, and deepen this first generation of fiscal and public sector management reforms, noting that "Sub-national governments have made important contributions to the improvement of Brazil's fiscal position, but should address fiscal issues as a prerequisite". The World Bank will use investment and development policy loans to support institutional changes and policy implementation. The project is aligned with objective 1.4 "increase effectiveness of service delivery in health", by helping the State government adopt management systems and practices that will strengthen the reliability and transparency of financial statements, and improve financial decision-making in the sector. Furthermore, the project will support Focus Area 2 (*Private Sector Investment and productivity growth*) by helping the State of Acre adopt practices and service tools to reestablish fiscal stability, strengthen fiscal management, public procurement, and improve efficiency in service delivery. The project is also in line with the World Bank Global Crisis Response Framework (GCRF) supporting the fourth pillar - Strengthening Policies, Institutions, and Investments for Rebuilding Better to utilize long-term policies to improve development outcomes - by strengthening efficiency of several government areas in the State of Acre.

31. **Project activities are aligned with the Government of Brazil's National Adaptation Plan (NAP) of March 10, 2016, the Revised Updated Nationally Determined Contribution (NDC) of March 21, 2022⁷, the Country Climate and Development Report for Brazil of May 4, 2023⁸, and the Guidelines for a National Strategy for Climate Neutrality published by the Federal Ministry of Environment in 2022⁹.** The NAP and NDC commit the Federal Government to

⁷Brazil has made three submissions, but its commitments have not changed; the updates reaffirmed the initial commitments and/or answered questions about those commitments. See Federative Republic of Brazil. 2015. "Intended Nationally Determined Contribution." Brasília. <https://unfccc.int/sites/default/files/BRAZIL%20iNDC%20english%20FINAL.pdf>; 2020. "Brazil's Nationally Determined Contribution (NDC) – Update." Brasília. <https://unfccc.int/sites/default/files/BRAZIL%20iNDC%20english%20FINAL.pdf>; 2022. "Nationally Determined Contribution (NDC) – Annex: Information to Facilitate Clarity, Transparency and Understanding of Brazil's NDC." Brasília. <https://unfccc.int/sites/default/files/NDC/2022-06/Updated%20-%20First%20NDC%20-%20%20FINAL%20-%20PDF.pdf>.

⁸World Bank. 2023. <https://www.worldbank.org/en/news/press-release/2023/05/04/brazil-can-be-both-richer-and-greener-world-bank-group-outlines-opportunities-for-climate-action-and-growth>

⁹Ministry of Environment. 2022. "Diretrizes para uma Estratégia Nacional para Neutralidade Climática." https://www.gov.br/mma/pt-br/assuntos/climaozoniodesertificacao/clima/diretrizes-para-uma-estrategia-nacional-para-neutralidade-climatica_.pdf



“integrate climate-risk management into planning and management instruments”. Progestão Acre integrates assessment of the cost implications of climate risks in the preparation and appraisal of the State’s public investment projects. The Ministry of Environment’s Guidelines highlight the digitization of government-related processes and services as an important instrument for climate change adaptation and mitigation. Progestão Acre will finance new and updated information systems and capacity-building activities that will improve efficiency in administrative services and resource management. The project will support measures to ensure effective response to extreme weather and climate events to minimize service disruptions in these information systems. The project will follow procurement standards that require assessment of the life cycle cost and energy efficiency of goods and services acquired.

II. PROJECT DESCRIPTION

A. Project Development Objective

Project Development Objective (PDO) Statement

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

PDO Level Indicators

- 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: 80)
- Project investment cost overruns per year (Percentage, Baseline: 6.2; Target: 3)
- Public real estate with complete legal documentation (Number, Baseline: 0; Target: 2000)
- Number of branches contributing to the Central Management Unit for the Public Servant Pension Regime (Number, Baseline: 1; Target: 3)

B. Project Components

32. **The Investment Project Financing (IPF) operation is structured around three main components which support interlinked actions to improve the efficiency and fiscal sustainability of the Brazilian State’s public sector expenditures, namely: whole-of-government systems; management systems in strategic sectors; and project and change management.** The project scope and structure are aligned with the Progestão Program (see Annex 2). The State has requested assistance for all the Program components. Specific interventions in sectors 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 project will support the development of management systems in health, education, and social assistance. Table 1 summarizes of the areas and activities supported by Progestão Acre.

Table 1: Progestão Acre Summary of Areas of Intervention

| Component | Regulatory Reforms | New IT Solutions | IT Upgrade or Rollout | Capacity Building | Summary |
|---------------------|--------------------|------------------|-----------------------|-------------------|--|
| 1.1 Human Resources | | X | X | X | <ul style="list-style-type: none"> • Workforce sizing and processes mapping. • Upgrade exiting HRMIS (Turmalina). • Automated audit of the payroll. • Capacity-building for system rollout and new management tools. |
| 1.2 Pensions | | X | | X | <ul style="list-style-type: none"> • New pension management system. |



| Component | Regulatory Reforms | New IT Solutions | IT Upgrade or Rollout | Capacity Building | Summary |
|---|--------------------|------------------|-----------------------|-------------------|---|
| | | | | | <ul style="list-style-type: none"> Implementation of a Central Management Unit for pension benefits. Capacity-building for new system and management tools. |
| 1.3 Procurement | X | X | | X | <ul style="list-style-type: none"> Map and modernize existing procurement procedures. New e-procurement system with modules for e-invoice, strategic sourcing, and contract monitoring. Capacity-building for the deployment and rollout of new tools. |
| 1.4 Public Investment Management, Transfers and Debt Management | X | X | | X | <ul style="list-style-type: none"> Review existent procedures and develop operational guidance and tools for improved public investment management across the project cycle. New system for PPPs management and integrated public investment management system. Review existing legal framework for intergovernmental transfers to assess whether some amendments are needed for the deployment of the new system. New intergovernmental fiscal transfer system. New cash management system. New debt management system. Capacity-building activities for the deployment and rollout of new systems. |
| 1.5 State-Owned Enterprises | | X | | X | <ul style="list-style-type: none"> New sanitation financial management information system with user registry, billing, charges, debt management and helpdesk functionalities. Capacity-building for the rollout of new system and tools. |
| 1.6 Asset Management | | | X | X | <ul style="list-style-type: none"> Review of existing procedures and map and register existing real estate assets. Upgrade existing systems for improved fleet management, movable assets, and real estate assets management. Capacity-building for the rollout of new system and tools. |
| 2.1 Health | | | X | X | <ul style="list-style-type: none"> Rollout a hospital expenditure management information system to all State's public high complexity health units to improve planning, budgeting, and service management. Hospital managers training and capacity building to support rollout of health expenditure management information system and tools. |
| 2.2 Education | | X | | X | <ul style="list-style-type: none"> New management information system to increase cost efficiency in the management of school meals and transportation to improve planning, budgeting, procurement management and monitoring. Capacity-building for the rollout of new system and tools. |
| 2.3 Social Assistance | | X | | X | <ul style="list-style-type: none"> New integrated financial management system for social assistance co-financing to support the management of social assistance funds transferred to 22 municipalities. Capacity-building activities for monitoring expenditure on social assistance programs as well to support the deployment of new systems and tools. |

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

33. **Sub-Component 1.1: Human Resource Management (US\$7.5 million). Implementing Agency: SEAD.** Activities include: (i) carrying out a technical assistance program for strategic workforce right-sizing of selected agencies and departments; (ii) design and implementation of a workforce right-sizing platform integrated with the human resource management system to identify core competencies of public officials and the appropriate hiring needs of organization; (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 strategic workforce



planning; (vii) design and implementation of new functionalities to the State's HRMIS; (viii) implement periodic staff surveys to assess reform implementation and support change management; (ix) carry out communications and capacity building to activities to support the rollout and implementation of the above mentioned activities; and (x) procurement of hardware to support the rollout and implementation of the above-mentioned activities.

34. Sub-Component 1.2: Pensions Management (US\$2 million). Implementing Agency: AcrePrevidência. Activities include: (i) design and implementation of pension management system functionalities that support pension payroll audit, unify management of benefit concessions for all branches of government (legislative, judiciary, and executive), 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, thus reducing costs and allowing for better long-term financial planning; (iii) procurement of hardware to support the implementation of the above-mentioned activities; and (iv) capacity building to support the deployment and implementation of new system and management tools.

35. Sub-Component 1.3: Public Procurement (US\$7 million). Implementing Agency: SEAD. Activities include: (i) development of a 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; (vii) development and implementation of a system that certifies enterprises and automatizes data aggregation; (viii) capacity building and certification program for officials working in procurement across the state; (ix) 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 hardware to support the deployment of the above-mentioned activities.

36. Sub-Component 1.4: Public Investment Management and Budgeting (US\$7.2 million) Implementing Agencies SEPLAN 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 efficient 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, thus 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 efficient public investment and expenditure management practices, to support the rollout and implementation of new tools; (x) carry out periodic staff surveys to assess reform implementation and support change management; and (xi) procurement of hardware to support the rollout and implementation of the above-mentioned activities.

37. Sub-Component 1.5: State Owned Enterprises (US\$2 million). Implementing Agency: SANEACRE. Activities include: (i) implementation of a financial management information system for sanitation, including modules of billing, charges, registry entries, financial, debt, and service interface; (ii) implementation of georeferencing software to integrate information regarding 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 these systems and



management tools; and (v) procurement of hardware to support the rollout and implementation of the above-mentioned activities.

38. Sub-Component 1.6: Asset Management (US\$6 million). Implementing Agency: SEAD. Activities include: (i) technical support to assess up-to-date information of real estate properties, including geospatial data, area, occupation rate, valuations and the registry's status; (ii) development and implementation of modules in the public asset management system, including a risk assessment of real estate assets, and information for decision making and fleet management; (iii) development and implementation of a system for mapping costs of information and communication technologies (ICT), including identification of synergies between government-to-government systems, interoperability, as well as a governance strategy for new acquisitions and maintenance; and (iv) capacity building for asset management practices and support for the rollout and implementation of the above-mentioned activities.

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

39. Sub-Component 2.1: Health (US\$5.5 million). Implementing Agency: SESACRE. Activities include: (i) develop and implement an expenditure review to identify cost structure and assess budgeting practices in the State's public health units; (ii) implementation of a financial management information system to support budgeting and expenditure management in the State's health units, develop electronic cost-accounting and auditing systems, and improve fiduciary processes; (iii) design and implementation of a system to improve resource management allocation; (iv) introduction of communications and capacity-building activities to support the rollout and implementation of the above-mentioned activities, including training activities for managers and professionals from strategic sectors of the hospitals; and (v) procurement of hardware to support the rollout and implementation of the above-mentioned activities.

40. Sub-Component 2.2: Education (US\$4 million). Implementing Agency: SEE. Activities include: (i) cost-benefit analysis (CBA) of school transportation models and school meal procurement procedures, disaggregated by region, to support the decision-making regarding the system's functionalities and scope; (ii) development and implementation of IT systems to improve the management of transferred resources from the federal government; (iii) design and implementation of an integrated financial management system for student transportation; (iv) design and implementation of an integrated financial management system for school meals, and (v) capacity building to support the rollout and implementation of the above-mentioned activities.

41. Sub-Component 2.3: Social Assistance (US\$1.8 million). Implementing Agency: SEASD. Activities include: (i) design and implementation of a financial management system for social assistance co-financing to support the management of social assistance funds transferred to 22 municipalities; (ii) businesses process remodeling at the state level to increase effectiveness and enable operational and financial analysis, higher quality and integration of data, reduced redundancy of information and streamlined processes for improving the monitoring and evaluation on the use of financial resources; (iii) carrying out of communication and capacity-building to support the rollout and implementation of the new system and management tools; and (iv) procurement of hardware to support the rollout and implementation of the above-mentioned activities.

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

42. Sub-Component 3.1: Project Management Unit (US\$1.5 million). Implementing Agency: SEPLAN. Activities for project management include: (i) strengthen its 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) carry out communications and capacity building to support project management functions.

43. Sub-Component 3.2: Change Management (US\$0.5 million). Implementing Agency: SEPLAN. Activities include: (i) developing of a project level change management plan and change management strategy for component 1 and 2 of



the project encompassing 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) providing 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.

C. Project Beneficiaries

44. **Direct beneficiaries are Secretariats and agencies participating in the project.** These institutions and their 40,000 employees will benefit directly from more efficient and effective systems for managing services and public finances, including better quality and more timely information for decision-making, as well as enhanced technical capacity to manage and utilize that information for decision-making purposes. All State agencies will benefit from improvements in whole-of-government management practices and improved access to information. This will help agencies to manage their resources more efficiently and effectively.

45. **Citizens and businesses will benefit from improvements in government transparency and increased public sector productivity.** Service users will benefit from improvements in the efficiency of the health, education and social assistance management systems. Civil society organizations and academics will benefit from access to better quality and more timely information that can be used for research, accountability, advocacy, and management purposes. Indirect beneficiaries include the firms in the State of Acre who will benefit from improved fiscal policy decisions based on more complete, accurate and timely financial information, as well as improved policy analysis.

D. Results Chain

46. **Figure 1 presents the project's theory of change, illustrating the linkage between the project's key interventions and its targeted intermediate results, outcomes, and project development objective.** Inputs include technical assistance, consulting services, and capacity building to identify, design, develop and support the implementation of modern management systems in the areas of public management, thus generating efficiency gains in Acre's public administration. Intermediate results include management systems, and support for regulations, procedures, and information systems. In turn, these results will support outcomes, such as savings, increased productivity, and transparency. Assumptions in the causal chain include the following: (i) the State will commit and build consensus for system implementation in the areas of human resources, pensions, procurement, public investment management and asset management; (ii) cross-cutting systems transcend government transitions, thereby allowing for continuity in project implementation; (iii) the systems and new technologies applied to management activities can increase public sector productivity, and transparency; and (iv) the savings resulting from systems and selected public sector management can also improve service delivery in strategic sectors.



Figure 1: Progestão Acre Theory of Change

| | PROJECT INTERVENTIONS | INTERMEDIATE RESULTS | OUTCOMES | PDO |
|---|--|---|---|---|
| 1. Whole-of-Government Management Systems | Strategic workforce planning system Automated Human Resources Management services Management Analytics for Automated Payroll Audits | Reduced errors and noncompliance in active personnel payments Recruitment and staff development aligned with public service needs | Reduced public sector workforce replacement rate in non-frontline staff | Improve efficiency in public resource management in selected departments of the State of Acre |
| | Operational, actuarial and financial analysis system Unified management of benefits concession | Reduced errors and noncompliance in pension payments Statewide integrated pension system | Integrated pension management systems used by more branches of government | |
| | Centralized e-procurement system and strategy E-invoice & use of AI tools | Use of price reference system in procurement planning Timely and reliable procurement data Increased share of procurement using life cycle of products criteria | Increased efficiency in public procurement | |
| | Financial management and information system for the Water and Sanitation Company | Financial System implemented | Reduced deficit of the Water and Sanitation Company | |
| | Collection of geospatial information and documentation on public real estate Asset management system Stock stack of ICT solutions/systems | Complete information on public real estate assets Implemented asset management system Complete inventory on State ICT Infrastructure and costs | Improved efficiency in the management of public assets | |
| | Public investment rules, methodologies, manuals and management system Intergovernmental Transfers management system Debt management system Cash management system | New Public investment projects prepared and selected in line with PIM methodology Enhanced transparency of inter-governmental transfers Reduced entry points for public projects Debt and cash management system implemented | | |
| 2. Management Systems in Strategic Sectors | Budgeting and expenditure management system in State Hospitals Public Expenditure Review on health management | Public health units with management and costing system implemented | Increased efficiency in project investment and financial management for health, education and social assistance | |
| | Transport and meal management information system for State' students | Meal and transport management system implemented for all State' schools | | |
| | Information management system for State's co-financing of social assistance services | Municipalities use new financial management system to provide reports on social assistance services | | |
| 3. Change Management Support & Knowledge Exchange | | | | |

E. Rationale for Bank Involvement and Role of Partners

47. **The World Bank is uniquely placed to support Acre, given its experience in public sector management reforms in Brazil and globally, as well as the World Bank's collaboration with the State of Acre.** The World Bank's public sector portfolio, spanning multiple states, provides a good understanding of public sector management reforms across Brazil, including the technical and institutional challenges posed by the proposed reform program, as well as the factors that will be critical to the success of these reforms. The Bank recently approved similar Progestão operations in Alagoas (P177070) and Mato Grosso (P178339). It is also preparing operations in Piauí (P178663) and Tocantins (P179088). The Bank's strong field presence in all the technical areas covered by the project facilitates support for the implementation of public management systems and capacity-building activities. In the State of Acre, the World Bank has supported the Acre Social and Economic Inclusion and Sustainable Development Project - PROACRE (P107146) and Strengthening Public Policies Acre Development Policy Loan (P147913).

48. **The Progestão Program provides a framework for collaboration across states and institutions at the national level.** These partners include the National Council of State Secretaries of Administration (CONSAD), the Council of Secretariats of Planning (CONSEPLAN), the National Association of State Information and Communication Technology



Entities (ABEP-ICT), and the National Committee of State Secretaries of Finance (COMSEFAZ). Partners will provide a forum for policy and technical discussions to guide the implementation of State projects. States are expected to share experiences and tools, including information systems, through thematic working groups. These synergies will significantly reduce investment costs and potentially allow states to share the costs of upgrading information systems. The following thematic working groups have been established by CONSAD: human resource management, procurement, public investment management, asset management, and digital government.

F. Lessons Learned and Reflected in the Project Design

49. **The proposed operation draws on lessons learned from the World Bank's experience with state-level operations focused on public sector reform, service delivery, and expenditure management.** These operations include Paraná Multi-Sector Development Loan (P126343), Amazonas DPL (P147979), Strengthening Public Policies Acre Development Policy Loan (P147913), Strengthening service delivery for growth, poverty reduction and environmental sustainability in the State of Ceará PforR (P127463), Alagoas Fiscal and Public Management Reform (P103770), and Rio de Janeiro Strengthening Public Sector Management Technical Assistance project (P127245). The most salient lessons highlight the importance of: (i) having high-level political commitment to the implementation agenda; (ii) securing engagement with and ownership of technical teams implementing systems and reforms; (iii) developing an active learning agenda, communications program, and continuous engagement with stakeholders; (iv) maintaining close supervision by Portuguese speaking staff; (v) recognizing the value of relevant international experience and access to experts with experience beyond Brazil; (vi) providing further support through technical assistance regarding the preparation of terms of reference to avoid procurement delays; (vii) making use of innovative analytical techniques and sources such as use of micro-data to identify key reforms and potential economic returns, particularly in HR and pensions management; (viii) ensuring flexibility in the design and implementation arrangements so that the project focus can be adjusted as State priorities change during implementation; (ix) the critical role played by a national (Federal and State level) reform agenda to guide priorities and drive the reform agenda across states; and (x) the need for early discussions regarding the legal requirements to enable retroactive financing.

50. **The implementation of PROACRE (P107146) highlights specific design features, recognizing the State government's strengths and weaknesses.** These include the need for: (i) proactive hands-on implementation support for a World Bank-financed operation; (ii) flexibility to adjust project activities to address implementation challenges; (iii) support for coordination among implementing agencies; and (iv) investments in information systems, technical assistance and change management. These lessons reflect the implementation experience observed in other multisectoral operations, implemented at the state and municipal levels across Brazil.

51. **The project also draws on lessons from the PNAGE (2006-2012), PROFISCO I (2008-2018) and PROFISCO II (2014-ongoing), programs financed by the Inter-American Development Bank (IADB).** The National Support Program of Management and Planning Modernization of states and Federal District (*Programa Nacional de Apoio a Modernização da Gestão e do Planejamento dos Estados Brasileiros e Distrito Federal*, PNAGE) and the Program of Support to Revenue Authorities Management of Brazil (*Programa de Apoio à Gestão dos Fiscos do Brasil*, PROFISCO) are joint federal-state national programs that help the states to address challenges in revenue administration and public financial management. This experience points to the need for: a task force to manage knowledge exchange between state governments; support for State *Procuradorias*, through the implementing unit, in charge of approving contracts because their limited capacity can delay the implementation as a result of long and complex hiring processes; and an assessment of the level of commitment, readiness, and potential fiscal impact before committing funds to State projects.

52. **The Project will benefit from insights from the World Bank's recent and ongoing parallel analytical work.** This includes analytical work concerning: (i) pension reform implementation at the federal and subnational levels which underscored the need for strengthened pension management at the subnational level (P172230); (ii) the public sector wage bill, human resource management and inter-governmental fiscal transfers, using micro-data analysis from



subnational governments to assess, for the first time, the impact of different policy measures in the wage bill and on HRM (P172560); and (iii) corruption risk and the use of public data for anti-corruption activities, and piloting the use of artificial intelligence to identify potential fraud in public procurement at different levels of government (P171744).

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

53. **Acre's Secretariat of Planning (SEPLAN) will lead project implementation.** Specific implementation arrangements include: a Steering Committee (SC), a Project Management Unit (PMU), interagency arrangements between SEPLAN and implementing agencies, and inter-state thematic working groups for the learning agenda. See Annex 1 for details.

54. **SEPLAN.** The Secretariat will lead the project and host the PMU. The project will leverage the SEPLAN's experience in managing externally financed operations, including recent projects with the Bank. The State Government has selected SEPLAN 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.

55. **Steering Committee (SC).** The Steering Committee is an advisory body comprised of representatives of each agency participating in the project. The representatives are the Secretaries or Deputy Secretaries appointed to the Committee by the State Governor. The Committee will be chaired by the SEPLAN. The SC may temporarily invite agencies with direct or indirect involvement in the program to participate. By no later than sixty days after the effectiveness date of the project, the State shall establish and thereafter maintain the SC 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, and strategic guidance. It will also set priorities, resolve conflicts, and ensure inter-agency collaboration where needed, as well as monitor the progress of the project.

56. **PMU.** The PMU will support project implementation and coordination with the participating secretariats, ACREPREVIDÊNCIA and SANEACRE. The interinstitutional arrangements will be set forth in a state decree which will also establish the PMU. The State will establish, and thereafter maintain throughout the project implementation the PMU in SEPLAN. The PMU manager, and key staff should be appointed to the PMU in possession of the qualifications and terms of employment satisfactory to the Bank. 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, as defined in the loan agreement, the Project Operations Manual (POM), the Environmental and Social Commitment Plan (ESCP), and the Disbursement and Financial Information Letter (DFIL).

57. **Interagency arrangements.** The SEPLAN, SEAD, ACREPREVIDÊNCIA, SEFAZ and SANEACRE will implement activities under Component 1. The State Secretariats of Health (SESACRE), Education (SEE) and Social Assistance (SEASD) will implement sub-components under Component 2. The SEPLAN will implement Component 3 which supports the PMU. The state decree referred in paragraph 58 will define the responsibilities of the implementing secretariats, establishing the specific objectives, attributions, and timeframe for implementation of project activities. Participating agencies will designate a focal point responsible for project implementation and the monitoring of progress. The PMU should be fully staffed within the sixty days of project effectiveness.

58. **Thematic working groups.** At the national level, the thematic working groups established through the 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 concerning both technical challenges and implementation issues among the Brazilian states as well as 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 for 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 Committee of State Secretaries of Finance (COMSEFAZ) are also expected to join. The thematic groups will serve as a sounding board to continuously improve processes and procedures to make interventions more effective.

B. Results Monitoring and Evaluation Arrangements

59. **Progress toward the achievement of the Project Development Objective will be assessed based on the PDO-level and intermediate results indicators.** The Results Framework (RF) for this operation is presented in Section VII. The RF includes selected indicators used by the Ministry of Economy for the purposes of monitoring the impact of the national Progestão Program. The PDO indicators were selected in consultation with the SEPLAN taking into consideration the level of priority of the reform areas in the State's medium-term program; the extent to which implementing agencies have influence over the proposed outputs and outcomes; the level of ambition of the reforms; and the availability and reliability of data from administrative systems. The limited availability of data for baselines has proved to be an important constraint on the selection of the PDO and intermediate results indicators.

60. **The World Bank and the State government will continue to strengthen results measurement during project implementation, as information systems are put in place and the range and quality of performance information improves.** The project will support improvements to information systems that will generate data concerning: public investment project time overruns, budget revisions, and restructuring; public procurement cost savings for high volume or commonly procured goods and services; and the share of procurement in accordance with the Brazilian federal legislation.

61. **The PMU will gather relevant data from participating institutions and present the World Bank with semi-annual progress reports that include data on project execution and project outputs and outcomes.** The PMU may commission an interim evaluation before the project's midterm review to inform any adjustments to the project's interventions, economic analysis, or implementation arrangements. The World Bank team will conduct semi-annual implementation support missions to monitor achievement of results and agree on adjustments when necessary. Implementation progress will be documented in the form of Aide Memoires and Implementation Status and Results (ISR) Reports. Learning from monitoring and evaluation (M&E), including beneficiary feedback, will provide information for the development of the subsequent projects in the SOP. It will also be shared with relevant stakeholders through the thematic groups.

C. Sustainability

62. **Progestão Acre will support regulatory reforms, business process changes, information systems, capacity building and change management activities.** The reforms are of a managerial and technical nature and are not expected to be controversial. The Program is expected to proceed without significant adjustment following changes in mid to high leadership positions of the State. New systems will bring more transparency to expenditure management functions, introducing a required commitment with the ongoing implementation. The program is expected to proceed without significant adjustments following changes in the State administration. Engagement with key internal and external stakeholders through project design and implementation is expected to increase ownership. The project will strengthen human resource management by putting in place more effective recruitment routines and introducing competencies and performance evaluation methodologies. These reforms are expected to reinforce the shift towards data-informed and evidence-based management practices supported by the other components of the project.

63. **The State of Acre has joined the high-level thematic working groups established at the national level.** These working groups will be a key mechanism for exchanging views on both technical challenges and implementation issues



among the Brazilian states, as well as with the Federal Government. The aim will be to continuously improve processes and procedures to make interventions more effective. Thematic groups regarding human resources, digital government, procurement, and asset management have already been formed during the preparation of program in partnership with the CONSAD. In addition to a permanent high-level agenda (technical meetings at least once a year), the Acre State will be able to request *ad hoc* workshops to discuss specific project-related issues presented by the network of specialists and practitioners.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

64. **Strategic relevance.** The project is of strategic relevance to the State of Acre and it is aligned with the State's medium-term plan (PPA), as well as the participating institutions' action plans. The project focuses on core whole-of-government management systems and selected management systems in strategic sectors identified by the participating agencies.

65. **Technical design.** The proposed project will develop and implement complex management and information systems, some of which will be customized commercial off-the-shelf systems, as well as some of which will be developed specifically based on the needs of the agency. Contracted system developers will provide direct support, skill transfer, and user training. The PMU will assist the participating agencies to prepare appropriate TORs for contracts, drawing on the World Bank's international experience. The PMU will ensure that users and beneficiaries are consulted during the design and implementation of administrative reforms and information systems. The Project will support change management activities under each component. This will include extensive training in systems use, data analytics, and evidence-based decision making for the targeted management staff. This will develop in-house capacity, thereby supporting continued operations and sustainability. Just-in-time technical assistance, approved by the PMU and the Bank, will help with problem solving. The Project loan agreement provides sufficient flexibility to allow for adjustments to project sub-components and activities to accommodate changes in State policy priorities. It also allows the project to respond to differential progress in implementation.

66. **Series of Projects.** The SoP approach allows the World Bank to help address individual requirements of Brazilian states in a cost-efficient manner by providing an opportunity to share experiences and solutions among participating states where conditions are similar, while also respecting their fundamental differences. Public sector management reforms require a strategic and long-term commitment from all parties. The SoP approach provides a strong message to all stakeholders because it establishes from the outset a sense of commitment and continuity that cannot be achieved by stand-alone operations. It also serves as a tool for coordination, learning and collaboration between the Federal and State governments, across State governments, as well with the World Bank. The Federal Government and the World Bank have agreed on the general guidelines which provide an overarching strategy and priorities common to all operations (see Annex 2). The SoP approach will help preserve coherence and predictability across multiple operations in Brazil through a single Program Development Objective, including a clear set of activities that can be financed. This will help the Federal Government implement a well-defined national agenda. States can join the program at different implementation stages insofar as they subscribe to the development objective and meet the eligibility criteria. The use of project templates can help accelerate project preparation and shift staff efforts to hands-on supervision.

67. **Institutional building, knowledge sharing and innovation.** The Progestão Program provides a platform to strengthen institutional capacity in Brazilian states in several priority public sector management areas. This will be achieved through the upgrading of core management systems and approaches. Peer learning and technical collaboration among states regarding priority reform areas will drive results and innovation. States participating in Progestão will share experiences and tools through thematic working groups. These groups will be crucial for exchanging views on implementation issues and technical challenges among State governments. Collaboration and experience sharing across



state governments through these working groups is expected to reduce investment costs by allowing states to: develop, pilot, and share innovative solutions, such as the use of artificial intelligence in human resource management; maintain reform momentum through peer exchange; and save time on implementation by allowing states to share TORs and technical documents. A capacity development and knowledge management program will support skills enhancement for both technical and managerial staff, as well as to strengthen soft skills in all technical areas. The management information systems developed by the project for public investment, procurement, human resources, hospitals, and schools will be of interest to states participating in the Progestão Program, and a wider range of Brazilian states. It may also be of interest to other countries in the region.

68. Technical capacity and readiness to implement. The project entails a challenging set of management reforms and systems across a wide range of functions and multiple institutions in Acre's public administration. The State has some experience with management reforms, recently introducing results-oriented budgeting practices, and implementing an asset management framework. The proposed project provides significant technical assistance to support the reform process, including technical advisors and consultants, capacity building and change management activities. Change management is particularly important given that the project requires changes in organizational culture, as well as promoting the use of integrated data and analytics to support evidence-based decision making and citizen-oriented services. The SEPLAN's leadership and managers at all levels will play an important role in mobilizing support for the implementation and use of outputs developed under the project.

69. Equity. The project will incorporate, when technically relevant and feasible, equity perspectives in accordance with Brazilian legislation. The project's investments in information systems and management reforms will facilitate equitable access to public services and opportunities. The new health financial management information system will provide the State with reliable financial statements, data accuracy, overall cost reduction, and data security. This will result in a better financial management of existing resources, allowing the State to provide more cost-efficient healthcare services to all the population dependent on the public health system, which are predominantly lower income families. The new integrated financial management for educations will provide reliable financial statements, overall cost reduction, allowing for more fiscal space to improve service delivery for students. The new social assistance financial management system will help improve financial and disbursement projections in transfer action plan, beneficiary data collection for checking eligibility, improving payment amount calculation, managing performance analysis, visualization and reporting, allowing accurate monitoring of the co-financing of SUAS, which mostly benefit the poor and vulnerable groups targeted by this policy, promoting equity in the State.

70. Paris Alignment. Progestão Acre is aligned with the goals of the Paris Agreement on both mitigation and adaptation. The Project's climate and disaster risk screening identified minor climate risks to the investments in information systems financed by the Project. The Project will support adaptation measures for response to extreme weather and climate events to minimize service disruptions and protect the safety of beneficiaries. Project implementation will incorporate the development of PIM Guidelines that address climate risk considerations in infrastructure projects financed by the State. The Project has a low risk of preventing Brazil's transition to low-carbon development pathways. Project activities will have a negligible impact on GHG emissions and are unlikely to have an adverse effect on Brazil's low-GHG-emissions development pathways. The Project will incorporate life cycle requirements and energy efficiency standards in the procurement of services, equipment, and supplies.

71. The economic analysis assesses the project's economic return using a cost-benefit analysis (CBA) of the modernization of the public administration. Project costs include systems development, implementation, and incremental operating costs. Direct benefits come from efficiency savings from reduced costs in human resources management, procurement, and pensions. Economic benefits include the increased economic growth impact of higher quality public investments. Other efficiency savings are expected from the rationalization of operational costs, staff time, and the management of assets. The estimation of the expected benefits is based on the data and information provided by the State Government. Annex 3 summarizes the costs and benefits by project component considered in the CBA. The



analysis employed an incremental approach, which, by design, compares the scenario without the project (counterfactual scenario) and the scenario with the project. Indirect benefits and higher quality of public investments were not included in the analysis. The net present value of project benefits is estimated at US\$101.6 million, with an internal rate of return of 57 percent at a discount rate of 4.5 percent in 10 years. The efficiency savings generated by the implementation of the project are summarized in Table 2 below.

Table 2: Progestão Acre Summary of Efficiency Savings

| Sub-component | Source of savings | Savings in millions |
|-------------------------------------|---|---------------------|
| 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\$183.2 (US\$38) |
| 1.2 Pensions | <ul style="list-style-type: none"> Reduced unconformities in the pension payroll | R\$95.6 (US\$19.8) |
| 1.3 Procurement | <ul style="list-style-type: none"> Reduced price paid per product | R\$38.7 (US\$8) |
| 1.4 Public Investment and Budgeting | <ul style="list-style-type: none"> Reduced cost and time overruns Increased execution rate of projects | R\$115.5 (US\$24) |
| 1.5 State Owned Enterprises | <ul style="list-style-type: none"> Reduced expenditures Increased collection rate | R\$63.2 (US\$13.1) |
| 1.6 Asset Management | <ul style="list-style-type: none"> Increased return from the exploitation of real estate assets Reduced expenditures with real estate assets | R\$25.2 (US\$5.2) |
| 2.1 Health | <ul style="list-style-type: none"> Reduced health administrative costs Increased reimbursement from the federal government for SUS procedures. | R\$75.5 (US\$15.7) |
| 2.2 Education | <ul style="list-style-type: none"> Reduced number of classes Reduced teacher idle workload Reduced expenditures with meal and transport management | R\$45.1 (US\$9.4) |
| 2.3 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\$32.7 (US\$6.8) |

B. Fiduciary

Financial Management

72. A Financial Management Assessment (FMA) of the SEPLAN was performed in accordance with Bank Directives: Financial Management in Bank-Financed Operations and Other Operational Matters (issued: April 5, 2023; effective: March 10, 2023). The scope of the assessment included: an evaluation of existing financial management (FM) systems to be used for project planning and budget, monitoring, accounting, and reporting; a review of staffing arrangements; a review of the flow of funds arrangements and disbursements methodology; a review of internal control mechanisms in place, including internal audit; the format and content of the Interim Financial Reports (IFRs); and a review of the external audit arrangements. The FMA concludes that FM systems are adequate to provide reasonable assurance that the project funds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. However, the residual FM risk associated with the project is rated as **Substantial**. There are no FM-related conditions for negotiations, board, and effectiveness.

73. The Public Financial Management System of Acre has satisfactory internal rules and controls, with a clear definition of responsibilities and institutional arrangements. SEPLAN is responsible for budget preparation. The State Treasury Department (*Secretaria Adjunta do Tesouro Estadual*, SATE) under the State Secretariat of Finance (*Secretaria de Estado da Fazenda*, SEFAZ) is responsible for the treasury management and accounting functions. The State Comptroller Secretariat (*Controladoria Geral do Estado*, CGE) carries out internal audits. It oversees the budget and is responsible for combating acts of corruption and enhancing transparency within the state public administration. The State Court of Accounts (*Tribunal de Contas do Estado*, TCE) is the subnational supreme audit institution, which is mandated to audit all public expenditures. Both the TCE and the CGE have sufficient autonomy. Audit recommendations



are generally implemented. Any changes in the assessed financial management and institutional arrangements would represent additional risks to the Project and may be subject to Bank's review for additional mitigation measures.

74. Risks identified by the financial management assessment. The State of Acre has recently implemented a prior World Bank operation with SEPLAN as the PMU. Project implementation faced issues related to weak internal control arrangements in most of the State implementing agencies, delays in physical and financial execution of the project, and a lack of adequate monitoring.¹⁰ Progestão Acre has a complex design supporting various sectors with multiple executing agencies. The 2023 PPA Annual Budget already envisages the project's activities. This may delay the start of the project. Budget execution concerning the relevant budget lines for the project since 2020 has been low, indicating low implementation capacity. Post-pandemic fiscal pressures may translate into budgetary constraints throughout implementation. The State is following the National Treasury's (STN) Public Sector Accounting Manual (*Manual de Contabilidade Aplicada ao Sector Público*, MCASP) and the Brazilian Public Sector Standards (*Normas Brasileiras de Contabilidade Técnicas do Sector Público*, NBC TSP) implementation schedule, but there are shortcomings in implementation process, mostly regarding the most complex standards, and it is essential to provide adequate controls and safeguards of the project's assets. The CGE faces challenges in adopting internal audit functions and a risk-based approach. As such, it needs to modernize its administrative structure to fully comply with its institutional functions. The Budget, Financial and Accounting Management System (*Sistema de Administração Orçamentária, Financeira e Contábil*, SAFIRA) has few advanced functionalities for project financial management but it can properly reflect the project design to run reports for disbursements and monitoring purposes. The TCE will not be able to audit the project, due to a lack of experience in financial auditing, as well as lack of resources. An external audit will be conducted.

75. Financial management mitigation measures. The Project Operations Manual (*Manual de Operações do Projeto*, MOP) will detail the FM procedures. The World Bank will provide close support and supervision concerning the PMU and implementing agencies, including training for implementing agency staff. SEPLAN will appoint at least two dedicated FM staff, and each implementing agency will appoint at least one dedicated FM staff member to undertake all FM-related tasks and to assure the segregation of functions, as detailed in the POM. The SEPLAN, working in coordination with the SEFAZ, will maintain budget lines for PPA and LOA specifically to monitor the execution of project components and activities and allocate the necessary amounts. The PMU will provide a comprehensive forecast of budget expenditures related to project activities in the project's financial reports. The PMU will liaise with the implementing agencies, identifying constraints, and informing the World Bank and the CGE. The State government will monitor the forecast and execution of the budget by source of funds (*Fontes de Recursos*), and it will report the current status in the financial reports of the project (IFRs), providing inputs for corrective measures. The Bank will follow-up on the status of the MCASP and the NBC TSP implementation in the State, as informed by the National Treasury's accounting standards implementation ranking.¹¹ The State will provide support to strengthen and update the administrative and functional structure of the CGE in order to enhance the monitoring of the project execution and modernize the administrative structure; achieve level 3 of the Internal Audit Capability Model (IA-CM) requirements for the Public Sector (issued by the Institute of Internal Auditors – IIA); and adopt an internal audit risk-based approach. A segregated Designated Account will be opened, and expenditures will be accounted for on a cash basis for disbursements, as well as for monitoring purposes. The SAFIRA will be customized and/or integrated with other systems to incorporate the project activities and to automatically generate the IFRs needed for project reporting purposes. This will be achieved with no

¹⁰World Bank Brazil Acre Social and Economic Inclusion and Sustainable Development Project – PROACRE/PROSER (P107146), closing date: December 31, 2021. Based on the last FM supervision of Project P107146, the Implementation Status Report (ISR), the FM performance rating was changed to Moderately Unsatisfactory, as there were significant shortcomings in the operation regarding financial management arrangements. The overall Project FM risk rating was maintained as Substantial until the closing date.

¹¹ The ranking is an initiative of the National Treasury that seeks to improve the quality and consistency of fiscal and accounting data sent by Federation entities. Available on: <https://ranking-municipios.tesouro.gov.br/estados>



human intervention in the preparation. A specific audit Terms of Reference (TOR) for external independent auditors will be prepared by the PMU and will be approved by the Bank.

Procurement

76. **The project procurement risk is Substantial.** The project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers, dated November 2020. The main challenge from the procurement standpoint is related to the large number of consulting services contracts under the project. The planned consulting services include a first set of 54 contracts for the development of information systems, as well as consulting services for diagnostics and technical studies. Many of the systems related contracts involve cybersecurity aspects, which adds to the complexity and scope, thus requiring special attention, skills, and care. Although the national consulting services market is well-developed and competitive, implementing agencies will prepare an engagement strategy to inform and mobilize a broad set of prospective consulting firms to ensure a bidding process that is attractive to market participants. Procurement arrangements will follow all particularities and the context described in the Project Procurement Strategy for Development (PPSD) document. The procurement of all activities will be carried out and monitored by the SEPLAN through a dedicated Special Bidding Committee at the SEAD. During supervision, the Bank will identify the relevant contracts to be subject to prior review procedures. The procurement post-review visits will be carried out by the Bank staff or independent consultants every twelve months during project implementation. The project's procurement arrangements are detailed in annex 1.

77. **Risks identified in the procurement capacity assessment.** A detailed procurement capacity assessment was carried out, it focused on assessing the capacity of the agency responsible for implementing the procurement transactions and management of contracts, in accordance with the Bank's Procurement Regulations. The assessment reviewed the organizational structure of the implementing agency and the current operating environment available for implementing procurement transactions expected by the project. The State's administrative staff lacks familiarity with procedures to select consultants, as well as procurement goods and non-consulting services in accordance with the Bank's new procurement framework and policies. There are capacity constraints in preparing realistic procurement plans, as well as in effectively managing the scope of contracts. There is a lack of appropriate local expertise to prepare Terms of Reference and other procurement documents for most of the information systems to be financed by the operation. Therefore, it might affect the agencies' ability to timely identify and correct inconsistencies in procurement processing and flow. The expected number of consulting services contracts under the operation may prove to be a challenge to the pace of project implementation.

78. **Staffing.** SEPLAN and each implementing agency shall be staffed with skilled procurement staff according to the complexity of activities, including a pool of experts to prepare the ToRs and technical specifications. The technical aspects of the envisaged procurement activities will require appropriate coordination amongst technical and procurement specialists. The SEPLAN should establish a Special Bidding Committee (Comissão Especial de Licitação, CEL) at the SEAD. It should be properly staffed and equipped to meet the project's procurement needs. The procurement planning, design, and technical execution of the contracts would be the responsibility of each implementing agency, with the responsibility for evaluating the demands of procurement and deciding the appropriate means for their implementation. Additionally, the PMU's procurement team shall be exclusively dedicated to matters related to the project's procurement. This team must be composed of at least one (1) procurement analyst, one (1) contract management analyst, one (1) procurement assistant, and one (1) ad-hoc individual consultant (with expertise in the Bank's rules, to provide specific guidance on procurement matters and support the PIU's decision-making process). Additionally, the PMU should also have focal points in procurement to liaise with the other secretariats and support the agile preparation of the TORs, technical specifications, and other bidding documents.

79. **Partnership with the federal, subnational governments, and international organizations.** To foster the implementation of project components, the State could establish Terms of Agreements (*Termos de Compromissos* or



Convênios), aiming at engaging in partnerships with national level (e.g. National Treasury Secretariat, National Public Administration School), subnational level and international organizations, that have relevant expertise in the achievement of the component's objectives and activities.

C. Legal Operational Policies

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

D. Environmental and Social

80. **Based on the results of the environmental and social risks and impacts screening, this project is rated as low risk under the Bank's 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 carried out an Expedient Environmental and Social Assessment (EESIA) of the potential environmental and social risks, impacts and downstream effects—although the activities that may cause the later are outside of the scope of the Project—that could be associated with the technical assistance activities supported by the Project, paying special attention to potential distributive impacts on disadvantaged and vulnerable social groups (such as the traditional and *quilombola* or Afro-Brazilian communities). The EESIA was disclosed on the Borrower's website on November 1, 2022. The final EESIA will be disclosed no later than thirty days after the Effective Date, and any relevant measures will be implemented as set out in the EESIA, as applicable.

81. **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's website on November 1, 2022 and on the Bank's website on November 3, 2022.

82. **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: (i) the systematic screening and assessment of public investment; (ii) the development and implementation of a public procurement strategy; (iii) rationalization of movable assets; and (iv) reductions in consumables, travel time, and energy consumption through the digitalization of public administration services.

83. **Social risk.** Progestão Acre is not expected to have adverse social impacts. Project activities do not require land acquisition, and 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. The 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 the human resource management, procurement, public investment, and asset management processes. It will create opportunities for public consultation concerning public investment projects and the administrative reform agenda. The project will



also strengthen the State Government's grievance redress mechanisms.

V. GRIEVANCE REDRESS SERVICES

84. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

VI. KEY RISKS

85. **The overall risk of the proposed operation is assessed as Moderate.** Institutional Capacity for Implementation and Sustainability and Fiduciary risks are assessed as Substantial.

86. **Institutional Capacity for Implementation and Sustainability risks are Substantial.** During preparation, the Bank and the authorities identified potential implementation constraints and sought to align the scope of Project activities with management capacity. The State of Acre has technically sound, tenured public officials in key management positions. It also has an experienced PMU and project preparation team familiar with lending operations. However, there are capacity gaps in the lower ranks. A large number of contracts will be executed throughout implementation across multiple agencies. Even with the strong commitment from the implementing agencies, the management reforms and information systems that will be implemented are complex. These risks will be mitigated by investing in capacity building activities across all management levels and not limited only to high officials. The Bank will provide targeted support to develop ToRs for Project activities, which include direct support for a limited time after systems are in place. The World Bank Team will also encourage State officials to actively participate in the national thematic working groups of CONSAD to exchange experiences with other Brazilian states enrolled in Progestão operations. The support will be targeted to permanent public employees to ensure the continuity of the operation.

87. **Fiduciary risk is rated as Substantial.** Procurement risks include: the limited capacity of administrative staff; a lack of familiarity of implementing agency staff with Bank procedures; capacity constraints in the preparation of realistic procurement plans; and a lack of sufficient staff with adequate skills, including a satisfactory track record in carrying out procurement. FM risks are related to internal control and audit. The CGE faces challenges in implementing internal auditing functions. The TCE has no prior experience in the auditing of operations financed by international organizations. The project will mitigate these risks by periodically monitoring information from the SAFIRA, the State's FMIS, concerning implementation by the multiple implementing agencies. The POM will present detailed procedures and the World Bank will provide close support and supervision of the PMU and implementing agencies. The SEPLAN, SEAD, SEFAZ, SESACRE, SEE, SEASD, SANEACRE, ACREPREVIDENCIA, CGE and PGE staff will participate in training programs offered by the World Bank. At least two fully dedicated FM staff in the SEPLAN and at least one in each implementing agency (under coordination of SEPLAN), and specifically for this project, should be appointed/hired to undertake all FM-related tasks and to assure segregation of functions, as to be detailed in the POM. The State will prepare an action plan considering measures to support and enforce regulations and systems related to procurement planning activities,



including training on best planning practices. A Special Bidding Committee will be established at the SEAD. The World Bank will assist in the training of procurement staff working at both implementing agencies involved in project execution, and/or for those with the responsibility for preparing procurement documents and carrying out procurement processes.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Brazil

Progestão Acre: Public Sector Management Efficiency

Project Development Objectives(s)

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

Project Development Objective Indicators

| Indicator Name | PBC | Baseline | Intermediate Targets | | | | End Target |
|--|-----|----------|----------------------|--------|----------|----------|------------|
| | | | 1 | 2 | 3 | 4 | |
| Improve efficiency in public resource management in selected department of the State of Acre | | | | | | | |
| Public sector workforce replacement rate in non frontline service delivery staff (Number) | | 1.01 | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 |
| Time between opening and finalizing the procurement process (Days) | | 120.00 | 110.00 | 100.00 | 95.00 | 85.00 | 80.00 |
| Investment projects cost overruns (Percentage) | | 6.20 | 5.50 | 4.50 | 4.00 | 3.50 | 3.00 |
| Public real estate with complete legal documentation (Number) | | 0.00 | 200.00 | 700.00 | 1,200.00 | 1,600.00 | 2,000.00 |
| Branches part of the Unified Management Unit for the | | 1.00 | 1.00 | 2.00 | 2.00 | 3.00 | 3.00 |



| Indicator Name | PBC | Baseline | Intermediate Targets | | | | End Target |
|---|-----|----------|----------------------|---|---|---|------------|
| | | | 1 | 2 | 3 | 4 | |
| Public Servant Pension Regime – RPPS (Number) | | | | | | | |

Intermediate Results Indicators by Components

| Indicator Name | PBC | Baseline | Intermediate Targets | | | | End Target |
|---|-----|----------|----------------------|-------|-------|-------|------------|
| | | | 1 | 2 | 3 | 4 | |
| Whole-of-Government Management Systems | | | | | | | |
| Identified active public officials payroll non-conformities/irregularities (Percentage) | | 0.00 | 0.00 | 0.30 | 0.30 | 0.30 | 0.30 |
| Public officials covered by the workforce planning reports (Percentage) | | 0.00 | 15.00 | 40.00 | 50.00 | 60.00 | 65.00 |
| Identified non-conformities/irregularities in the pension concession and payroll processes (Percentage) | | 0.00 | 0.00 | 0.30 | 0.30 | 0.30 | 0.30 |
| Use of price reference system in competitive bidding processes (Percentage) | | 0.00 | 0.00 | 10.00 | 25.00 | 40.00 | 50.00 |
| Public investment projects prepared and selected in line with PIM methodology (Percentage) | | 0.00 | 0.00 | 10.00 | 25.00 | 40.00 | 50.00 |
| Implemented system for intergovernmental transfers management (Yes/No) | | No | No | No | Yes | Yes | Yes |



| Indicator Name | PBC | Baseline | Intermediate Targets | | | | End Target |
|--|-----|----------|----------------------|-------|-------|-------|------------|
| | | | 1 | 2 | 3 | 4 | |
| Debt Management System implemented (Yes/No) | | No | No | Yes | Yes | Yes | Yes |
| Water tariff collection rates (Percentage) | | 34.00 | 34.00 | 45.00 | 48.00 | 50.00 | 52.00 |
| Inventory on State ICT Infrastructure (Yes/No) | | No | No | Yes | Yes | Yes | Yes |
| Management Systems in Strategic Sectors | | | | | | | |
| Municipalities using new financial management system to provide reports on social assistance services (Percentage) | | 0.00 | 0.00 | 22.00 | 41.00 | 61.00 | 81.00 |
| Percentage of state health units with expenditure management system implemented (Percentage) | | 9.00 | 9.00 | 20.00 | 40.00 | 60.00 | 80.00 |
| Percentage of schools with meal financial program complying with federal regulations (Percentage) | | 0.00 | 0.00 | 10.00 | 20.00 | 30.00 | 40.00 |

Monitoring & Evaluation Plan: PDO Indicators

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|--|--|-------------------------|--------------------------------------|---|------------------------------------|
| Public sector workforce replacement rate in non frontline service delivery staff | It measures the replacement rate (the share of recruited personnel per | Last four years average | Secretariat of Administration (SEAD) | Sum of # public officials new hires in the last 4 years / Sum of # public | SEAD |



| | | | | | |
|---|---|--------|--------------------------------------|---|------|
| | <p>the personnel leaving active post due to retirement, resignation or death) in non-frontline service delivery areas of the past five years. This indicators does not consider public officials in areas of service delivery (health, education, social assistance, public security and re-socialization). The strategic workforce planning, in line with the sizing of the Federal administration, leads to the automation of processes in support areas and departments and to the review of career structure and incentives in service delivery areas, indicating a reduction in the workforce in support areas (non-frontline service delivery staff). It is estimated a 37 public officials reduction in non-frontline staff per year since the third year of implementation.</p> | | | officials leaving in the last 4 years | |
| Time between opening and finalizing the procurement process | Days between Demand Registration in procurement system and award of | Annual | Secretariat of Administration (SEAD) | Average difference between procurement opening and finalizing | SEAD |



| | | | | | |
|---|---|---------------------|---------------------------------------|--|-----------------|
| | contract to provider for acquired goods (non-complex items) | | | dates for all non-complex state purchases (goods) | |
| Investment projects cost overruns | Average cost (in percentage) overruns of the whole portfolio of investment projects: original planned vs executed at project in each year | Annual | Secretariat of Planning (SEPLAN) | Average cost difference between original planned and actual expenditures per project in the last year | SEPLAN |
| Public real estate with complete legal documentation | Number of state real estate properties with complete legal documentation proving state ownership, including geo-referencing data and usage. | Annual | Secretariat of Administration (SEAD) | Technical report from the state asset management system indicating newly added properties and the sum of properties with complete legal documentation. | SEAD |
| Branches part of the Unified Management Unit for the Public Servant Pension Regime – RPPS | Measures the adoption of the Central Management Unit for the Public Servant Pension Regime - RPPS, coordinated by ACREPREVIDÊNCIA, for all State's civil servants, including the three branches (Executive, Legislative, and Judiciary). In line by the mandatory reforms in the Constitutional Amendment - CA 103/19 | Annual accumulated. | Acre Pension Agency (ACREPREVIDÊNCIA) | Implementation Status Report of the Information Interoperability of the Payroll Management of the three branches (Executive, Legislative, and Judiciary), and the State's Prosecutor's Office. | ACREPREVIDÊNCIA |



Monitoring & Evaluation Plan: Intermediate Results Indicators

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|--|--|---|---|---|------------------------------------|
| Identified active public officials payroll non-conformities/irregularities | Expenditure nonconformities of the active personnel payroll. Data would come from Audits. The management analytics product would identify risk areas for control. | One time only based on audit report for 2025 | Audit report for 2025 | Review of Audit report in the active personnel payroll findings | SEAD |
| Public officials covered by the workforce planning reports | Public officials covered by strategic workforce planning reports as a percentage of the total workforce | Annual | Human Resources Management Information System (HRMIS) | Percentage of Public Officials contemplated in the workforce strategic planning methodology / Total State Workforce including non-permanent officials | SEAD |
| Identified non-conformities/irregularities in the pension concession and payroll processes | It measures the identification of expenditure nonconformities (any category) of the retired personnel and pensioner payroll. Data would come from Audits. The management analytics product would identify risk | One time only based on audit report for 2025. | Audit Report | Review of Audit report in the inactive and pensioner payroll findings | ACREPREVIDÊNCIA |



| | | | | | |
|---|---|--------|----------------------------------|--|----------|
| | areas for control. | | | | |
| Use of price reference system in competitive bidding processes | Share of goods and services bidding documents with price reference. | Annual | E-Procurement Information System | Number of goods and services bidding documents with price reference / total of goods and services bidding documents | SEAD |
| Public investment projects prepared and selected in line with PIM methodology | Measures degree of application of the new PIM methodology to public investment projects, including a single entry point of projects and screening and appraisal criteria. A review of all new projects will be carried out to determine compliance. | Annual | Secretariat of Planning /GIP | # of investment project prepared and selected under PIM methodology / total of investment project carried out by the State | SEPLAN |
| Implemented system for intergovernmental transfers management | Measures the status of system implementation including a dashboard to allow for Government and Citizens monitoring and feedback process. | Annual | SEPLAN | Implementation Status Reports | SEPLAN |
| Debt Management System implemented | Measures the status of system implementation | Annual | Secretariat of Finance (SEFAZ) | Implementation Status Reports | SEFAZ |
| Water tariff collection rates | Measures the share of tariffs collection rates in the water and sanitation State | Annual | Water and Sanitation Agency | SANEACRE financial reports | SANEACRE |



| | company (SANEACRE) | | (SANEACRE) | | |
|---|---|----------------------|---------------------------|--|-----------------------------------|
| Inventory on State ICT Infrastructure | Complete inventory report on state ICT infrastructure and systems finalized and available | Annual | SEAD | Review of Inventory report provided by SEPLAG | SEAD |
| Municipalities using new financial management system to provide reports on social assistance services | Percentage of municipalities generating reports on social assistance services from the financial management information system | Annual (accumulated) | SEAMD | Number of municipalities that adopted and are using the financial system divided by the number of municipalities of the entire State | SEASDHM |
| Percentage of state health units with expenditure management system implemented | The system aims to integrate the hospital management and costing systems that handle data related to the provision and funding of medium and high complexity health services in the state. As an integrated effort, the implementation of system is designed to improve planning, budgeting, health services management, and support evidence-based decision making, generating economies of scale in the provision of health services. | Annual | Official Progress Report | Number of state health units with management and costing system implemented/Total number of state health units X 100 | State Secretariat of Health (SES) |
| Percentage of schools with meal financial program complying with federal | Percentage of school with meal program expenditure | Annual | Secretariat of Education, | Administrative records | SEE |



| | | | | | |
|-------------|---|--|----------------------------|--|--|
| regulations | with an adequate type of procurement complying to federal regulation. | | Culture and Sports (SEDUC) | | |
|-------------|---|--|----------------------------|--|--|

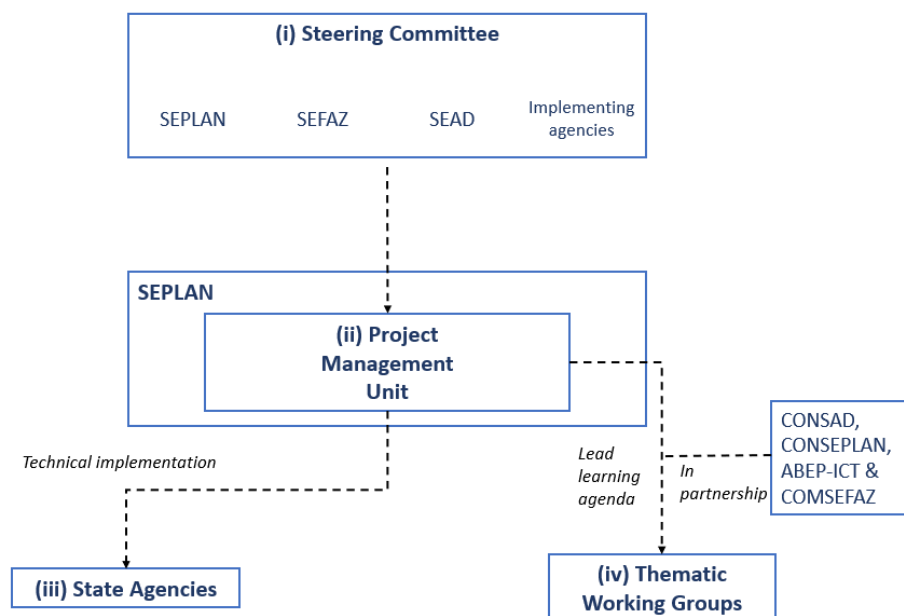


ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

Project Institutional and implementation arrangements

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

Figure 1: Implementation Arrangements



2. **SEPLAN will lead project implementation and host the Project Management Unit.** The project will leverage SEPLAN's experience in managing externally financed operations, including recent projects with the Bank. The State Government has selected SEPLAN as the implementing and lead and coordinating agency because it has the qualified 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. As the implementing entity, SEPLAN will: coordinate, monitor, and report on project implementation; decide on operational matters related to project implementation; support the other Secretariats to implement the project activities; coordinate with other secretariats to ensure project's proper implementation; and serve as World Bank's interlocutor for the implementation of the project. The establishment of a Project Management Unit is a condition of project effectiveness.

3. **Steering Committee.** The Steering Committee is an advisory body comprising representatives of each agency participating in the project. The representatives are the Secretaries or Deputy Secretaries appointed to the Committee by the State Governor. The Committee will be chaired by SEPLAN. The committee may temporarily invite agencies with direct or indirect involvement in the project to participate. The State shall not later than sixty days after the Effective Date, establish and thereafter maintain throughout project implementation the SC. The SC will provide strategic guidance and oversight of the reforms and project implementation. The Committee will be responsible for the overall policy coordination and policy guidelines, strategic guidance, set priorities, resolve conflicts, ensure inter-agency collaboration where needed, and monitor progress of the project.



4. **Thematic working groups.** At the national level, thematic working groups established through the CONSAD will bring together technical teams and high-level officials. These arrangements will facilitate learning and exchange of experience on human resource management, procurement, public investment management, asset management, and innovation and digital government.
5. **Project Management Unit (PMU).** The PMU will support project implementation and coordination with the participating secretariats. SEPLAN will create the PMU by a State Decree. The State will establish and maintain the PMU in SEPLAN throughout implementation. The establishment of the PMU is a condition of effectiveness of the project. 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, as defined in the financing agreement, the POM, the ESCP, and the Disbursement and Financial Information Letter. The PMU will serve the following functions: (i) ensuring proper and timely implementation of project activities; (ii) monitoring and supporting proper implementation of the project environmental and social framework; (iii) assisting in the preparation of Terms of Reference; (iv) ensuring that procurement is carried out in the most expeditious manner, with technical input provided by relevant departments and/or in-country expertise in the relevant area being financed, following World Bank rules; (v) monitoring contracts under the project; (vi) presenting project progress and financial reports on a timely basis as required by the World Bank; (vii) disseminating results in such a manner as to strengthen reform constituencies and ensure the carrying out of reforms deriving from the implementation of the project or studies and recommendations; and (viii) hosting and facilitating World Bank support missions and working to optimize the operation's results and impact.
6. **Staffing.** The PMU under SEPLAN will be staffed by civil servants or consultants holding adequate technical and fiduciary backgrounds to implement the Project. At least two dedicated Financial Management staff on SEPLAN and at least one in each implementing agency (under the coordination of SEPLAN), specifically for this Project, will be appointed/hired to undertake all FM related tasks and to assure segregation of functions, as to be detailed on the POM. The FM staff will be trained in all the necessary government budget, accounting, administrative rules, and procedures and attend all fiduciary training provided by the World Bank throughout Project implementation.
7. **Project Operations Manual.** The Implementing Secretariats and agencies will implement the project in accordance with an "Project Operations Manual", satisfactory to the Bank, setting forth Financial Management, Procurement, Safeguards, and other arrangements as established by the Legal Agreement. The adoption of an approved Project Operations Manual (POM) is an effectiveness condition for the project.
8. **Interagency arrangements.** SEPLAN, SEAD, ACREPREVIDÊNCIA, SEFAZ, and SANEACRE will implement activities under Component 1. The State Secretariats of Health, Education and Social Assistance will implement sub-components under Component 2. SEPLAN will implement Component 3, which includes the PMU, just-in-time technical, and change management activities for all project components. The responsibilities of the implementing secretariats will be established by a state decree, including specific objectives, attributions, and timeframe for implementation of project activities. Participating agencies will designate a focal point responsible for project implementation and monitoring of progress. Project Implementation Units (PIUs) should be established in each of the implementing agencies and ACREPREVIDENCIA and SANEACRE with staffing, functions, and responsibilities acceptable to the Bank.

Table 1: Progestão Acre Implementing Agencies Responsibilities for Project Components

| Agency | Institutional Structure and Function | Subcomponents |
|--|---|--|
| State Secretariat for Planning SEPLAN | SEPLAN is a direct administration body advising the State Governor on planning, coordinating the planning and budgeting cycle of the executive branch and managing the intergovernmental transfers and capital investments. | Public Investment Management and Budgeting, and Change Management; |
| State Secretariat | SEAD is a direct administration body advising the State Governor on managing the central human resources, public procurement, asset management agenda. | Human Resources Management, Public Procurement and Budgeting, |



| Agency | Institutional Structure and Function | Subcomponents |
|--|--|---|
| of Administration SEAD | | and Asset Management; |
| Secretariat of Finance SEFAZ | SEFAZ is the administrative body of the executive branch responsible for assisting the State Governor in planning, execution, and evaluation of the financial, accounting, and tax policies of the State of Acre | Public Investment Management and Budgeting; |
| Water and Sanitation Agency SANEACRE | SANEACRE is a SOE responsible to coordinate the water and sanitation policy and administration in the State of Acre. | State Owned Enterprises. |
| Acre Pensions Agency ACREPREVIDÊNCIA | ACREPREVIDÊNCIA is a State agency with legal mandate, part of the State's indirect administration. The agency is responsible for managing the Social Security System for Civil Servants of the State of Acre, operationalizing the respective social security benefits, covering active, inactive, and pensioner civil servants. | Pensions Management |
| State Secretariat for Social Assistance and Human Rights SEASD | SEASD is the administrative body of the executive branch of the State of Acre responsible for promoting social assistance through mechanisms of social inclusion that include capacity building activities, decentralized assistance centers in municipalities, and the formulation and execution of public policies oriented to achieve general equity. | Social Assistance |
| State Secretariat of Health SESACRE | The Secretariat of Health is responsible for the coordination, formulation, control, and implementation of health policies and guidelines in the State of Acre | Health |
| State Secretariat of Education SEE | The Secretariat of Education is responsible for the coordination, formulation, control and implementation of education policies and guidelines in the State of Acre | Education |

Financial Management

9. **A Financial Management Assessment of SEPLAN was performed in accordance with Bank Directives: Financial Management in Bank-Financed Operations and Other Operational Matters (issued: April 5, 2023; effective: March 10, 2023).** The scope of the assessment included: (a) an evaluation of existing FM systems to be used for Project planning and budget, monitoring, accounting, and reporting; (b) a review of staffing arrangements; (c) a review of the flow of funds arrangements and disbursements methodology; (d) a review of internal control mechanisms in place, including internal audit; (e) format and content of Interim Financial Reports (IFRs); and (f) a review of the external audit arrangements.

10. **Acre's existing Public Financial Management System has satisfactory internal rules and controls, with a clear definition of responsibilities and institutional arrangements.** SEPLAN is responsible for budget preparation; the State Treasury Department (*Secretaria Adjunta do Tesouro Estadual*, SATE) under SEFAZ takes responsibility for treasury management and accounting functions; the CGE carries out internal audits overseeing the budget and is responsible for combating acts of corruption and enhancing transparency within the state public administration. In addition, the TCE is mandated to audit all public expenditures. Both the TCE and CGE have sufficient autonomy, and their recommendations are generally implemented. Any change in the below assessed financial management and institutional arrangements would represent additional risks to the Project and may be subject to Bank's review and to additional mitigation measures. The conclusion is that SEPLAN has sufficient capacity to fulfill its FM responsibilities, and with the implementation of the proposed mitigation measures the FM systems are adequate to provide reasonable assurance that the Project funds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The residual FM risk associated with the Project is rated as **Substantial**.

11. **The FMA identified the following risks to the achievement of the Project Development Objective:** (a) although the State of Acre has recently implemented prior World Bank operation¹² with SEPLAN as the PMU, the previous Project

¹²Brazil Acre Social and Economic Inclusion and Sustainable Development Project – PROACRE/PROSER (P107146), closing date: December 31, 2021.



implementation faced issues related to weak internal control arrangements in most all state implementing agencies, delays in physical and financial execution of the project and lack of adequate monitoring¹³; (b) the Project has a complex design as it aims to support various sectors of the State Public Administration and multiple executing agencies, which may delay Project implementation; (c) the current PPA and LOA did not envisage the Project's activities, which may result in budget constraints, and it was detected a low budget execution capacity on the relevant budget lines for the Project since CY2020, considering the post-pandemic fiscal situation and the lack of structure of the State Administration; (d) the State is subject to the National Treasury's (STN) Public Sector Accounting Manual (*Manual de Contabilidade Aplicada ao Setor Público*, MCASP) and Brazilian Public Sector Standards (*Normas Brasileiras de Contabilidade Técnicas do Setor Público*, NBC TSP) implementation schedule¹⁴, but there are shortcomings in implementation process, and it is essential to improve the accounting arrangements to provide the adequate control and safeguards of Project's assets; (e) the CGE faces challenges to adopt internal audit functions and risk-based approach and needs to modernize its administrative structure to fully comply with its institutional functions; (f) SAFIRA, State FMIS, has few advanced functionalities aimed at financial management, and it does not allow the automatic generation of all IFRs, and the system needs to be improved; and (g) TCE will not be able to audit the project, due to lack of experience on financial auditing and lack of resources

12. **Mitigation measures include:** (i) a direct access to SAFIRA to obtain timely information on implementation by the multiple implementing agencies should be provided to the Bank staff; (ii) the POM will present detailed procedures and the World Bank will provide close support and supervision on the PMU and implementing agencies, and training for the staff; (iii) at least two fully dedicated Financial Management staff on SEPLAN and at least one focal point in each implementing agency (under coordination of SEPLAN), specifically for this Project, should be appointed/hired to undertake all FM related tasks and to assure segregation of functions, as to be detailed on the POM; (iv) the State, through SEPLAN in coordination with SEFAZ, will create budget lines on PPA and LOA specifically to monitor the execution of Project components and activities and allocate necessary amounts, and in the financial reports of the Project (IFRs), the PMU will provide a comprehensive forecast of budget expenditures (by source of funds) related to Project activities and liaise with the implementing agencies, identifying constraints, informing the relevant parties (WB management, FM and procurement staff and CGE); (v) the Bank will closely follow-up on the status of Federal Decree 10,540/2020¹⁵, MCASP and NBC TSP implementation in the State using the National Treasury's accounting standards implementation ranking¹⁶ as parameter; (vi) the State will provide support to strengthen and update the administrative and functional structure of the CGE in order to enhance the monitoring of the Project execution and modernize administrative structure, achieve level 3 of the Internal Audit Capability Model (IA-CM) requirements for the Public Sector (issued by the Institute of Internal Auditors – IIA) and adopt an internal audit risk-based approach; (vii) payments will be made directly to the services' providers and beneficiaries' Bank accounts upon PMU authorization, and details of flow of funds and internal processes will be described in the MOP; (viii) SAFIRA will be customized and/or integrated with other systems to incorporate the Project activities and to automatically generate the IFRs needed for Project reporting purposes, with no human intervention on preparation; and (ix) External independent auditors will be hired for project purposes and specific audit Terms of Reference (TOR) will be prepared by the PMU and will be approved by the Bank. The following actions will be detailed in an action plan.

13. **Planning and Budgeting.** The State's budget process is clearly defined, follows Law 4.320/64, and the budget and financial accounting frameworks are aligned with Brazilian regulations. The entire process of preparation of the LOA,

¹³Based on the last FM supervision of Project P107146, the Implementation Status Report (ISR) FM performance rating was changed to **Moderately Unsatisfactory**, as there were significant shortcomings in the operation regarding financial management arrangements. The overall Project FM risk rating was maintained as **Substantial** until the closing date.

¹⁴Portaria 548/2015 of the National Treasury Secretariat and Decree 10,540/2020 (related to FMIS requirements).

¹⁵ Decree 10,540/2020: Provides for the minimum quality requirements for the Federal, states and Municipalities FMISs.

¹⁶The ranking is an initiative of the National Treasury that seeks to improve the quality and consistency of fiscal and accounting data sent by Federation entities. Available on: <https://ranking-municipios.tesouro.gov.br/estados>



PPA, and LDO is carried out by SEPLAN with the participation of all state agencies (including SEFAZ) and submitted to the State Governor's Office, which will prepare the final state budget proposal to be approved by the State Legislative Branch. The procedures in place to plan Project activities, prepare related budgets, and collect information from the other Project executors in charge of the different components are working satisfactorily. However, the PPA and the LOA need to be amended to reflect the Project's activities, as to avoid any budgetary constraints during the first year of project implementation, which should happen no later than three months after loan effectiveness. Acre Progestao is fully aligned with the State's medium-term plan (PPA), which covers the 2020-2023 period and is aligned with the Program's components. The Project supports the programs listed in the PPA focused on different areas, such as:

Table 5 – Project related budget lines

| Agency (Unidade Gestora) | State Program (Programa) | Budget Line (Ação) |
|-----------------------------|--|---|
| SEPLAN | Gestão Moderna, Eficiente E Transparente | Inovação E Promoção Dos Serviços De Atendimento Ao Cidadão Rio Branco |
| SEPLAN | Gestão Estratégica De Pessoas | Inovação Da Política De Gestão De Pessoas |
| SEPLAN | Gestão Moderna, Eficiente E Transparente | Melhoria E Inovação Dos Processos E Ferramentas De Gestão |
| SEPLAN | Gestão Moderna, Eficiente E Transparente | Gestão Estratégica De Investimentos |
| SEPLAN | Gestão Moderna, Eficiente E Transparente | Fortalecimento Do Planejamento E Da Gestão Orçamentária |
| SEFAZ | Gestão Fiscal E Financeira | Modernização Da Gestão Fazendária |
| SEFAZ | Gestão Fiscal E Financeira | Modernização Do Fisco Estadual |
| SEFAZ | Modernização Da Gestão Fiscal, Contábil E Financeira | Manutenção Das Atividades Administrativas E Operacionais |

14. **Based on previous years, there is a risk that the Project will face budgetary constraints throughout implementation.** For example, the average budget execution capacity (comparison between LOA forecasts and paid expenditures) for CY 2020 was 45.6 percent and for CY 2021 was 65.3 percent. The overall budget execution capacity presented a low rate as for CY 2020 and 2021 was 58.6 percent. (see Table 6). The PMU did not send data prior to CY 2020, as the current PPA effectiveness started in that year and the budget lines did not exist before. As a mitigation measure to address the risks related to budget resources allocated to the Project, the State, through SEPLAN in coordination with SEFAZ, will create budget lines on PPA and LOA specifically to monitor the execution of Project components and activities and allocate necessary amounts, and in the financial reports of the Project (IFRs), the PMU will provide a comprehensive forecast of budget expenditures (by source of funds) related to Project activities and liaise with the implementing agencies, identifying constraints, informing the relevant parties (WB management, FM and procurement staff and CGE).

15. **Accounting.** The SAFIRA can adequately account for and control all transactions and records in real-time and individually. It provides detailed information on the budgetary and financial execution of each implementation unit, referring to revenue and expenditure position. The Federal Government published Decree n. 10,540/2020, which established additional mandatory guidelines for art. 48 of Complementary Law n. 101, of 2000, which dealt with minimum requirements for the accounting and control systems of budgetary and financial execution and established the need to elaborate and publish an action plan to migrate to the new standards by the year 2023, and SAFIRA does not fully comply with all requirements and the state is subject to penalties applied by the federal government (not receiving transfers or obtain loan guarantees). The Project's documented financial reporting responsibilities are being fulfilled (that specify what reports are to be prepared, periodicity of preparation and content). All transactions under the Project will be accounted for on a cash basis for disbursements, reporting, and auditing purposes.

16. **Accounting Standards.** The Brazilian Fiscal Responsibility Law (LRF) of 2000 assigned to the STN the role of consolidating national public sector accounts and regulating the general rules, standards, and procedures for the consolidation. In line with LRF and with the guidelines issued by the former Ministry of Finance (current Ministry of Economy) to converge to international accounting standards as stated in Ordinance MF nº 184/2008, STN regularly publishes the Public Sector Accounting Manual (*Manual de Contabilidade Aplicada ao Setor Público*, MCASP), that is mandatory for all public sector entities of the entire Federation. The MCASP is aligned with the accounting practices set



forth in the Brazilian Public Sector Accounting Standards (*Normas Brasileiras de Contabilidade Técnicas do Setor Público*, NBC TSP) issued by the Brazilian professional accountancy organization, the Federal Accounting Council (*Conselho Federal de Contabilidade*, CFC). The NBC TSP represents an IPSAS translation into Portuguese, with few adaptations to the country's peculiarities (indirect adoption). The STN also issues other relevant standards regarding budget execution accounting, chart of accounts, fiscal and LRF limits reports, and other law and special accounting procedures.

17. **The State of Acre follows: (i) the NBC TSP, which represents the adoption of IPSAS in Brazil; (ii) Law N. 4,320/64, which establishes certain high-level accounting principles related to budget and accrual accounting; and (iii) the MCASP, issued under Law 10,180 of February 6, 2001.** To establish a gradual implementation of the accounting reforms in a complex design with so many institutions and federation arrangements and to follow the guidelines of STN Ordinance nº. 634/2013, STN edited the PIPCP, detailed International Public Sector Accounting Standards (IPSAS) implementation plan (*Plano de Implantação dos Procedimentos Contábeis Patrimoniais*, PIPCP). In preparing the PIPCP, observing national and international experience, establishing a gradual logic and the broad participation of the agents involved, including the Federal Court of Auditors, were considered. The involvement of these agents was carried out through meetings, discussions within the scope of established technical groups, dialogue with federation representatives and broad public consultation. Currently, according to the STN¹⁷ the State of Acre has executed 92.9 percent of the applicable accrual accounting procedures established in MCASP and the PIPCP, and is still facing delays resulted from the COVID-19 pandemic. The Bank interventions in this Project are directly related to the improvement of the accounting systems and will contribute to the achievement and sustainability of the Project Development. The State also follows the Reference Manual of the Court of Auditors of the State of Acre, provided for in TCE Resolution Nº. 87, of November 28, 2013, which is the instrument that defines the detailing of the content, form, formatting and standardization of data and information to be sent to the TCE, as well as the accounting procedures to be adopted by those responsible for the branches, agencies or entities of the direct and indirect, state and municipal administration, including the funds established and maintained by the government.

18. **Internal Control.** Although SEPLAN will hold the primary fiduciary responsibilities for the Project and PMU staffing is appropriate to assure segregation of functions and reconciliations of accounts, all executing agencies will also need to ensure a proper FM and control. All project budgeting and accounting transactions will be processed through SAFIRA, which is used by all state institutions that receive/transfer government funds. A specific ledger of accounts is created in the SAFIRA system under each executor for budget and financial reasons to identify the source of funds. The first stage of the expenditures is the commitment (*empenho*) which is approved by the PMU, acquisition, verification, and certification (*liquidação*); and final payment (*pagamento*) is made by SEFAZ. The budget preparation and execution is based on the revenue forecast, and the monitoring of budget execution is carried out by SEFAZ in coordination with SEPLAN. All executing agencies will execute their budget by observing the monthly fiscal budget limits determined by SEPLAN. No payments shall be made outside SAFIRA. The approval and authorization controls are adequate to approve budget transfers/allocations and are currently described in State's regulations and will also be described in the POM. However, the SAFIRA system do not fully comply with the main parameters used to assess the adequacy of FMIS the mandatory requirements established by Decree 10.540/2020 and the State will be subject to not receive voluntary transfers from the Federal Government and to not obtain guarantees for loans if it does not implement all requirements in the established deadlines. For Project purposes, they will be reconciled with budget and procurement reports monthly. Actual expenditures are monthly compared to budgeted expenditures, and justifications are provided for variations relevant to the budget. Each executor will only have access to its budget and financial transactions per its Budget Management Unit (*Unidade Gestora*, UG). However, SEPLAN and SEFAZ will have full access to the Program's executor's entity budget and financial transactions through the "read-only" access of the SAFIRA system. To better monitor the

¹⁷ Ranking of Quality Accounting and Fiscal Information: The ranking is an initiative of the National Treasury that seeks to improve the quality and consistency of fiscal and accounting data sent by Federation entities to the Accounting and Fiscal Information System of the Brazilian Public Sector (Siconfi). Available on: <https://ranking-municipios.tesouro.gov.br/>



Project, the SEPLAN will provide, within three months after loan effectiveness, system access as “read-only”, for Bank staff, Program’s executing agencies and the PMU. The PMU will ensure that all the Projects’ assets acquired with the Loan’s funds will be accounted for. The PMU will ensure that there is a control in place that guarantees all purchased assets by each implementing agency are: (a) used only for the Project’s activities; (b) listed in an inventory record; (c) each asset is given an individual master record and number (i.e., recorded as an individual asset and depreciated according to its individual useful life); (d) physical inventory control is performed annually for these assets and reconciled with the respective control accounts; and, (e) the asset is maintained in good condition. The Project’s assets will be accounted for through the SAFIRA.

19. **Internal Audit.** The CGE is responsible for supporting the State’s direct and indirect agencies to comply with the bidding law and the public information access law. The CGE is also responsible for internal auditing related functions and specific aspects of internal control and for coordinating, executing, evaluating, supporting, and guiding the activities inherent to the internal control of the Executive Branch of the State, pursuant to the State’s Constitution, which established the Integrated System of Internal Control of the Executive Branch of the State of Acre¹⁸. However, CGE do not fully observe the international best practices for the internal audit function. As to mitigate the above risk, CGE will implement the Internal Audit Capability Model (IA-CM), issued by the Institute of Internal Auditors (IIA), to strengthen the internal audit functions in all entities that execute the State budget. IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in the public sector and intends to ensure that the internal audit becomes an integral component of effective governance in the public sector and helps organizations achieve their objectives and account for their results. IA-CM consists of five levels, tied to leading practices, and level 3 (integrated) is where internal audit management and professional techniques are uniformly applied following international practices. In addition, the Bank will continuously support the government’s effort to achieve level 3 of IA-CM by the Project Closing Date by financing some activities of the IA-CM. It is expected that the internal audit department in the CGEs evaluates the adequacy and effectiveness of internal control in the Project implementing agencies throughout Project.

20. **Financial Reporting and Monitoring.** The SAFIRA system is prepared to control, account for, report on, and manage the proposed Project. It can provide FM data to prepare the reports in local currency (BRL) for Bank’s disbursements and monitoring purposes on a cash basis (although the State also follows accrual accounting). In addition, the PMU will ensure the timely production of semiannual Interim Financial Reports (IFRs) for further submission to the Bank within 60 days after the end of each semester. SEPLAN should submit for Bank’s validation the IFRs format for the reports before SAFIRA will be customized and/or integrated with other systems to incorporate the Project activities and to automatically generate the IFRs needed for Project reporting purposes, with no human intervention on preparation no later than one year after Loan effectiveness. Accordingly, the format and content of the IFRs will cover the following items: IFR 1 – Sources and Uses of Funds by disbursement category, with evidence of the World Bank’s share in the financing of expenditures, cumulative (project-to-date, year-to-date, and for the period) versus actual expenditures, including a variance analysis; IFR 2 – Sources and Uses of Funds by Project Activity, Component and Sub-component, with evidence of the World Bank’s share in the financing of expenditures, cumulative (Project-to-date, year-to-date, and for the period) versus actual expenditures, including a variance analysis; IFR 3 - Designated Account Bank Reconciliation and Bank statements; IFR 4 – Disbursement Forecast.

21. **Disbursement Arrangements.** SEPLAN (in coordination with SEFAZ) will open a segregated Designated Account – DA, in the Bank of Brazil (Banco do Brasil), in the name of the State of Acre, to receive loan funds and to process disbursements in U.S. Dollars (US\$) for further payments in local currency. The frequency for reporting eligible expenditures paid from the DA will be semesterly through the IFRs. SEPLAN will authorize the State Treasury to make all payments once payment obligations have been incurred and adequately documented by each implementing agency. SAFIRA requires that funds be committed by source, enabling the tracking of loan disbursements to Project expenditures.

¹⁸ State Law nº 247/2012, that provides for the administrative structure of the Executive Branch of the State of Acre and other measures.



Such arrangements are considered appropriate, have the necessary segregation of functions and level of approvals and can speed up implementation. IFRs will be prepared directly from SAFIRA and supported by the accounting records, Bank account statements, and respective reconciliation for disbursements. The disbursement of Project funds will be processed following Bank procedures stipulated in the Legal Agreement and the Disbursement and Financial Information Letter (DFIL). During Project implementation, the following disbursement methods will be available: Reimbursement and Advances. The primary disbursement method will be Advances. The DA will have a variable ceiling based on the submission of forecasts of expenditures to be paid in the next six months and recorded in the DFIL that will be prepared by the Bank's Loan Department.

22. **Counterpart Funds.** The state budget will earmark counterpart funds for Project activities. The State Treasury (under SEFAZ structure) releases funds to implementing agencies based on the presentation of supporting documentation detailing the object of expenditure. The PMU is authorized to issue the disbursement plan and generate the payment invoices, together with its respective list that will be sent to the Bank.

23. **Retroactive financing.** Retroactive financing is allowed for eligible expenditures up to an aggregate amount not to exceed eight million dollars (US\$ 8,000,000) made for payments up to 12 months before the signing date of the loan agreement. Retroactive financing may only be provided when: (a) the activities financed by retroactive financing are related to the PDO and are included in the Project description and activities; (b) the payments are for items procured in accordance with the applicable Bank procurement rules and comply with ESCP; (c) the total amount of retroactive financing is 20 percent or less of the Bank Loan amount; and (d) the payments are made by the Borrower not more than 12 months before the expected date of the signing of the legal agreements for the Bank Loan.

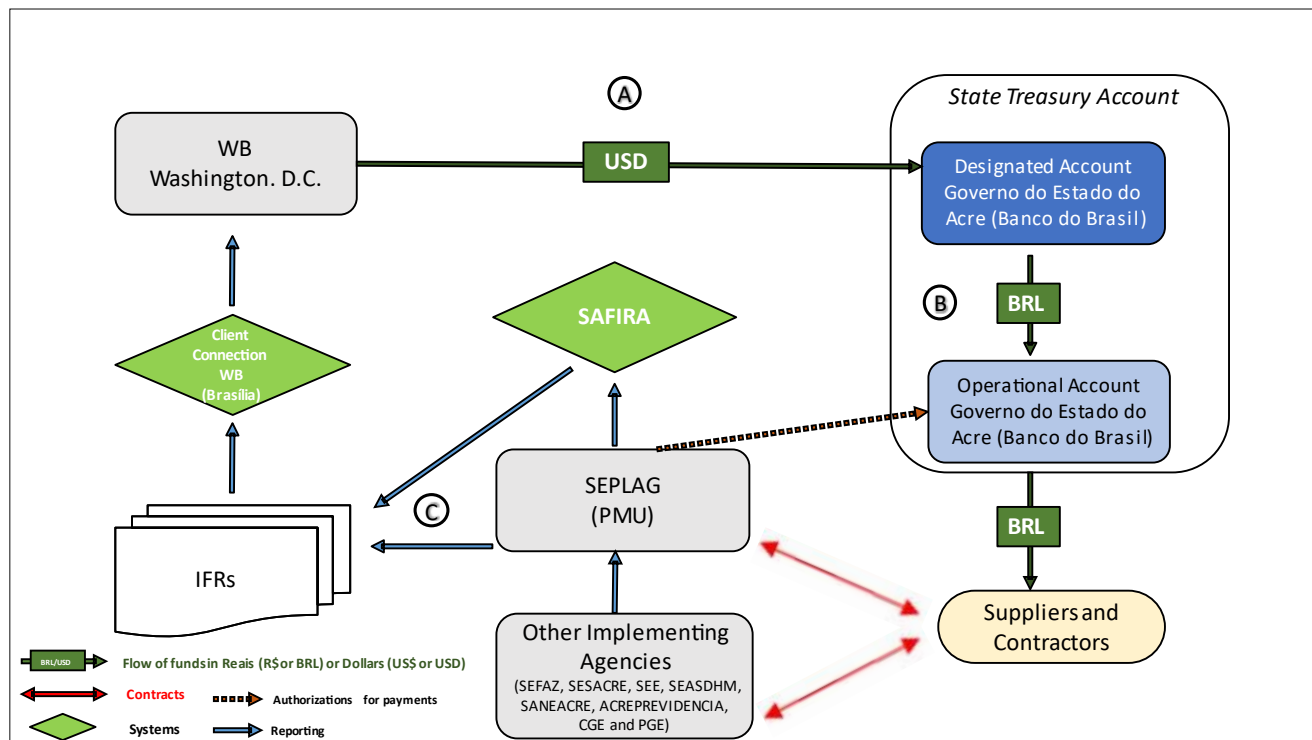
24. **Payments.** All payments from the Designated Account will be authorized by SEPLAN (PMU) once expenditures have been received, approved, and adequately documented through the SAFIRA system. To make payments, funds will be committed by source, making it possible to track loan disbursements/receipts to Project expenditures. These processes will be detailed in the MOP and approved by the Bank. The disbursements will be made through the IFRs to be generated directly from the SAFIRA system by category, component, and subcomponent (budget and actuals). In addition, the documentation of the use of Advances and Reimbursement withdrawal applications will be through IFRs. SEPLAN will prepare and send withdrawal applications to the Bank only after they are paid and fully documented, ensuring that the loan proceeds were exclusively used for eligible expenditures. The Minimum Application Size for Reimbursements will be USD 1,000,000 equivalent. The Project will also have four months after the closing date to document expenditures incurred before the Closing Date. Table 7 presents the Category of expenditures and financing percentage.

Table 7 - Category of Expenditures and Financing Percentages (expressed in US\$)

| Category | Amount of Loan | % of Expenditures to be financed (Inclusive of Taxes) |
|---|----------------|---|
| 1. Goods for the Project | 9,850,000 | 100 |
| 2. Non-consulting services, consulting services, Operating Costs and Training for the Project | 30,050,000 | 100 |
| 3. Front-end Fee | 100,000 | Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| 4. Interest Rate Cap or Interest Rate Collar premium | 0 | Amount due pursuant to Section 4.05 (c) of the General Conditions |
| Total Amount | 40,000,000 | |



Figure 2: Flow of Funds



25. **Flow of Funds.** The figure above presents the flow of funds.

- SEPLAN (in coordination with SEFAZ) will open a segregated Designated Account U.S. Dollars (US\$) in the Bank of Brazil (Banco do Brasil), in the name of the State of Acre, to receive Loan funds and process disbursements in US\$. Funds will be transferred from the DA to an Operational Account in the Bank of Brazil (Banco do Brasil) in R\$, and this account will process the payments to suppliers and contractors.
- SEPLAN (PMU) will be responsible for authorizing the State Treasury all payments once payment obligations have been incurred and properly documented by suppliers and contractors. SAFIRA requires that funds to be committed by source, allowing the tracking of loan proceeds to project expenditures. Such arrangements are considered adequate and have the necessary segregation and level of approvals and can accelerate implementation.
- The IFRs will be prepared directly from SAFIRA, and will be supported by accounting records extracts from designated and operational bank accounts, their respective reconciliation, and the forecast for the next semester. The General Conditions require the Borrower/Recipient to retain all records (contracts, orders, invoices, bills, receipts, and other documents) evidencing eligible expenditures and allow the Bank's representative to review these records.

26. **Record Keeping.** General Conditions require the Borrower/Recipient to retain all records (contracts, orders, invoices, bills, receipts, and other documents) related to eligible expenditures and to enable the Bank's representative to examine such records. They also require the records to be retained for at least one year following receipt by the World Bank of the final audited financial statement required in accordance with the Legal Agreement or two years after the closing date, whichever is later. The Borrower is responsible for ensuring that document retention beyond the period



required by the Legal Agreement complies with its government's regulations.

27. **External Audit.** For Project's purposes, the annual financial statements will be audited by independent auditors, according to TOR acceptable to the World Bank (prepared by the PMU and approved by the Bank, not later than six months after project effectiveness, and in accordance with International Standards on Auditing (ISAs) issued by The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) or national auditing standards if, as determined by the Bank, these do not significantly depart from international standards. The audited financial statements will be prepared in accordance with accounting standards acceptable to the Bank (i.e. IPSAS or national accounting standards where, as determined by the Bank, they do not significantly depart from international standards). According to the World Bank's guidelines, the auditors will also have to prepare a Management Letter, where any internal control weaknesses will be identified, which will contribute to the strengthening of the control environment. The auditor's report will be submitted to the World Bank no later than six months after the closing of the borrower's fiscal year, and the annual audit may be financed out of loan proceeds. All audited financial statements and related audit opinions are disclosed by the Project and by the Bank in accordance with the Bank's Policy on Access to Information. All supporting records will be maintained at the PMU for at least (i) two years after the Closing Date; or (ii) one year after the Bank has received the Audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made, whichever is later. The Bank will review the audit reports and periodically determine whether the recommendations are satisfactorily implemented. The Bank also requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank. The Bank will also make them available to the public in accordance with The World Bank Policy on Access to Information.

28. **Financial Management Supervision Plan.** The Bank will undertake formal supervision of the Project based on a risk profile. Supervision missions will involve amongst other steps: the review of the IFRs; a review of the auditors' reports and follow-up on issues raised by auditors, as appropriate; the follow up on any financial reporting and disbursement issues; a discussion of FM issues with the Project team; and an update of the FM risk and performance rating in the Implementation Status and Results Report (ISR). The estimated supervision requirements are three weeks for FM supervision in each year of the Project implementation (one week for the review and assistance in the preparation of each semester IFR and to provide general support, one week for supervision mission, and one week for Audit Report Assistance and Review.

Procurement Management

29. **Procurement will be carried out in accordance with "World Bank Procurement Regulations for IPF Borrowers" dated July 1, 2016, revised in November 2020.** The project entails the procurement of consulting services, goods, non-consulting services, and information systems. The Bank will provide specific training on Bank's procurement regulations before the implementation is started. The Terms of Reference, Technical Specifications, and Contract Management Plan for all relevant contracts will be prepared before the start of implementation. The Bank will review in detail the Terms of Reference (ToRs) for the selection of consulting firms. The Project does not require particular methods or approaches for procurement or selection. Procurement arrangements will follow the Project Procurement Strategy for Development (PPSD). The Project's procurement arrangements will be documented in the POM.

30. **Implementing agency.** SEPLAN will be responsible for carrying out all project procurement processes on behalf of the other involved implementing agencies. To this end, SEPLAN will establish a Special Bidding Committee (CEL), at SEAD, properly staffed and equipped to meet the project's procurement needs. The procurement planning, design, and technical execution of the contracts would be the responsibility of each implementing agency, with the responsibility for evaluating the demands of procurement and deciding the appropriate moment for their implementation.

31. **Project's Procurement Staff.** SEPLAN will be staffed by a seasoned procurement team at the PMU. The PMU's procurement team shall be exclusively dedicated to matters related to the project's procurement. This team must be composed at least of one procurement specialist, one procurement analyst, one contract management analyst, one



procurement assistant, one ad-hoc individual consultant (with expertise in the World Bank's rules, to provide specific guidance on procurement matters and support the PMU's decision-making process). Additionally, the PMU should also have focal points in procurement to dialogue with the other secretariats and support the agile preparation of TORs, technical specifications, and other bidding documents.

32. **Capacity Assessment.** A detailed procurement capacity assessment was carried out and focused on assessing the capacity of the agency responsible for implementing the procurement transactions and management of contracts, in accordance with the Bank's Procurement Regulations. The project risk rating is Substantial, and it was found on the basis of a sound procurement capacity assessment. The assessment reviewed the IA's organizational structure and the current operating environment available for implementing procurement transactions expected by the project. The administrative staff lacks IA's with procedures to select consultants as well as in procurement goods and non-consulting services in accordance to Bank's new procurement framework and policies. There are capacity constraints to prepare realistic procurement plans, and effectively manage contract affecting delivery as per contract scopes. The staff does not have the right skills and behaviors and a satisfactory track record in carrying out Procurement, or an appropriate local expertise to prepare Terms of Reference for the most part of the information systems to be financed by the operation. Constraints on the capacity may affect the agencies' ability to timely identify and correct inconsistencies in procurement processing and flow. Quality of agency's procurement documents may adversely affect the procurement performance. Distortion on selection and award process due to an intricate flow of bid/proposal evaluation. The expected number of consulting services contracts under the operation may challenge the project implementation pace.

33. **Mitigation Measures.** Most of the mitigation measures are overseen by SEPLAN. The set of proposed mitigation measures for the Project includes: (a) identify qualified staff with the expected skills and behaviors, and appoint them to be trained and guided on procurement aspects related to regulations and procedures that govern Project procurement; (b) prepare an action plan considering measures to support and enforce regulations and systems related to procurement planning activities, including training on best planning practices; (b) prepare a Contract Management Plan for each of the main contracts of the Project that are in execution; (c) establish a Special Bidding Committee at SEAD; (d) prepare an action plan with the technical and contract management team aiming to improve existing measures and procedures to handle contract risk allocation, and strengthen the existing skills on risk allocation; (e) preparation and adoption of a simplified bid/proposal evaluation flow that should be widely disseminated among involved staff and implementing agencies; (f) training of procurement staff working at both implementing agencies involved in Project execution or with the responsibility in preparing procurement documents, and carry out procurement processes. The World Bank's team should be aware of monitoring the accomplishment of all recommended measures and propose additional mitigation measures during Project implementation or whenever needed.

34. **Procurement documents.** Procurement of goods and services following an international approach and all selection of consultants will follow the Bank's standard procurement documents. Procurement of goods and services following a national approach will follow procurement documents acceptable to the World Bank.

35. **Mandatory use of the procurement planning and tracking tool.** The IAs shall use the World Bank's online procurement planning and tracking tools (STEP System) to record all procurement actions under the proposed operation, including preparing, updating, and clearing their Procurement Plans, and seeking and receiving the World Bank's review and No-objection to procurement actions as required.

36. **Procurement Plan.** The first Procurement Plan was approved in STEP by negotiations. The procurement plan in Table 4 defines appropriate procurement category and selection methods, contract description, estimated costs, and market approach.


Table 4: Procurement Plan

| ID | Category | Agency | Description | Amount (US\$) | Procurement Approach | Selection Method | Evaluation Method |
|-------|-------------------------|----------|---|---------------|----------------------|------------------|-----------------------|
| K #1 | Consulting Services | SEAD | Consulting Services for mapping the Workforce assignments and products in areas of Service Delivery. (Workforce Sizing System) | 500.000 | International Open | QCBS | Rated Criteria |
| K #2 | Consulting Services | SEAD | Consultancy services for the development of the Workforce Sizing Management platform, including a dashboard for the allocation of staff integrated with financial and budgetary data and integration with the Turmalina Web Talent Bank and a system for employee movement/transfer requests. | 2.000.000 | International Open | QCBS | Rated Criteria |
| K #3 | Consulting Services | SEAD | Consulting services for Process Automation identified in the Workforce Sizing. | 1.500.000 | International Open | QCBS | Rated Criteria |
| K #4 | Consulting Services | SEAD | Consulting services for the evolution of the Turmalina System | 200.000 | National Open | CQS | Rated Criteria |
| K #5 | Goods | SEAD | Procurement of IT equipment for the evolution of the Turmalina System | 800.000 | National Open | RFB | Lowest Evaluated Cost |
| K #6 | Consulting Services | SEAD | Training to optimize the use of the Turmalina System | 100.000 | National Open | CQS | Rated Criteria |
| K #7 | Consulting Services | SEAD | Consulting services for the computerization of people management strategic processes | 950.000 | International Open | QCBS | Rated Criteria |
| K #8 | Consulting Services | SEAD | Consulting services for payroll diagnosis and development of algorithms to identify inaccuracies in new and existing payroll entries | 300.000 | International Open | QCBS | Rated Criteria |
| K #9 | Non-consulting Services | SEAD | Procurement of a tool to create a dashboard for alerts and notifications about the algorithm findings | 300.000 | National Open | RFB | Lowest Evaluated Cost |
| K #10 | Goods | SEAD | Procurement of a Clouding Framework to run the automated analysis | 350.000 | National Open | RFB | Lowest Evaluated Cost |
| K #11 | Consulting Services | ACREPREV | Consulting services for development and implementation of the Social Security Management System | 400.000 | International Open | QCBS | Rated Criteria |
| K #12 | Goods | ACREPREV | Procurement of IT equipment for the implementation of the Social Security Management System | 1.500.000 | National Open | RFB | Lowest Evaluated Cost |
| K #13 | Non-consulting Services | ACREPREV | Training for implementation of the Social Security Management System | 100.000 | National Open | CQS | Rated Criteria |
| K #14 | Consulting Services | SEPLAN | Consulting services for diagnosing the maturity of investment project management and structuring the methodology for prioritizing and monitoring investments. | 300.000 | International Open | QCBS | Rated Criteria |



| ID | Category | Agency | Description | Amount (US\$) | Procurement Approach | Selection Method | Evaluation Method |
|-------|-------------------------|--------|--|---------------|----------------------|------------------|-----------------------|
| K #15 | Consulting Services | SEPLAN | Design and development of an investment management system. | 1.300.000 | International Open | QCBS | Rated Criteria |
| K #16 | Consulting Services | SEPLAN | Consulting services for structuring and training the team of the central management area | 200.000 | National Open | CQS | Rated Criteria |
| K #17 | Consulting Services | SEPLAN | Diagnosis of the management processes of agreements, partnerships, transfer contracts, special transfers, and fund to fund; | 100.000 | National Open | CQS | Rated Criteria |
| K #18 | Consulting Services | SEPLAN | Consulting services for the development of technical requirements for forms of proposition, signature, execution, monitoring, evaluation, and accounting. | 200.000 | National Open | CQS | Rated Criteria |
| K #19 | Consulting Services | SEPLAN | Consultancy services for developing a system to structure and monitor the transferred resources | 200.000 | National Open | CQS | Rated Criteria |
| K #20 | Goods | SEPLAN | Procurement of a tool for integration with the budgeting, SEI, transparency portal, e-mail software, and SAFIRA systems. | 500.000 | National Open | RFB | Lowest Evaluated Cost |
| K #21 | Consulting Services | SEPLAN | Consulting services for the design of technical requirements for the registration and qualification of municipalities, entities, and users, default payers, manager and fiscal, procurement processes, deputies and advisors, granting agencies and their users, extraction of customized management reports | 200.000 | National Open | CQS | Rated Criteria |
| K #22 | Non-consulting Services | SEPLAN | Hiring a specialized company for the digital scanning of accountability | 500.000 | National Open | RFB | Lowest Evaluated Cost |
| K #23 | Non-consulting Services | SEPLAN | Procurement of a tool for creating a monitoring dashboard. | 300.000 | National Open | RFB | Lowest Evaluated Cost |
| K #24 | Goods | SEPLAN | Acquisition of equipment to structure the Intergovernmental Transfer Management System: | 300.000 | National Open | RFB | Lowest Evaluated Cost |
| K #25 | Consulting Services | SEPLAN | Consulting services for structuring regulatory framework of PPP's and composition of portfolio of priority projects | 100.000 | International Open | CQS | Rated Criteria |
| K #26 | Goods | SEFAZ | Procurement of equipment for structuring the central management area | 300.000 | National Open | RFB | Lowest Evaluated Cost |
| K #27 | Consulting Services | SEFAZ | Consulting services for the development of the management system | 200.000 | National Open | CQS | Rated Criteria |
| K #28 | Consulting Services | SEFAZ | Hiring of a specialized company to train the PPP team | 100.000 | National Open | CQS | Rated Criteria |
| K #29 | Goods | SEFAZ | Procurement of software for document image capture (imaging) | 300.000 | National Open | RFB | Lowest Evaluated Cost |



| ID | Category | Agency | Description | Amount (US\$) | Procurement Approach | Selection Method | Evaluation Method |
|-------|---------------------|----------|---|---------------|----------------------|------------------|-----------------------|
| K #30 | Goods | SEFAZ | Procurement of software for content management (ECM) | 500.000 | National Open | RFB | Lowest Evaluated Cost |
| K #31 | Goods | SEFAZ | Procurement of business process management software | 300.000 | National Open | RFB | Lowest Evaluated Cost |
| K #32 | Consulting Services | SEFAZ | Consulting services for the development of modules of the Federal SID and maintenance costs of the Public Debt Management System | 1.200.000 | International Open | QCBS | Rated Criteria |
| K #33 | Consulting Services | SANEACRE | Consulting services for the implementation of the Integrated Management System of Sanitation Services (GSAN) | 1.300.000 | International Open | QCBS | Rated Criteria |
| K #34 | Goods | SANEACRE | Procurement of automation and telemetry solutions for the operationalization of the Telemetry, Telecommand, and Telesurveillance System (S3T) for the reservoir sector of the water supply systems | 250.000 | National Open | RFB | Lowest Evaluated Cost |
| K #35 | Consulting Services | SEAD | Development of an Asset Management System, including: (i) Mapping of assets with financial, technical, and georeferencing evaluation; (ii) Real Estate Goods Management Module integrated into the unified management platform; (iii) Movable Goods Management Module integrated into the unified management platform; (iv) Mapping and cataloging of movable Goods; (v) Fleet management module | 4.700.000 | International Open | QCBS | Rated Criteria |
| K #36 | Consulting Services | SEAD | Design and development of an IT Asset Management System, including: (i) Diagnosis of state systems, technology tools, and databases; (ii) Design of systems management processes, structure, and governance; (iii) Definition of criteria for decision making. | 1.300.000 | International Open | QCBS | Rated Criteria |
| K #37 | Consulting Services | SESACRE | Implementation of hospital expenditure management system focused on financial and budgetary practices and registries | 4.000.000 | International Open | QCBS | Rated Criteria |
| K #38 | Consulting Services | SESACRE | Training for Telehealth reserve | 300.000 | International Open | CQS | Rated Criteria |
| K #39 | Goods | SESACRE | IT equipment for Technological Inputs and Telehealth reserve | 800.000 | National Open | RFB | Lowest Evaluated Cost |



| ID | Category | Agency | Description | Amount (US\$) | Procurement Approach | Selection Method | Evaluation Method |
|-------|-------------------------|--------|--|---------------|----------------------|------------------|-------------------|
| K #40 | Consulting Services | SEE | School Nutrition Financial System | 1.700.000 | International Open | QCBS | Rated Criteria |
| K #41 | Consulting Services | SEE | School Transportation Financial System | 2.300.000 | International Open | QCBS | Rated Criteria |
| K #42 | Consulting Services | SEASD | Development of an Financial MIS System to support management of state funds transferred to SUAS delivering benefits and services and its rollout to 22 municipalities and business process remodeling at the state level, registration in the financial management information system to increase efficiency and enable operational and financial analysis | 1.800.000 | International Open | QCBS | Rated Criteria |
| K #43 | Consulting Services | SEPLAN | Consulting services to support project management | 200.000 | National Open | QCBS | Rated Criteria |
| K #44 | Non-consulting Services | SEPLAN | Hiring an audit to verify the adherence of the accounting | 100.000 | National Open | CQS | Rated Criteria |
| K #45 | Consulting Services | SEAD | Development of a procurement strategy and implementation plan to help incorporate public procurement efficiency into all state procurement; | 100.000 | National Open | CQS | Rated Criteria |
| K #46 | Consulting Services | SEAD | Development and implementation of an integrated digital system for processing and analyzing data and management information in public procurement and contract management | 1.650.000 | International Open | QCBS | Rated Criteria |
| K #47 | Consulting Services | SEAD | Redesign and automation of key processes and flows to ensure cost-effective procurement; | 150.000 | National Open | CQS | Rated Criteria |
| K #48 | Consulting Services | SEAD | Design and implementation of an inventory management system integrated with procurement; | 600.000 | International Open | QCBS | Rated Criteria |
| K #49 | Consulting Services | SEAD | Design and implementation of a strategic sourcing methodology to help identify demand for goods and services across government; | 400.000 | International Open | QCBS | Rated Criteria |
| K #50 | Consulting Services | SEAD | Application of artificial intelligence using electronic invoices to identify and reduce fraud and corrupt practices; | 1.000.000 | International Open | QCBS | Rated Criteria |
| K #51 | Consulting Services | SEAD | Development and implementation of a system that certifies companies and automates data aggregation; | 700.000 | International Open | QCBS | Rated Criteria |
| K #52 | Consulting Services | SEAD | Development of training and certification programs for employees working in procurement across the state; | 500.000 | International Open | QCBS | Rated Criteria |



| ID | Category | Agency | Description | Amount (US\$) | Procurement Approach | Selection Method | Evaluation Method |
|-------|---------------------|--------|--|---------------|----------------------|------------------|-----------------------|
| K #53 | Goods | SEAD | Procurement of hardware to support the implementation of these systems; and | 1.000.000 | National Open | RFB | Lowest Evaluated Cost |
| K #54 | Consulting Services | SEAD | Development and implementation of digital systems that support contract management functions and the procurement of low-value, non-complex goods and services. | 900.000 | International Open | QCBS | Rated Criteria |

37. **Implementation support.** The Bank's procurement specialist will maintain a dialogue with the PMU's procurement team to avoid delays in the procurement process due to a misunderstanding on the application of all procedures required by the Bank's procurement framework. The World Bank will identify the relevant contracts to be subject to prior review procedures. Procurement post-review visits will be carried out by Bank staff or independent consultants every 12 months of implementation. Fiduciary implementation support activities include the following: reviewing implementation progress, focusing on the achievement of project results and implementation of the Action Plan; monitoring; monitoring the performance of fiduciary systems and audit reports; monitoring the financial statement reporting process and assisting the client as necessary; monitoring changes in fiduciary risks of the project and, as relevant, compliance with the fiduciary provisions of legal covenants; reviewing project implementation with the sector team to assess the timeliness and adequacy of the project funds appropriation; helping the borrowers with institutional FM and procurement capacity building, and continually assessing and monitoring the performance of the FM and procurement systems under the project and providing suggestions for improvement.

38. **Post-Procurement Reviews.** The Bank will carry out procurement post-reviews on an annual basis with an initial sampling rate commensurate with the risk rating of the project. This rate will be adjusted periodically during project implementation based on the agencies' performance. The Bank will also carry out procurement supervision missions on a semiannual basis. SEFAZ will upload all procurement and contract information in STEP, which will be used to provide the World Bank with a consolidated list of all contracts for goods, and consultancy services awarded under the project. A sample post-review contract will be selected from STEP.

39. **Procurement and Prior Review Thresholds.** The Procurement Plan will identify contracts subject to the World Bank's prior review based on activity risks. All other contracts will be subject to post review by the World Bank. The prior review thresholds apply to all procurement processes regardless of procurement or selection methods. The determination of whether a contract reaches the threshold for prior review is based on the cost estimate of the respective contract or package of contracts, including all taxes and charges inherent in the contract or package of contracts to be procured or selected.

Table 5. Prior Review Thresholds based on the activity risks (US\$ million)

| Activity Category | Activity Risks | | | |
|--|----------------|-------------|----------|-----|
| | High | Substantial | Moderate | Low |
| Goods, Information Technology, and Non-consulting Services | 1.5 | 2.0 | 4.0 | 6.0 |
| Consulting Services (Firms) | 0.5 | 1.0 | 2.0 | 4.0 |
| Individual Consultants | 0.2 | 0.3 | 0.4 | 0.5 |

Fraud and Corruption

40. **Fraud and corruption.** The Brazilian Anticorruption Law (Federal Law 12,846) establishes civil and administrative



liabilities for legal entities in relation to acts of corruption. The Law implements the OECD Anti-Bribery Convention, strengthens anticorruption enforcement and is broadly in line with (and, in some respects, even stricter than) similar legislation found in other jurisdictions—such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. Brazil's Law exposes companies and individuals to liabilities and fines.

41. **Guidelines and Standards.** SEPLAN will observe the Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants (dated as of October 2006; revised as of July 1, 2016), that set the general principles, requirements, and sanctions applicable to persons and entities which receive, are responsible for the deposit or transfer of, or take or influence decisions regarding the use of the loan proceeds. All SEPLAN, CGE, and state agency staff involved in project implementation must observe the highest standard of ethics and take all appropriate measures to prevent and refrain from engaging in sanctionable practices. SEPLAN and CGE must report allegations of fraud and corruption in connection with the use of loan proceeds, maintain appropriate fiduciary and administrative arrangements, cooperate with World Bank investigations, taking timely and appropriate action to address the problem, and follow other applicable government related rules and guidelines.



ANNEX 2: PROGESTÃO PROGRAM

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 *Diário 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 2024.¹⁹
- 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

¹⁹Memorandum 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." [\(Link\)](#)



in terms of restoring a State's fiscal balance.

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 2.1: Areas of Intervention across Projects (Type of IT solution)

| Area/State | Alagoas 07/21/22 | Mato Grosso 08/23/22 | Piauí 01/17/23 (est) | Acre 07/20/23 | Tocantins 07/22/23 |
|--|---------------------|----------------------------|----------------------------|------------------|-----------------------|
| 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 | | | | | |



| Area/State | Alagoas 07/21/22 | Mato Grosso 08/23/22 | Piauí 01/17/23 (est) | Acre 07/20/23 | Tocantins 07/22/23 |
|--|---------------------|----------------------------|----------------------------|------------------|-----------------------|
| 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) |
| 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 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 PMU 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 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



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 COMSEFAZ 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.

sectors and cross-cutting themes, Progestão projects will share the same PDO but will not necessarily apply all the elements of a common results framework. Consequently, it will not be possible to consolidate results information for all elements of the program across all projects.

10. **Progestão projects will report on progress in implementation and against their results framework every six months.** The Bank will undertake implementation support missions every six months. The Implementation Status and Results (ISR) report will be shared with the State Government and the Ministry of Economy. 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 Economy to present the results achieved, promote the dissemination of information and the exchange of experience. This seminar may inform preparation of the ICR.

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.²⁰ 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 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 states²¹ 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 states²² 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 2.2: Potential Activities and Results in Human Resource Management

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

Public Sector Pensions

12. **Brazil's 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 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

²⁰ Brazil Public Expenditure Review (2016)

²¹ 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](#))

²² 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](#))



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 of uniformed personnel, even though part of the executive branch of the government, is often only available in physical paper files and more often not available at all. These issues often lead to uneven application of pension rules, exacerbated by poor application of human resource policies including frequent pre-retirement wage increases for the sole purpose of permanently increasing pension payments.²³

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. Annual RGPS savings due to the reform are estimated to increase gradually, reaching 2 percent of GDP in 10 years, and 4.4 percent of GDP in 30 years. These savings will be achieved without exposing the lower income population to the risk of reduced incomes. However, the reform does not fully eliminate the projected 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 have 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 formulas, and transition rules for currently active public servants; gradual elimination of the early retirement option; increased pension contribution rate to 14 percent; reduced survivor pensions and accumulation of multiple benefits; and introduced 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 expenditures are needed, including better controls and auditing of benefit assignment, payment, and termination processes.

Table 2.3: Potential Activities and Results in Public Sector Pensions

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

²³ 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.



Public Procurement

14. **While the federal legal framework for public procurement is solid and transparent and takes precedence over those of state 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 more efficient and fiscally sustainable 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 state 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 2.4: Potential Activities and Results in Public Procurement

| Activities | Results |
|---|---|
| Update State regulatory framework for public procurement, in line with Federal legislation. | Increased use of the Reference Price System in acquisitions. |
| Simplify and streamline procurement procedures. | Reduced time between opening and finalization of procurement processes. |
| Replace price registration mechanism with database generated from electronic invoices. | Reduced bidding times. |
| Develop and implement integrated procurement information systems. | Reduced price paid per product. |
| Develop and implement materials and inventory allocation and management models. | Increased procurement through e-marketplace platforms. |
| Establish e-Marketplace solutions | Automation of the analysis of reference prices for cost estimation. |
| Develop and implement a strategic sourcing methodology. | 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 state levels.** About two-thirds of public investments (excluding SoEs) are undertaken by state 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 2.5: 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 state 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 state 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. governance in relation to accreditation and access, rules of use and auditing. 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 2.6: 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.²⁴

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.

Table 2.7: 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>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> |

²⁴Tesouro Nacional: "As empresas dos estados brasileiros: um panorama das empresas estatais estaduais". [\(Link\)](#)



| Activities | Results |
|---|---------|
| Strengthen SOE valuation and privatization process and adopt practices that maximize the companies' equity value. | |

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. Few states have systematic records their compliance with building. 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 2.8: Potential Activities and Results in Asset Management

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

MANAGEMENT SYSTEMS IN STRATEGIC SECTORS

Health

21. **The creation of the Unified Health System (*Sistema Único de Saúde – SUS*) in 1988, establishing universal health coverage funded by the state, has led to remarkable improvements in access, financial protection, and health outcomes, but an aging population will place a heavy burden on the health care system in coming years.** Nationwide, approximately 70 percent of the population depends exclusively on SUS, rising to 85 percent in the poorest states. Brazilian states are mandated to spend at least 15 percent of their revenues on health services. Many states exceed this



target. The Family Health Strategy (*Estratégia de Saúde da Família*, ESF), the community-based primary health care program, has delivered significant improvements in maternal and child health care. Infant mortality rates fell by 60 percent from 30.3 deaths per 1,000 live births in 2000 to 12.4 deaths per 1,000 live births in 2019. Life expectancy at birth increased by 5.7 years, from 70.2 years to 75.9 years over the same period, though life expectancy is still five years below the OECD average. An aging population now poses a new set of challenges. The share of the population 65 years or older is expected to increase from 9.9 percent of the population in 2017 to 21.9 percent in 2050.²⁵ 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 not intermediate care facilities; concentrating services in the larger general hospitals; improving hospital expenditure management systems; and putting in place financial management procedures. The hospital financial 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 more cost-effective services to consumers. Financial information systems strengthen operational control; automate the process of collecting, collating and retrieving information relating to patient related services and costs; and provide managers, doctors and hospital staff with the decision support system for financial management and cost-effective service provision.

Table 2.9: 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 |

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 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

²⁵ OECD (2021) *OECD Reviews of Health Systems. Brazil*. (Link)



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 performance improvement could be achieved by administrative reforms. State government has identified school meals and transportation programs as offering potential for efficiency savings. 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 2.10: Potential Activities and Results in Education

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

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: programs, benefits, and services such as the program of Integrated Family Assistance PAIF and the targeted income support program, such as the Auxílio Brasil (former Bolsa Familia) conditional cash transfer program; the benefit 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 other eventual benefits and; the social protection services for adolescents under social-educational measures of Assisted Freedom (LA) and Provision of Services to the Community (PSC); "Acolhimento" Service (or shelter) of Special Social Protection for the Disabled, the Elderly and their families. 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). The SUAS network provides access to services to millions of citizens, including the 20.2 million cash transfers families (august 2022) and over 4.7 million BPC beneficiaries. The states co-finance the SUAS programs and services delivered through the service network, providing training and technical support for decentralized management. The fragmentation of the assistance program creates duplication, non-standardized processes, and inefficiencies. Planning, financial management and monitoring, and control could be improved through the use of information technology, leading to automation of manual processes, gains in 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 2.11: 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 financial 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. |



ANNEX 3: ECONOMIC ANALYSIS

- Economic benefits.** The economic benefits from the project arise from expenditure savings from improvements to government management systems. Savings are generated from the rationalization of government operational costs and improvements in efficiency and productivity in the core systems supported by the project in the areas of human resources, pensions, procurement, investment management, intergovernmental transfers, state owned enterprises, asset management, education, social assistance, and health. The analysis does not consider second-order impacts from the reallocation of public funds to more productive uses through improvements in the quality and policy alignment of spending or benefits associated with increased investment project execution resulting from higher quality public investment projects. Nor does the analysis consider benefits from the modernization of State functions, such as improvements in the quality of public service, transparency, and compliance.
- The net present value of all project benefits using a social discount rate of 4.5 percent is estimated to be US\$101.6 million over 10 years with an internal rate of return of 57 percent.** The discount rate follows the recommendation of a recent study on 17 Latin American countries using the social rate of time preference (STP) method²⁶ and is relatively close to the social discount rates adopted by European countries (ranging between 3.5-5.5 percent).

Table 3.1: Summary of the Cost-Benefit Analysis (US\$ Millions)

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | Total (USD) |
|--|-------|-------|-------|-------|-------|-------|------|------|------|------|-------------|
| Project Cost (USD) | - 4.0 | - 9.0 | - 9.0 | - 9.0 | - 9.0 | - 5.0 | - | - | - | - | - 45.0 |
| HRM | 0.0 | 0.0 | 3.7 | 4.3 | 5.1 | 5.8 | 6.7 | 7.7 | 8.7 | 9.9 | 52.0 |
| Pensions | - | - | 2.6 | 2.8 | 3.0 | 3.2 | 3.4 | 3.7 | 3.9 | 4.2 | 26.7 |
| Procurement | - | - | - | 1.4 | 1.4 | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 11.0 |
| Public Investment Management | - | - | - | 3.9 | 4.2 | 4.4 | 4.7 | 4.9 | 5.2 | 5.5 | 32.8 |
| Asset Management | - | - | 0.2 | 0.4 | 0.6 | 0.8 | 1.0 | 1.2 | 1.5 | 1.8 | 7.6 |
| State Owned Enterprises (SANEACRE) | - | - | 1.3 | 1.5 | 1.7 | 2.0 | 2.3 | 2.7 | 3.0 | 3.4 | 18.0 |
| Health | - | - | 2.2 | 2.3 | 2.4 | 2.5 | 2.7 | 2.8 | 2.9 | 3.1 | 21.0 |
| Education | - | - | 1.3 | 1.3 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 | 12.6 |
| Social Assistance | - | 0.0 | 0.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 | 9.3 |
| Net Benefit | - 4.0 | - 9.0 | 2.3 | 10.1 | 12.0 | 18.0 | 25.2 | 27.7 | 30.3 | 33.2 | 145.8 |
| Present value of the Benefit (expected saving) | - 3.8 | - 8.2 | 2.0 | 8.5 | 9.6 | 13.8 | 18.6 | 19.4 | 20.4 | 21.4 | 101.6 |
| | IRR | | | | | | | | | | 57% |

- Human Resources Management.** The benefits for this component are estimated based on expected savings in the wage bill resulting from the use of strategic workforce planning tool and subsequent workforce resizing, processes automation and the implementation of a payroll audit. Strategic workforce planning is expected to lead to a reduction in the public sector workforce replacement rate in non-front line service delivery staff (excluding public officials in health, education, public security, and social assistance areas) from 1.016 to 0.96. This represents a reduction of 0.034 percent in payroll growth per year since the third year of project implementation with a net benefit of R\$59.7 million (US\$12.3 million) over ten years. An audit of a small sample (0.37 percent) of benefit entries in the Federal government payroll in 2018 focused on four elements of the wage bill (basic salary, earnings, subsidies, and allowances) encountered 0.005 percent irregularities. An expansion of the sample to the entire payroll projected a total of 1.35 percent of irregularities.

²⁶ Moore MA, Boardman AE, Vining AR (2020) Social Discount Rates for Seventeen Latin American Countries: Theory and Parameter Estimation. *Public Finance Review*.48(1), pp 43-71. [\(Link\)](#)



Applying these findings and assumptions to the Acre wage bill audit, the economic analysis expects a more conservative saving of 0.3 percent of the wage bill amounting to a net benefit of R\$123.5 (US\$25.6 million). Savings from HRM measures are estimated at R\$250.5 million (US\$52 million), with a net present value at R\$183.2 million (US\$38 million).

4. **Pensions.** The economic benefits for this subcomponent were estimated based on expected savings in the pension payroll from the implementation for automated audits using the same parameters as the payroll audit. The economic analysis estimates savings of 0.3 percent of the pension budget from the third year of project implementation. Savings are estimated at R\$128.6 million (US\$ 26.7 million), and a net benefit of R\$95.6 million until 2032 (US\$19.8 million). Other financial benefits are difficult to estimate as the number of improper and duplicated records in the system are not known. However, the newly implemented system would enable the integration of the state's databases and the elimination of duplicate and non-compliant benefits in the payroll of retirees and survivors. Based on similar exercises in other states of Brazil, corrected errors are estimated in the range of 3-10 percent of benefit spending. Also, a time reduction in the process for benefit concession. Currently over 120 days on average. Target 60 days on average for 2026 (60 days for pensioners and 90 days for retirement). The abovementioned improvements are not included in the analysis.

5. **Procurement.** The economic benefits for this subcomponent are estimated with reference to other experiences of procurement reforms in Brazil. An activity-based costing project with the Electronic Basket (*Bolsa Electronica de Compras*, BEC), applied costs per activity to the central government and suppliers and identified gains from increased procurement process flexibility, increased competition, a reduction of time between opening and finalizing procurement processes, and increased payment creditworthiness. In addition to the gains from process simplification in procurement operations, the study also identified a 22 percent reduction in prices paid by the State. Acre's proposed system modernization, centralized collection, and use of data through the project are conservatively estimated to generate cost savings of 1 percent from the third year of project implementation and until year ten, amounting to R\$52.8 million (US\$11 million) with a net present value of R\$38.7 million (US\$8 million).

6. **Asset Management.** The economic benefits for this subcomponent are estimated based on the expected increase in the revenues obtained from the rent and sale of State properties, and expenditures reduction (net benefit). The increased revenue is a consequence of reducing the number of vacant State units, mapped and evaluated properties, and the related operational cost. In 2021, Acre has around 1.700 properties that lack updated registries (even more if the in the municipality databases are included), unknown rent expenses and around R\$ 0.3 million (US\$0.1 million) in real estate assets revenue (sales and rents). Acre will rationalize management of vacant properties, renting them out or selling them. This requires mapping the State's properties and regularization of ownership in some cases. It is estimated that Acre can benefit from a 10 percent increase annually in net fixed property income over a ten-year time frame at R\$36.5 million (US\$7.5 million), with a net present value of R\$25.2 million (US\$5.2 million).

7. **Public Investment Management.** Improvements to the methodologies and systems for investment project preparation, screening, and approval are expected to result in projects that are better prepared and ready for implementation, thereby avoiding repeated adjustments and time and cost overruns. The State Government does not collect and compile project level data for benchmarking and analysis of time overruns. Due to these data constraints, the project measures PIM improvements through the reduction of time overruns only. Acre provided a portfolio with infrastructure and urbanism projects over the last four years (2018 to 2021). A reduction in cost overruns from 6.2 to 2 percent would generate savings from the third year of project implementation and until year ten, with a net present value of R\$115.5 million (US\$24 million). Various studies have shown that public investments have broader positive multiplier effects in the economy²⁷. Applying the average multiplier (2.7) for upper-middle-income countries, could bring economy-wide benefits. These second-order economic benefits are not included in the estimation of table 1 above which includes only first-order benefits.

²⁷ IMF, *Fiscal Monitor*, October 2021: *Strengthening the Credibility of Public Finances*([Link](#))



8. **State Owned Enterprises (SOEs).** The economic benefits for this component are estimated based on financial management improvements with the implementation of new systems and tools in SANEACRE. The implementation of these systems will help the SANEACRE reduce expenditures and improve potential revenue and tariffs collection. Due to some data organization and geospatial constraints the State cannot fulfill its full potential, collecting tariffs of only 34 percent of the water service provided. Outdated hardware also increases the expenditures on energy and chemical products. The State of Acre provided studies that demonstrate the immediate impact of financial management tools for controlling expenditures and increasing tariffs collection. An immediate reduction of 5 percent on expenditures and an increase of 7 percent of tariffs collection could be applied from year three of project implementation. A subsequent 0.5 percent reduction on expenditures and 1 percent increase on tariff collection per year can be applied from year 4 to year 10. The State of Acre would reach over 50 percent of tariff collection at the end of the ten-year timeframe. Economic benefits are estimated at R\$86.5 million (US\$17.9 million), with a net benefit of R\$63.2 million (US\$13.1 million).
9. **Health.** The economic benefits for the health component are estimated based on expected savings from reducing service provision costs financed by the State through the implementation of management systems in Acre's public health units. The implementation of these types of systems will help the State to deal with some of the persistent challenges the State's health care delivery. The State is not able to demonstrate financial execution of at least 25 percent of the procedures. Improvements in reporting could lead to an estimated 20 percent reduction payments by the State. While not considered in this analysis, a 2005 study²⁸ refers that the implementation of information technologies on public hospital management can lead to cost reductions of approximately 4.5 percent annually through reductions in administrative costs and reduced drug costs for inpatients. The cost benefit analysis applies a conservative estimate of 5 percent reduction in service provision costs with benefits of R\$101.1 million (US\$21 million) over ten years, applied from the third year of project implementation, with a net present value of R\$75.5 million (US\$15.6 million).
10. **Education.** The economic benefits for the education component were estimated based on expected savings from reducing the costs by the implementation of management system on School Transportation and School Meals Programs. The systems will improve the execution of federal and state resources, reduce paper-based processes and introduce innovative solutions. According to the literature²⁹, the optimization of the financial management of school transportation by using geospatial tool and adequate bus routing model represents an improvement of 25 percent of routes compared to the paper-based routes planning. The optimization also corresponds to a reduction of 17.9 percent on fuel consumption costs and avoids overcrowding, long commute times, long distances, long waiting times. Improvement in the efficiency of school meal services are up to US\$9 for every US\$1 invested, creating value across multiple sectors, including: education, health and nutrition, social protection and local agriculture³⁰. The cost benefit analysis applies a conservative estimate of 15 percent reduction in transport costs with a net present value of R\$45.1 million (US\$9.3 million).
11. **Social Assistance.** The economic benefits for this sub-component were estimated based on efficiencies from improved accountability, better execution of co-financed resources between the State and the SUAS, reduced paper-based processes, and travel savings across 22 municipalities for retraining in accounts rendering. The implementation of IT systems will help the state manage financial planning and execution tasks in a more efficient and agile manner. Some municipalities already use the SEASD Integration system with accountability approval flow. However, the system functionality needs to be improved to receive individualized information and to serve all the municipalities in the state.

²⁸ Giroi, Federico, Meili, Robin and Scoville, Richard (2005) *Extrapolating Evidence of Health Information Technology Savings and Costs*, Rand Health. ([Link](#))

²⁹ Arias-Rojas, J. Et al. (2012) Solving of school bus routing problem by ant colony optimization. *Revista EIA*, ISSN 1794-1237 Número 17, p. 193-208. Julio Escuela de Ingeniería de Antioquia, Medellín (Colombia); Nascimento, Maria Victória & Andrade, M. (2022) School transportation program as means to improve public education in a minor rural town in Northeastern Brazil; *Ensaio: aval. Pol. Públ. Educ.*, Rio de Janeiro, v.30, n.114, p. 182-206, jan./mar.; Arns Steiner, M.T. et al.(2000) O problema de roteamento no transporte escolar. *Pesquisa Operacional* Vol. 20, No. 1, junho

³⁰ World Food Programme (2021) *State of School Feeding Worldwide 2020*. Rome, Italy



The new financial system will cross-reference databases and produce reports indicating individual cases/records with duplication of benefits and/or misallocations. Cost savings include reduced travel expenses (fuel and per-diem), paperwork (mail and graphic material), and work hours. The economic analysis assumes that Acre will save 100 percent of the total cost of mail and graphic material including the estimated hours of work to prepare these materials, reaching R\$0.34 million (U\$0.07 million) over ten years, and another R\$2.4 million (U\$0.5 million) on travel. It is expected an increased execution rate of the social assistance budget, from 71.7 to a conservative estimate of 80 percent, amounting to savings of R\$42 million (US\$8.7 million) over ten years. The combined benefit of the measures will be R\$44.7 million (US\$9.2 million) with a net present value of R\$32.8 million (US\$6.8 million).