The World Bank
Governance Risk Assessment System Brazil Scale-Up

Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 07-Jan-2022 | Report No: PIDC247390

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P176877		Low	Governance Risk Assessment System Brazil Scale-Up

Region	Country	Date PID Prepared	Estimated Date of Approval
LATIN AMERICA AND CARIBBEAN	Brazil	07-Jan-2022	

Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	National Council for Internal Control - CONACI	Controladoria Geral da Uniao, Controladoria Geral do Estado de Mato Grosso, Controladoria Geral do Municipio do Rio de Janeiro, Controladoria Geral do Municipio de Sao Paulo, Controladoria Geral do Estado do Rio de Janeiro	

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	0.13
Total Financing	0.13
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	0.13
Spanish Fund for Latin America & Caribbean (SFLAC)	0.13

B. Introduction and Context

Country Context

Brazil entered the COVID-19 pandemic in a weak economic position. After rapid growth and social progress between 2001 and 2010, partly due to sound macro policies and a favorable external environment, Brazil's economy fell into deep recession. While external factors triggered the slowdown, an expansionary policy response led to rapidly rising fiscal disequilibria and, with rising domestic political uncertainty, a loss of confidence and a sharp drop in investment. Poverty increased three percentage points between 2014 and 2017, pushing 7.3 million more people into poverty. From 2017 to 2019 – the years immediately before the pandemic – growth averaged just 1.1 percent. Unemployment declined from a peak of 13.6 percent in March 2017 to 11.0 percent in 2019 but it remained above pre-crisis levels (6.8 percent in 2014). Most of the new jobs were created in the informal sector. As of 2018, 19.9 percent of the population lived on less than US$5.50 per day (2011 purchasing power parity [PPP]), including 4.4 percent on less than US$1.90 per day (2011 PPP).

Brazil has been severely impacted by the pandemic with over 600,000 deaths as of October 30th, 2021. At a certain point, since the acceleration of the infection rate in March 2021, Brazil accounted for 20 percent of daily deaths globally. The country's health system was under extreme stress, particularly in the first half of 2021: hospital capacity was pushed to the limit, intensive care unit bed occupancy rates exceeded 80 percent in 14 out of 27 states, with scarcities of oxygen, Intensive Care Unit (ICU) medication supplies, and trained professionals. Vaccine contracts for over 662 million doses have now been negotiated and vaccine hesitance across the country is low; by November 8th, 156.1 million Brazilians had received at least one dose of a COVID-19 vaccine, and 120.5 million are fully vaccinated (56.52 percent of the population).

Brazil's subnational governments are in a dire fiscal situation. Brazil's States have extensive service delivery responsibilities in health, education, security and environment. Prior to the pandemic, 7 out of the 26 Brazilian States and the Federal District had declared a state of fiscal calamity, 17 out of 27 state governments were not eligible to borrow under Federal rules due to limited creditworthiness related to liquidity and solvency concerns, and 20 had delayed payments to public servants and/or providers at some point. In 2019, State public investment was 52.5 percent lower than in 2015. Paradoxically, in 2020, subnational governments states experienced improved fiscal outcomes, despite the negative effects of the health crisis, with just 12 states ineligible to borrow. This was due to the large federal transfers to address the COVID-19 pandemic (R$97 billion, 1.4 percent of GDP), through the federal social protection program – *Auxílio Emergencial* – that helped maintain a reasonable level of economic activity and contributed to tax revenue increases. As these temporary measures wind down in 2021 and beyond, the States' fiscal position will deteriorate rapidly if State governments do not implement reforms to reduce expenditures.

Sectoral and Institutional Context

Transparency and risk assessment systems can support the effective use of public resources and prevent abuses of authority and corruption. They also help promote citizens' trust in institutions. Over the last decade, LAC has seen limited progress in the strengthening of transparency and risk assessment systems.

Corruption poses a significant problem to public procurement. On average, public purchases amount 29.8 percent of spending of general government in LAC (8.6 percent of GDP). Estimates of losses through inefficiencies in public procurement, including inefficiencies arising from corruption, amount to between 0.9 percent and 2.6 percent of the GDP. In Brazil, estimates show that between 3 to 5 per cent of GDP is lost annually due to corruption schemes that go undetected at all levels of government. The impacts directly affect the population through poor public service provision and private sector development. President Jair Bolsonaro, who took office in 2019 campaigned on an anti-corruption platform and expectations to address corruption are particularly high among the population. In addition, several state Governors and recently elected Mayors have emphasized the need to expand anti-corruption efforts. Moreover, there have been constant reports of corruption in the use of resources to fight the COVID-19 pandemic.

The Governance Risk Assessment System (GRAS) is an IT solution that uses data analytics to extract approximately 200 firm-level and agency-level corruption risk red-flags. The GRAS allows the identification of a broad range of risk patterns, such as collusion, conflicts of interest, and companies owned by straw men. GRAS was developed by the Governance team in Brazil as a prototype with funds from the Disruptive Technologies for Development (DT4D), and this project will help develop and implement a functional system in selected agencies.

Even though auditing public expenditure requires the intensive use of data analysis, General Comptrollers at the subnational level have a low level of data analytics usage. Ultimately, it means that these agencies approach for auditing public expenditure and detecting fraud is affected by the following obstacles: (i) lack of a system for automatically extracting the most relevant corruption red flags; (ii) relying on common spreadsheet-based analysis; and (iii) existence of internal and external data silos. Given this context, agencies can benefit from the implementation of GRAS, which solves the issues listed above. The GRAS integrates large databases, uses algorithms for extracting red flags, and has an intuitive user interface.

The General Comptroller of the Union (CGU) at the Federal Government has decision support system for extracting public procurement red flags, called MACROS. Even though the CGU is considerably ahead in the usage of data analytics when compared to subnational agencies, the GRAS offers additional benefits mainly because it provides many more red flags than MACROS, and GRAS's red flags are calculated at a more granular level.

The proposed activities directly support the Federal and State-level Governments' agendas and provide new analytical tools to fight corruption and improve government expenditure. Nowadays, governments in Brazil and across the world lack tools and the capacity to conduct systematic fraud risk assessments, which affect decision-making processes. Their approach is inefficient since it relies on manual analysis that generally uses anecdotal evidence; it also requires too many resources to identify potential risks and does not necessarily build strong cases. In Brazil, for example, the Office of the Comptroller General (CGU) has launched 40 special operations since April 2020, together with other law enforcement agencies, to combat diversion of federal resources destined for fighting Covid-19 pandemics, and most of these operations still rely on manual processes.

Relationship to CPF

The last regional update to the Board of Directors (2019) highlighted the importance of addressing corruption challenges that limit the effectiveness of public policies and undermine trust in public institutions. The Board also underscored the need to increase the World Bank Group's effectiveness through innovation. The LAC Regional Leadership Team has highlighted the importance of building inclusive and trustworthy institutions that can deliver better public services. 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 May 16, 2017, which proposes a reorientation of new lending toward addressing challenges identified in the Systematic Country Diagnostic (SCD), including government effectiveness and the quality of policymaking and implementation. Specifically, Objective 1.1. which includes the Bank's support to strengthen the legal and institutional arrangements for public financial management.

C. Project Development Objective(s)

Proposed Development Objective(s)
Improve the process of detecting fraud in public expenditure, identify savings and increase the effectiveness of audits using data science.

Key Results
The success of this project will be measured by the predictive capability of the Systems to detect patterns that are indicative of corruption and ability of the State Government to maintain the System.

- Improved and efficient investigations on fraud
- Improved detection of firms and individuals who present high risk of fraud
- Savings in procurement
- Enhanced use of evidence for decision-making

D. Preliminary Description

Activities/Components
There are four Key Activities:

- Develop a functional GRAS and new features for clients;

- System customization for each of the participating Governments, and data updates;

- Direct support to implement and use all features of the GRAS;

- Capacity building for technical staff.

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	no
Projects in Disputed Areas OP 7.60	No	no

Summary of Screening of Environmental and Social Risks and Impacts

The RETF component of this technical assistance activity is not expected to have adverse environmental and social impacts. Direct project workers will work under terms and conditions of work set by the national labor law that address issues of fair treatment, non-discrimination and equal opportunity as well as occupational health and safety. The project will organize online workshop and knowledge exchanges sessions with key stakeholders across the region to promote the use of system and the tool-kit. Conaci keeps channels of contact with stakeholders and citizens through its website, e-mail address and phone line. The supported Governance Risk Assessment System will use only data that is public or public in nature.

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