



Report No: PAD5191

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$50 MILLION

TO THE

STATE OF TOCANTINS WITH A GUARANTEE FROM THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR A

PROGESTÃO TOCANTINS: PUBLIC SECTOR MANAGEMENT EFFICIENCY PROJECT

June 28, 2023

Governance Global Practice
Latin America and the Caribbean Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 22, 2023)

Currency Unit= Brazilian Real

R\$ 1 = US\$0.21

US\$ 1 = R\$4.76

FISCAL YEAR

January 1 - December 31

Regional Vice President: Carlos Felipe Jaramillo

Country Director: Johannes C.M. Zutt

Regional Director: Robert R. Taliercio

Practice Manager: Adrian Fozzard

Task Team Leader(s): Sadia Afolabi, Carolina Luisa Vaira

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>)
COFIEIX	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
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
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 Results Report
ICT	Information and Communication Technologies
ICU	Intensive Care Unit
ID-CRAS	CRAS Development Index
IFAC	International Federation of Accountants
IFRs	Interim Financial Reports
IGEPREV	Tocantins Pension Agency (<i>Instituto Geral da Previdência</i>)
IIA	Institute of Internal Auditors (<i>Instituto de Auditores Internos</i>)

IPF	Investment Project Financing
IPSAS	International Public Sector Accounting Standards
ISA	International Standard 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>)
NDC	Nationally Determined Contribution
NGOs	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
PISA	Program of International Student Assessment
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	Program of Support to School Transportation (<i>Programa Nacional de Apoio ao Transporte Escolar</i>)
POM	Project Operation Manual
PPA	Medium Term Plan (<i>Plano Plurianual</i>)
PPP	Purchasing Power Parity
PPSD	Project Procurement Strategy for Development
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>)
SC	Steering Committee
SCD	Systematic Country Diagnostic
SECAD	State Secretariat of Administration (<i>Secretaria de Estado da Administração</i>)
SEDUC	Secretariat of Education (<i>Secretaria de Estado da Educação</i>)
SEFAZ	State Secretariat of Finances (<i>Secretaria de Estado da Fazenda</i>)

SEP	Stakeholders Engagement Plan
SEPLAN	State Secretariat of Planning (<i>Secretaria de Estado de Planejamento</i>)
SES	State Secretariat of Health (<i>Secretaria de Estado da Saúde</i>)
SETAS	State Secretariat of Labour and Social Development (<i>Secretaria de Estado de Trabalho e Desenvolvimento Social</i>)
SIAFE	State Financial Management Information System (<i>Sistema de Administração Financeira do Estado</i>)
SICONFI	System of Fiscal and Accounting Information for the Public System
SIGA	Integrated System of Administrative Management (<i>Sistema Integrado de Gestão Administrativa</i>)
SIOPS	System of Health Public Budget Information (<i>Sistema de Informações sobre Orçamentos Públicos em Saúde</i>)
SMEs	Small and Medium Enterprises
SOEs	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
TFP	Total Factor Productivity
ToRs	Terms of Reference



TABLE OF CONTENTS

DATASHEET	1
I. STRATEGIC CONTEXT	1
A. Country Context.....	1
B. Sectoral and Institutional Context	3
C. Relevance to Higher Level Objectives.....	8
II. PROJECT DESCRIPTION.....	10
A. Project Development Objective	10
B. Project Components	10
C. Project Beneficiaries	13
D. Results Chain	14
E. Rationale for Bank Involvement and Role of Partners	15
F. Lessons Learned and Reflected in the Project Design	15
III. IMPLEMENTATION ARRANGEMENTS	16
A. Institutional and Implementation Arrangements	16
B. Results Monitoring and Evaluation Arrangements.....	17
C. Sustainability.....	18
IV. PROJECT APPRAISAL SUMMARY	18
A. Technical, Economic and Financial Analysis (if applicable)	18
B. Fiduciary	21
C. Legal Operational Policies.....	23
D. Environmental and Social.....	23
V. GRIEVANCE REDRESS SERVICES	24
VI. KEY RISKS	24
VII. RESULTS FRAMEWORK AND MONITORING	26
ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN.....	35
ANNEX 2: PROGESTÃO PROGRAM.....	48
ANNEX 3: ECONOMIC ANALYSIS	61



DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Brazil	Progestão Tocantins: Public Sector Management Efficiency	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P179088	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
27-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 Tocantins

**Components**

Component Name	Cost (US\$, millions)
Component 1: Whole-of-Government Management Systems	37.80
Component 2: Management Systems in Strategic Sectors	15.00
Component 3: Project and Change Management	2.20

Organizations

Borrower:	State Secretariat of Planning (SEPLAN)
Implementing Agency:	UGP

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

Total Project Cost	55.00
Total Financing	50.00
of which IBRD/IDA	50.00
Financing Gap	5.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	50.00
--	-------

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2023	2024	2025	2026	2027	2028	2029
Annual	0.43	1.12	7.33	11.17	12.22	9.66	8.07
Cumulative	0.43	1.55	8.88	20.05	32.27	41.93	50.00

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	● Moderate
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 Secretariats, and IGEPREV;



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, (ii) appoint all members of the Steering Committee.

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.

Sections and Description

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

3. The Borrower shall:

(a) not later than thirty (30) days after the Effective Date, enter into an agreement with IGEPREV (the "Implementation Agreement"), under terms and conditions acceptable to the Bank, setting forth, inter alia, the obligation of IGEPREV to: (i) carry out Part 1(b) of the Project; and (ii) comply with the pertinent provisions of this Agreement, including complying with the provisions of the Project Operations Manual and the Anti-Corruption Guidelines;

(b) exercise its rights and carry out its obligations the Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and

(c) except as the Bank shall otherwise agree in writing, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Implementation Agreement, or any of their provisions, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Loan Agreement, Article V, 5.01 (a) that the Project Operations Manual has been adopted in form and substance satisfactory to the Bank; and (b) that the Borrower has issued a decree, in form and substance satisfactory to the Bank setting forth the respective responsibilities in Project implementation of the Implementing Secretariats, and IGEPREV and establishing the PMU.



Type	Financing source	Description
Disbursement	IBRD/IDA	<p>Loan Agreement, Schedule 2, Section III, B.1.</p> <p>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 10,000,000 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.</p>



I. STRATEGIC CONTEXT

1. **This Project Appraisal Document (PAD) presents the Progestão Project in the State of Tocantins, the fourth operation in a Series of Projects (SoP) under the Progestão Program designed to assist the Brazilian states implement 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 states. 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 Tocantins Progestão project promotes fiscal sustainability through five whole-of-government functions (including human resource management, pensions, procurement, public investment management, 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 state governments – while at the same time achieving efficiency improvements so that the states can “do more with less.” The Commission for External Financing (COFIEF), 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 COFIEF 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

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 conditional cash transfer program (*Bolsa Família*) and a planned introduction of additional benefits to families with children are expected to drive poverty down to 23.9 percent in 2023.

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



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, the Government of Brazil (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\$20.4 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 have been winding down since 2022, the states' fiscal positions will deteriorate rapidly if state governments do not implement reforms to reduce expenditures.

State of Tocantins Context

7. **The State of Tocantins has an area of 277,720 square kilometers (km²) with an estimated population of 1,607,363 inhabitants in 2021, corresponding to 3.26 percent of Brazil's territory and 0.7 percent of its population.** 78.8 percent of the population live in urban areas. Tocantins' Human Development Index (HDI) was 0.743 in 2017, the twelfth highest in Brazil. Between 2002 and 2019 the State registered the second highest GDP growth among Brazilian States (125 percent), only behind the State of Mato Grosso, led by livestock, forestry, and extractive industry. Over this period, GDP per capita rose to R\$ 25,021.80 (equivalent to US\$5,256.5), climbing from 21st to 14th in rank, but is still far below the national average of R\$35,161.60 (US\$ 7,386.9). In June 2022, unemployment was at 5.5 percent, the lowest level seen in the last decade.

8. **Despite recent economic progress, high levels of poverty persist.** Gini Index increased to 0.530 in 2019, the highest since 2012. Data from the Unified Registry for Social Programs (*Cadastro Único*, CadÚnico), reveals that approximately 22.6 percent of the population (363,499 people) lived in extreme poverty in June 2022 (living on less than R\$105, US\$22.1, per month), up from 20 percent in 2019. As of June 2022, around 47 percent of the population lived on less than half of the minimum wage (approximately US\$110/month or US\$3.67/day) and were thereby eligible for support from the cash transfer program (*Auxílio Brasil*).

9. **Tocantins ranks 18th out of 27 states on the Competitiveness Index (*Ranking de Competitividade dos Estados, 2022*).³** While the State is around the middle of the overall ranking, the sub indicators reveal significant public sector

² Conversion rate as of June 22, 2023 for all US\$ figures in the PAD.

³ The Competitiveness Ranking of the State is a tool created by the Centre of Public Leadership (Centro de Liderança Pública, CLP). It provides



weaknesses and highlight the need to improve the efficiency of public spending and strengthen fiscal sustainability; two areas which are likely to continue to be challenging in the aftermath of the COVID 19 pandemic. The State scores particularly low on the public sector efficiency (*Eficiência da Máquina Pública*) indicator with a score of 24 out of 100, placing the State at the bottom five of the ranking. The State has seen improvements in infrastructure development where it ranked 18 with a score of 46.6 out of 100.

10. Tocantins has made considerable progress in reducing imbalances in its public accounts through a strong fiscal adjustment, but the State remains highly dependent on transfers from the Federal Government – at 53 percent of total revenues in 2021 – and has very limited budget flexibility. The State's Payment Capacity Assessment (*Capacidade de Pagamento*, CAPAG) rose from C in 2017 to B in 2022, largely as a result of fiscal adjustment measures. Total revenues increased from 22.8 percent of the State GDP in 2019 to 26.9 percent in 2021, driven by increased fiscal transfers from the federal government. Expenditures increased 23.1 to 30.5 percent of State GDP over the same period, largely due to health expenditures and social transfers responding to the Covid-19 pandemic. Budget flexibility is constrained by large personnel expenditures (63.5 percent of total expenditure), statutory transfers to municipalities (9.3 percent) and statutory assignments to education and health sectors.

B. Sectoral and Institutional Context

11. The State of Tocantins has requested the World Bank's assistance in consolidating recent reforms and improving efficiency in whole-of-government public sector management systems and service delivery in sectors under the Progestão Program. Progestão Tocantins will help to tackle public sector management and public sector inefficiencies through investments in management reforms and information systems, specifically pertaining to key whole-of-government functions: human resource management; pensions; public procurement; public investment management; intergovernmental transfers; and asset management. Progestão Tocantins also supports investments in management reforms and information systems in three strategic sectors: health, education, and social assistance to improve fiscal efficiency.

Human Resources

12. Fiscal adjustment implemented in 2019 reduced personnel expenditures from 66.4 percent of net current revenue in 2019 to 56 percent in 2021, but personnel expenditures continue to present a serious threat to the State's fiscal sustainability. Adjustment measures included: termination of 8,000 temporary contracts; reduction of active payroll by 1,200 permanent employees; a freeze in career progressions for two years from 2019; and a new salary policy limiting salary increases to 1 percent in 2020 (nominal) and 2021 (real). However, personnel expenditures are still above the prudential limit of the Fiscal Responsibility Law (Complementary Law 101/2000) and Tocantins' public sector workforce at approximately 59,000 active staff, as of August of 2022, is above the average for Brazilian states with similar population and area. Approximately 4,500 permanent staff were hired for non-priority areas between 2013 and 2018. About 46 percent of the workforce is on non-permanent contracts. While the State's public sector wage premium is below Brazil's average of 36 percent, with public officials earning 21 percent more than their private sector equivalent, wage dispersion is significant: 50 percent of the workforce receiving less than three and half times the minimum wage, and 1 percent with an income higher than 25 times the minimum wage.

13. Strengthened human resource management functions will help Tocantins limit wage bill growth and align staffing and service delivery needs. The State set up a Technical Commission to review departments and agencies career plans for public officials (*Plano de Cargos, Carreiras e Remuneração*, PCCR), but this exercise is hindered by weak information systems and limited business analysis. HR records are kept on paper, maintained in poor conditions in

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



storage spaces rented by the State. The lack of proper registries hinders timely response to control agencies or courts demands. The State has operated a Human Resource Management Information System (HRMIS) since 2013, but it has only implemented the monthly payroll module. The HRMIS is not integrated with the State Financial Management Information System (SIAFE). Production of payroll reports takes over a day. The State intends to strengthen its HRMIS by digitizing its HR registries, and implementing modules and services that support the following functions: automation of career progression and promotion; staff performance evaluation; training and e-learning; medical and disability insurance registration; consolidation of data of public officials' employment life cycle events in a single database (eSocial); electronic point and access control; workers selection processes; staff allocation database; probational stage; boards and commissions management; manager information portal; automated audits; and a portal for public officials.

Pensions

14. **The State Pension Agency (IGEPREV-TO) is responsible for managing the pension fund for all public sector employees and civil and military officials.** With only 0.38 retirees for each active employee Tocantins currently has the lowest number of beneficiaries of all Brazilian states since the State was only created in 1988. The inactive payroll represents 8.6 percent of total personnel expenditure. However, the number of retirees is rising sharply and is now 10 times higher than in 2011. Approximately 7,300 public officials are expected to retire in the next four years (2022-2025). The pension deficit amounted to 5.7 percent of net current revenue in 2019. The State implemented a pension reform in 2019, including an increase in the contribution rate of public officials from 11 to 14 percent which helped reduce the annual pension deficit to R\$22 million (US\$4.6 million) in 2020.

15. **The State government intends to further strengthen the current pension systems (SISPREV-WEB) to improve interoperability and processing.** Average time to grant benefits exceeds 180 days, the maximum time established by internal regulations. The State uses SISPREV-WEB as the main software to manage State pensions. The State has an operating license but relies on the software company to upgrade and implement new features. Information gathered from other administrative bodies is imported monthly and mechanically in portable document format (PDF). The State intends to strengthen the pensions system by incorporating new digital tools and controls to improve the actuarial analyzes with new hires, improving interoperability and integration with systems run by other administrative bodies in the Legislative and Judiciary branch, and applying models to support business intelligence and auditing of benefits. An improved pension management system is expected to streamline the method to calculate the time for concession and benefit amount in all the branches of government, reducing duplicated payments and cost differences paid by the State.

Public Procurement

16. **Public procurement accounts for around nine percent of the State government's total expenditures, amounting to R\$950 million (US\$199.6 million) in 2021.** Procurement spending grew at an annual rate of 20 percent between 2017 and 2021. In 2021, the State undertook 1,147 procurement processes, 13 percent of which were undertaken by the Secretariat of Health. Bidding was waived in approximately 39 percent of procurement processes. The State has sought to centralize procurement activities in the *Central de Licitações* (CL) at SEFAZ. State decree n° 6.084/2020 set up a common digital system (*Sistema Integrado de Gestão Administrativa*, SIGA) for managing administrative areas of all government agencies, including procurement. SIGA was implemented with additional modules for suppliers, direct purchases, and catalogues of products, pending integration with SIAFE. The regulatory framework was also updated, with streamlined bidding procedures and sanctions for public bidders that commit violations. The State implemented a catalogue of around 6,200 items (mostly goods and a few services). Approximately 4,500 suppliers are currently registered in SIGA.

17. **Although the State Court of Accounts (*Tribunal de Contas do Estado*, TCE) launched a portal for Bids, Contracts and Works (SICAP) to increase transparency and controls in public spending, published data is unreliable and at times incomplete.** The current procurement system is unable to monitor the number and price of goods and services procured



or compare procurement transactions data in management reports. The COVID-19 Pandemic reinforced the need to modernize the procurement procedures to incorporate tools to improve planning and execution and contract monitoring. Improvements in procurement planning, grouping of bulk purchases, and use of electronic catalogues will increase value for money in procurement tendering and contract implementation. An expenditure analysis approach for selected items would help mainstream procurement and social balance in local bidding processes in accordance with Brazilian federal legislation. Improved transparency and efficiency in procurement processes will increase confidence in the State as a buyer.

Public Investment Management and Budgeting

18. **The State of Tocantins has maintained a steady public investment rate since 2017.** In 2021, the state achieved an investment rate of 4.7 percent of net revenues, amounting to R\$515 million (equivalent to US\$108.2 million), slightly above the Brazilian average of 4.3 percent. The State's portfolio of projects is monitored through the State Financial Management System (SIAFE) and the Federal Intergovernmental Transfers Platform (*Plataforma Mais Brasil*, PMB). Coverage of these systems is incomplete because they do not track projects financed through credit operations (borrowing) or some other modalities of intergovernmental transfers. Long-term investment plans are poorly prepared and limited to the medium-term plan of the State (*Plano Plurianual*, PPA), with no catalogue of future investments in infrastructure, transport, urbanism, water and sanitation, and other key areas for development. Project management procedures are poorly developed, lacking clear criteria, processes, and regulations to screen, appraise, prioritize, and evaluate public investment projects. Most investment projects are approved as parliamentary budgetary allocations (*emendas parlamentares*) proposed by federal deputies for expenditures related to their thematic or electoral interests, lacking even the basic investment project standards of other public investments. Information systems do not provide consistent information on cost or time overruns of investment projects. A sample of investments projects between 2019 and 2022, that amounted to R\$413 million (equivalent to US\$86.8 million), demonstrated that average time overruns of these projects was 319 days, and cost overruns was 17.4 percent, on average.

19. **The State intends to put in place rigorous, evidence-based practices for public investment management across the entire project cycle, developing a Public Investment Management (PIM) information system that can strengthen controls, help monitor performance, and enhance the quality of investments for all sources of funds.** In 2019, the State created the Executive Secretariat of Investments and Partnerships (*Secretaria de Parcerias e Investimentos*, SPI) in the Governor's office to coordinate the State's investment program. A portfolio of projects has been created. The SPI uses a project management tool intended for logistics enterprises, requiring customization to provide the necessary functions and reports to operate properly. The State intends to harmonize project entry points across all sources of financing and establish robust procedures for project appraisal, selection, financial and physical monitoring of investment projects. The management information system is expected to reduce costs and time of public investment projects.

Intergovernmental Transfers

20. **Brazilian states and municipalities have a complex web of multiple funding mechanisms.** In Tocantins, the Secretariat of Planning (SEPLAN) is responsible for the management of transfers from the central government. This includes transfer agreements (*convênios*), as well as the transfer system, which serves both the 139 municipalities and non-profit civil society organizations, allocating funds, monitoring the execution, and reporting of formalized partnerships. The State currently manages 554 active funds and transfers to municipalities and NGOs, amounting to R\$1,391 million (US\$292.2 million), and a large but variable number of earmarked funds for investment projects allocated by elected officials. Between 2017 and 2023, a sample amounting to R\$693 million (US\$145.6 million) demonstrates that time and cost overruns are also common in these modalities of investments, surpassing 64 percent of the transfers.

21. **The State of Tocantins' tools and reporting mechanisms for the management of the main intergovernmental**



transfers are more advanced than those of other state governments in Brazil. In February 2020, the State implemented the intergovernmental transfers system (CONV-TO) that replaced the agreements monitoring system of State Comptroller General (CGE). CONV-TO manages three types of transfers from the State to other entities: traditional transfer agreements (*convênios*), parliamentary amendments, and partnerships with non-governmental organizations (NGOs). All State transfers since the implementation of CONV-TO must be registered in the system. Public officials must insert the data through pre-established forms with several automated fields. The State intends to upgrade the information system by developing three additional modules to provide a complete overview of the intergovernmental transfers cycle, including special transfers, funded transfers, and decentralized execution deadlines, and integrating CONV-TO with the State financial (SIAFE) and the procurement systems (SIGA). The revamped 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

22. Tocantins's consolidated debt was R\$4,753 million (US\$998.5 million), equivalent to 47 percent of the State's net current revenue, the 18th 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 an in-house developed system that is not integrated with the State Financial Management Information System (SIAFE), 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 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 Tocantins.

Asset Management

23. The State of Tocantins has made progress with the registration of its movable assets. The State is fully operationalizing the use of the *Sistema Integrado de Gestão Administrativa* (SIGA) to manage the lifecycle of assets by the end of November 2022, including modules on movable and immovable assets, and staff training in the operation of the platform. Movable assets are registered into the system after the acquisition process is finished (procurement), and as of now 775,000 assets have been registered. However, SIGA data and tables are not integrated with SIAFE. Further work is needed to systematize information on movable assets from a managerial perspective through the development of reports and dashboards to inform decision-making. Fleet management costs approximately R\$26 million (US\$5.5 million) annually to the State and management information is insufficient to monitor the use rate of equipment and fuel. The State has requested assistance to develop an automated dashboard for fleet management information.

24. Only 10 percent of Tocantins' State-owned real estate properties are regularized. From 2017 to 2020 the State spent R\$2 million (US\$0.4 million) on property acquisitions and received R\$8.3 million (US\$1.7 million) from property sales. Revenue from renting of real estate assets is less than R\$200,000 (US\$42,016) annually and expenditures on rents are unknown. The State intends to map, register, and regularize its real estate assets, undertake a review of its holdings to maximize net fixed property income and properly allocate its public buildings.

25. Decentralized management of information technology has led to a proliferation of systems with limited interoperability and information sharing, security concerns, duplication of assets, and costly acquisition and operational costs. The State government intends to strengthen its management systems for technology assets by undertaking systematic inventories, developing appropriate policies, and investing in an architectural enterprise of systems to optimize how information gathered, used, and connected.



Health

26. **Tocantins has seen a considerable improvement in health outcomes over the last thirty years, largely driven by the expansion of the universal health care system.** Mortality rates for children under-five years fell from 62.5/1,000 live births in 1988 to 11.2 in 2020. Life expectancy increased from 66.6 to 74.2 in the same period. As Tocantins' population ages (demographic transition), the State faces a heavier burden of chronic-degenerative diseases (epidemiological transition), such as ischemic heart disease, lower respiratory infections, diabetes, and Alzheimer's diseases, which are particularly demanding in terms of services and the cost of health procedures.

27. **State expenditure on health services peaked during the COVID-19, reaching R\$1,611 million (US\$338.4 million) in 2021, amounting to 16.5 percent of the State revenues.** The public sector covers about 93 percent of the population with health services in the state. All tertiary and quaternary hospitals (referral and regional hospitals) are under state control and account for almost 100 percent of high-complexity health service provision in the state, absorbing a significant and growing share of the state health budget. Most of the state hospitals are large hospitals, although they vary considerably in terms of size, infrastructure, technology, human resources, staff qualifications, and management. Approximately 80 percent of state hospitals use paper-based records for monitoring health service provision and there are limited data across systems to support systematic control of the supply chain, costs, compliance, and workforce allocation. The Ministry of Health (*Ministério da Saúde*, MOH) pays for health services delivered by hospitals following the Unified Health System (*Sistema Único de Saúde*, SUS) arrangements and procedures, and subject to evidence of health services provided. The MOH covers about US\$18.1 million of the hospital budget of almost US\$26.9 million, with the deficit of US\$8.8 million funded with the State's own resources. The State Secretariat of Health (*Secretaria de Estado da Saúde*, SES) estimates that it is unable to recover about US\$3.2 million a year from SUS due to shortcomings in reporting and processing.

28. **SES intends to implement a hospital expenditure management information system in the high complexity facilities under its management to improve planning, budgeting, health services management, and support evidence-based decision making.** The system is expected to increase efficiency and recovery of expenditure by SUS improving compliance in its processing, whilst simultaneously improving reporting, accountability, and transparency of financial statements. Alongside the hospital management system, the SES intends to: develop electronic cost-accounting and auditing systems (ii) adopt evidence-based clinical protocols that will help reduce waste and improve cost-effectiveness of clinical care; increase participation of referral and regional hospitals in local and regional health networks; and carry out training activities for managers and professionals.

Education

29. **The Secretariat of Education (*Secretaria da Educação do Estado de Tocantins*, SEDUC) runs 492 schools delivering education services to 151,175 students from primary to upper secondary education, including adult education and inclusive education for persons with disabilities.** In Tocantins, primary and lower secondary education (1st to 9th grades) accounts for around 55 percent (83,320 students) of enrollment in the state network, and 30 percent of the schools are located in rural areas. State expenditures on education amounted to R\$2,185 million (or US\$459 million equivalent) in 2022, 59 percent more than the allocation in 2018 (R\$1,370 million, equivalent to US\$287.8 million). Tocantins receives fiscal transfers from the Federal Government to implement various 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). The SEDUC transfers additional state resources to schools and municipalities to decentralize the provision of those programs. These transfers represent 25 percent of the SEDUC's annual budget. Transfers for school transportation amounted to R\$ 85.5 million (US\$18 million) in 2019.

30. **SEDUC intends to strengthen management of the school meals and transport programs to improve efficiency**



and equity in access. Decentralized management of these programs should allow the programs to respond to the diverse geographic conditions and the heterogeneity in school and class size. However, SEDUC uses paper-based tools and spreadsheets to plan and monitor transfers to municipalities and schools that use limited information. Bus routes are defined without considering the geolocation of schools and students' residences. Poor planning and the failure to consider school and local market conditions lead to delays in the delivery of school meals, food wastage, and high costs. Currently, SEDUC lacks information of 31 percent of school expenditures due to the school's difficulty in preparing the reports. SEDUC intends to implement a management system for school meals and transportation to improve planning, budgeting, procurement management, and monitoring. Both systems are expected to deliver efficiency, transparency, and accountability improvements. Further work is needed to integrate management information systems with other decentralized programs for resources transferred to state network schools. The management information is expected to reduce costs of school meal and transportation services. A first conservative estimate demonstrates that the State can have savings of approximately R\$77.4 million (equivalent to US\$16.3 million) in the next ten years, by leveraging the system to perform a more efficient process of transport management.

Social Assistance

31. **The State budget on the social assistance function peaked during COVID-19 pandemic, reaching R\$123.7 million (US\$26 million) in 2020, amounting to 1.3 percent of the State revenues, though the execution rate of this resources was low: only 71.6 percent.** The Social Assistance System (*Sistema Único de Assistência Social, SUAS*) is co-financed between the State and municipalities. From 2018 to 2022, the State transferred, on average, R\$55.9 million (US\$11.7 million) annually to SUAS, vis a vis a planned budget of R\$77 million (US\$16.2 million). It represents a financial execution of 72.5 percent. The municipalities' Social Assistance Reference Center (*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. One third of CRAS cannot provide all of the services required by the Comprehensive Family Care Policy (*Política de Atenção Integral à Família, PAIF*), such as registries of visits, orientation for families and/or individuals, and beneficiaries' participation in basic health and education services. 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, Tocantins's ID-CRAS rating was 3.73, below the States of Ceará, Piauí, Paraná, and Rio Grande do Norte. Reporting of the execution of funds is carried out manually and is fragmented. The State lacks robust systems for monitoring the transfers to finance the SUAS services, transfers to and management of resources by municipalities and NGOs. Weak service management leads to overlaps and gaps in service provision, and a limited capacity to plan expenditures vis a vis resources transferred. 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

32. **Tocantins Progestão is aligned with the State's Medium-term Plan (PPA) for 2020-2023.** The project supports three different axes of the PPA: Health; Public Security, Social Assistance and Human Rights; and Public Management, Social Participation and Federalism. The PPA intends to strengthen management tools, expand the use of new technologies, and promote creative and innovative solutions that improve the efficacy and effectiveness of service delivery. The Project is also aligned with the Strategic Agenda Tocantins – 2030 (*Tocantins 2030: o futuro do Estado e o Estado do futuro*), which seeks to: improve governance and the impact of public investments; improve the quality of service delivery in education, health, public security, social assistance and jobs; strengthen the management capacity, with an



strategic agenda and structures to implement, monitor and evaluate; seek fiscal equilibrium with public expenditure management and alternate sources of resources to recover the State's investment capacity; and develop human capital to strengthen institutions and public officials. The project is also aligned with the State Secretariat of Planning Strategic Plan (SEPLAN), dated from 2016, which proposed investments in information systems to improve management processes and governance.

33. 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, which proposes the reorientation of new lending toward challenges identified in the Systematic Country Diagnostic, including government effectiveness and the quality of policymaking and implementation. The proposed project will support the CPF's 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 poor target 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". It helps the State government to 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 Tocantins adopt practices and service tools that will help reestablish fiscal stability, strengthen fiscal management, public procurement, and improve efficiency in service delivery.

34. 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, 2022⁴, the Country Climate and Development Report for Brazil of May 4, 2023⁵, and the Guidelines for a National Strategy for Climate Neutrality published by the Federal Ministry of Environment in 2022⁶. The NAP and NDC commit the Federal Government to "integrate climate-risk management into planning and management instruments". Progestão Tocantins 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 Tocantins 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

⁴ Brazil 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>

⁵ World 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>

⁶ Ministry 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



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 Tocantins

PDO Level Indicators

- Public workforce replacement rate in non-frontline service delivery staff (Percentage, Baseline: 1.00; Target: 0.96)
- Branches part of the Unified Management Unit for the Public Servant Pension Regime – RPPS (Number; Baseline: 1; Target: 3)
- Time between opening and finalizing the procurement processes (Days, Baseline: 69; Target: 45)
- Investment projects time overruns (Days; Baseline: 319; Target: 150)
- Share of public real estate with complete legal documentation (Percentage; Baseline: 10; Target 80)

B. Project Components

35. The proposed 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 requested assistance for all of the Program components, except debt management and state-owned enterprises (SOEs) reforms. Implementation of a new debt information management systems is already underway while a scope for SOEs reform intervention is limited due to Tocantins having the lowest number of SOEs and with better financial management amongst all Brazilian states. Specific interventions in sectors were defined in consultation with government officials prioritizing those that will have a significant impact on efficiency and fiscal management and those that are implementation ready. The project will support management systems in health, education, and social assistance. Table 1 summarizes of the areas and activities supported by Progestão Tocantins.

Table 1: Progestão Tocantins Summary of Areas of Intervention

Area	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 (ERGON). • 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. • 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. • Upgrade e-procurement system with modules for e-invoice, strategic sourcing, and contract monitoring. • Capacity-building for the deployment and rollout of new tools.



Area	Regulatory Reforms	New IT Solutions	IT Upgrade or Rollout	Capacity Building	Summary
1.4 Public Investment, Transfers and Debt Management	X	X	X	X	<ul style="list-style-type: none"> Review procedures and develop operational tools across the project cycle. Review legal framework for intergovernmental transfers. Upgrade intergovernmental fiscal transfer system. Upgrade debt management system. Capacity-building activities for the deployment and rollout of new systems.
1.5 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"> New hospital expenditure management information system to all State's public high complexity health units to improve planning, budgeting, and resource management. Hospital managers training and capacity building to support implementation of health expenditure management information system and tools.
2.2 Education		X		X	<ul style="list-style-type: none"> New information system for 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 139 municipalities and its rollout. 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\$37.8 million)

36. **Sub-Component 1.1: Human Resource Management (US\$12.5 million). Implementing Agency: SECAD.** 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 resources management system to identify core competencies of public officials and the appropriate hiring needs of organization; (iii) implementation of a personnel management platform, including dynamic distribution of the workforce, replacement alarms, and automated official documentation of reallocation; (iv) designing and implementing new functionalities to the Borrower's human resource management information system (HRMIS), including medical forensics, frequency control, documentation management, public officials portal, performance and development, probationary phase, job opening control, and training to public officials; (v) automating human resources management services and other processes identified through the strategic workforce planning referred to in (i) above; (vi) redesigning and implementing of human resource services and frameworks based on the strategic workforce planning referred to in (i) above; (vii) implementing periodic staff surveys to assess reform implementation and support change management; (viii) carrying out communications and capacity building to support the rollout and implementation of new tools; (ix) virtualization of functional documents to support the implementation of HRMIS functionalities; and (x) procuring of hardware to support the rollout and implementation of the abovementioned activities.

37. **Sub-Component 1.2: Pensions (US\$2.2 million). Implementing Agency: IGEPREV.** Activities include: (i) designing and implementing a pension management information system functionalities that support auditing the pension payroll and unifying management of benefit concession for all branches of government based on remuneration history and verification of actual contribution payments; (ii) expanding and updating the pension record management information system to increase efficiency and enable operational, actuarial, and financial analyses to reduce costs and allow for



better long term financial planning; (iii) procuring efficient hardware to support the deployment of these systems, and (iv) carrying out capacity building to support the implementation of these systems and management tools.

38. **Sub-Component 1.3: Public Procurement (US\$8 million). Implementing Agency: SEFAZ.** Activities include: (i) developing a procurement strategy and an implementation plan to help embed efficiency across the State's purchases; (ii) developing, improving and implementing an integrated system for e-procurement, including the redesign and automation of key processes, flows of budgetary and financial control, and reviewing the regulatory framework and institutional arrangements; (iii) apply artificial intelligence using electronic invoices to identify and reduce fraud and corrupt practices; (iv) designing and implementing strategic sourcing methodology to help identify demand for goods and services across the government; (v) capacity building program for officials working in procurement across the state; and (vi) procuring efficient hardware to support the deployment of the abovementioned activities.

39. **Sub-Component 1.4: Public Investment Management and Budgeting (US\$5 million). Implementing Agency: SEPLAN.** Activities include: (i) developing and implementing of a public investment management system integrating project preparation, screening and appraisal; (ii) preparing of a portfolio of technically appraised, implementation ready projects; (iii) designing and implementing of a governance strategy to manage project portfolio execution; (iv) designing and implementing of a methodology and support plan that considers the lifecycle of project investments, focusing on the maintenance of infrastructure projects after the execution; (v) designing and implementing of improved budgeting systems and practices; (vi) improving in the management system for the transfer of resources from the State of Tocantins to municipalities and non-governmental organizations, allowing for digital monitoring of project preparation, implementation and accounting, and integrated to the budget and financial system; (vii) customizing the debt management information system; (viii) capacity building for State officials on public investment and expenditure management practices, to support the rollout and implementation of new tools; (ix) carrying out periodic staff surveys to assess reform implementation and support change management; and (x) procuring hardware to support the rollout and implementation of the above-mentioned activities.

40. **Sub-Component 1.5: Asset Management (US\$10.1 million). Implementing Agencies: SECAD.** Activities include: (i) providing technical support to assess up-to-date information of real estate properties, including geospatial data, area, occupation rate, valuations and registry's status; (ii) developing and implementing modules in the public asset management system that include information for decision making on real estate properties and fleet management; (iii) developing and implementing of a system for mapping costs of information and communication technologies, including identification of synergies between government-to-government systems, interoperability, and a governance strategy for new acquisitions and maintenance; (iv) carrying out of capacity building on asset management practices and support the rollout and implementation of above mentioned activities; (v) procuring efficient hardware to support the rollout and implementation of the above mentioned activities; and (vi) improving server storage to guarantee enough space for information technology tools and systems implemented under the Project.

Component 2. Management Systems in Strategic Sectors (US\$15 million)

41. **Sub-Component 2.1: Health (US\$8 million). Implementing Agency: SES.** Activities include: (i) developing and implementing an expenditure review to identify cost structure and assess budgeting practices in the Borrower's public health units; (ii) implementing a financial management information system to support budgeting and expenditure management in the state's health units, develop electronic cost-accounting and auditing systems, increase the participation of referral and regional hospitals in local and regional health networks, and improve fiduciary processes; (iii) introducing communication 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 (iv) procuring efficient hardware to support the rollout and implementation of the above mentioned activities.

42. **Sub-Component 2.2: Education (US\$5 million). Implementing Agency: SEDUC.** Activities include: (i) carrying out



a cost-benefit analysis on school transportation models and school meal procurement procedures, disaggregated by regions, to support the decision-making regarding the system's functionalities and scope; (ii) developing and implementing information technology systems to improve management of resources transferred by the Guarantor; (iii) designing and implementing an integrated financial management system for students transportation; (iv) designing and implementing an integrated financial management system for school meals; and (v) carrying out capacity building activities to support the rollout and implementation of the above mentioned tools.

43. **Sub-Component 2.3: Social Assistance (US\$2 million). Implementing Agency: SETAS.** Activities include: (i) designing and implementing a financial management information system for social assistance co-financing to support management of social assistance transferred funds to 139 municipalities; (ii) providing support to remodel the business processes at SETAS' level to increase efficiency and enable operational and financial analysis, higher quality and integration of data, reduced redundancy of information and streamlined processes for improving the and monitoring and evaluation of the use of financial resources; and (iii) carrying out of communication and capacity- building to support the implementation of the this new system and management tools; and (iv) procuring hardware to support the rollout and implementation of the abovementioned activities.

Component 3. Project and Change Management (US\$2.2 million)

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

45. **Sub-Component 3.2: Change Management (US\$0.7 million). Implementing Agency: SEPLAN.** Activities include: (i) developing a transversal change management plan and strategy for all parts of the Project encompassing incentives, processes and skills; (ii) carrying out consulting services, studies and surveys to support Project implementation; (iii) carrying out process reviews before information systems are developed; (iv) just-in-time support, as needed and as agreed with the Bank, including advisory services to the Attorney General's Office (*Procuradoria*) and technical teams during implementation, and knowledge exchange activities; and (v) carrying out communications and capacity building to support the rollout and implementation of the above mentioned activities.

C. Project Beneficiaries

46. **Direct beneficiaries are Secretariats and agencies participating in the project.** These institutions and 59,947 active State employees will benefit 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.

47. **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 Tocantins who will benefit from streamlined procurement systems and improved fiscal policy decisions based on more complete, accurate and timely financial information, as well as improved policy analysis.



D. Results Chain

Figure 1: Progestão Tocantins 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 Tocantins
	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-marketplace solution & 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	
	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 updated and rollout	New Public investment projects prepared and selected in line with PIM methodology Enhanced transparency of inter-governmental transfers Reduced entry points for public projects	Increased efficiency in project investment and financial management for health, education and social assistance	
2. Management Systems in Strategic Sectors	Budgeting and expenditure management system in State Hospitals implementation and rollout Public Expenditure Review on health management	Public health units with management and costing system implemented		
	Transport and meal management information system for State's students	Meal and transport management system implemented for all State's schools		
	Information management system for State's co-financing of social assistance programs	Municipalities use new financial management system to provide reports on social assistance services		
3. Change Management Support & Knowledge Exchange				

48. Figure 1 presents a summary of 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 areas of public management that can generate efficiency gains in Tocantins's public administration. Intermediate results are management systems, supporting 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: State commitment and building consensus for system implementation in the areas of human resources, pensions, procurement, public investment management and asset management; cross-cutting systems transcend government transitions allowing continuity in project implementation; systems and new technologies applied to management activities can increase public sector productivity, and transparency; and savings resulting from systems and selected public sector management could also improve service delivery in strategic sectors.



E. Rationale for Bank Involvement and Role of Partners

49. **The World Bank is uniquely positioned to support Tocantins given its experience working in public sector management reforms in Brazil and globally, including the World Bank's support with the State of Tocantins and the federal Ministry of Economy.** 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 approved Progestão operations in Alagoas (P177070) and Mato Grosso (P178339) in 2022. Progestão operations for Piauí (P178663) and Acre (P179046) are currently under preparation. 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. The World Bank has already provided successful support to public sector reforms in Tocantins through the projects (P121495 Tocantins Integrated Sustainable Regional Development - PDRIS; P152285 Brazil Investment Plan Coordination Project; and P171581 Tocantins - Pará Logistics Corridor). These projects achieved satisfactory and moderately satisfactory PDO ratings and helped the State strengthen its social services, planning and budgeting practices.

50. **The Progestão Program provides a framework for collaboration across States and institutions at the national level.** These partners include but are not limited to 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 Council of Secretaries of Finance (COMSEFAZ). These 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

51. **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 Project (P126343), Amazonas DPL (P147979), Acre Strengthening Public Policies Development Policy Lending (DPL) (P147913), Strengthening Service Delivery for Growth, Poverty Reduction and Environmental Sustainability in the State of Ceará Program for Results (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.

52. **The project also draws on lessons from the PNAGE (2006-2012), PROFISCO I (2008-2018) and PROFISCO II (2017-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.

53. **World Bank operations in the State of Tocantins also provide lessons notably from the Implementation Competition Report (ICR) of the Tocantins Integrated Sustainable Regional Development - PDRIS (P121495), and from Brazil Investment Plan Coordination (P152285), and Tocantins-Pará Logistics Corridor (P171581).** These include the need to: provide human resources to implement a World Bank-financed operation at the onset of the project recognizing the government's strengths and weaknesses in technical and operational areas; provide proactive and hands-on implementation support and periodic adjustments in project activities when needed; and invest in arrangements for coordination among implementing agencies. These lessons described above are also the result of the implementation experience observed in other multisectoral operations, implemented at the state and municipal level in Tocantins.

54. **The Progestão Program is underpinned by recent and ongoing World Bank 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

55. **Tocantins's Secretariat of Planning (SEPLAN) will lead project implementation.** Specific implementation arrangements include: a Steering Committee (SC); a Project Management Unit (PMU); a State decree establishing the roles and responsibilities of SEPLAN and implementing agencies; and inter-state thematic working groups for the learning agenda.

56. **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 operations with the Bank (PDRIS (P121495)). The State Government has selected SEPLAN as the main implementing agency because of its: qualified and tenured staff, ensuring continuity of staffing across changes in administration; mandate to coordinate reform programs across government; experience in working with agencies through the planning and budget process; and experience with large technical assistance projects.

57. **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 SEPLAG. 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.

58. **Project Management Unit.** The PMU will support project implementation and coordination with the participating secretariats and IGEPREV. The interinstitutional arrangements will be set forth in a 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. The Project Manager will report to the Secretary of Planning. The PMU will 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).

59. **Interagency arrangements.** The SEPLAN, SECAD, SEFAZ, and IGEPREV will implement activities under Component 1 directly or through their subordinate agencies through an inter-institutional agreement between the State (SEPLAN) and IGEPREV. The State Secretariats of Social Assistance (SETAS), Health (SES), and Education (SEDUC) will implement sub-components under Component 2. The SEPLAN will implement Component 3 which supports the PMU. The decree referred to 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 monitoring of progress. Project Implementation Units (PIUs) should be established in each of the implementing agencies and IGEPREV with staffing, functions, and responsibilities acceptable to the Bank.

60. **Thematic working groups.** At the national level, the thematic working groups established through CONSAD will bring together technical teams and high-level officials 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. These groups will also serve as a knowledge exchange platform to capture best practices innovations across the different themes and states.

B. Results Monitoring and Evaluation Arrangements

61. **Progress toward the achievement of the PDO 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.

62. **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 officials in permanent and non-permanent contracts in non-strategic areas; cost and time overruns in public investment



projects, budget revisions, and restructuring; public procurement cost savings for high volume or commonly procured goods and services.

63. **The PMU will gather relevant data from participating institutions and present the 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

64. **The project will support regulatory reforms, business process changes, information systems, capacity building and change management activities.** The reforms supported by the project are of a managerial and technical nature and are not expected to be controversial. The project will put in place routines, review and oversight arrangements that will help sustain reforms. 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 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.

65. **The State of Tocantins 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 aims will be to continuously improve processes and procedures to make interventions more effective. Thematic groups regarding human resources, digital government, procurement, investment and PPPs 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 twice per year), the Tocantins 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)

66. **Strategic relevance.** The project is of strategic relevance to the State of Tocantins, 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.

67. **Technical design.** The proposed project will develop and implement complex systems, some of which will be commercial off-the-shelf (COTS) customized, as well as some of which will be developed specifically based on the needs of the agency. Contracted information 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 operation 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.

68. Series of Projects. The SoP approach based on a common design will enable the World Bank to help address individual requirements of Brazilian States in a cost-efficient manner by providing an opportunity to share experience 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 as 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 as 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.

69. Institutional building, knowledge sharing and innovation. The Progestão Program provides a platform to strengthen institutional capacity in Brazilian states in priority areas of public sector management by upgrading core management. Peer learning and technical collaboration among states on 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 and 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.

70. 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 Tocantins' public administration. The State has some experience with management reforms, recently introducing a pension reform and initiatives to review the catalogue of eligible procurement items. 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, promoting use of integrated data and analytics to support evidence-based decision making and citizen-oriented services. SEPLAN, SECAD and SEFAZ 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.

71. 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.

72. Paris Alignment. Progestão Tocantins 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.

Table 2: Table 2: Progestão Tocantins 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\$225.8 (US\$47.4)
1.2 Pensions	<ul style="list-style-type: none"> Reduced inconsistencies in pension payroll 	R\$64.6 (US\$13.6)
1.3 Procurement	<ul style="list-style-type: none"> Reduced price paid per product 	R\$95.7 (US\$20.1)
1.4 Public Investment, Transfers and Debt Management	<ul style="list-style-type: none"> Reduced cost and time overruns Increased execution rate of projects 	R\$115.1 (US\$24.2)
1.5 Asset Management	<ul style="list-style-type: none"> Increased return from rental of real estate assets Reduced expenditures on real estate assets 	R\$14.2 (US\$3)
2.1 Health	<ul style="list-style-type: none"> Reduced health administrative costs Increased reimbursement from the federal government for SUS procedures 	R\$90.1 (US\$18.9)
2.2 Education	<ul style="list-style-type: none"> Reduced expenditures with meal and transport management 	R\$93.2 (US\$19.6)
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\$41 (US\$8.6)

73. The Economic analysis assesses the project's economic return using a cost-benefit analysis (CBA) of the modernization of the public administration. Estimation of the expected benefits is based on the 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 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. The efficiency savings generated by the



implementation of the project are summarized in table 2 above. 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 all project benefits using a social discount rate of 4.5 percent is estimated to be US\$108.5 million over ten years with an internal rate of return of 46 percent. The discount rate follows the recommendation of a recent study on 17 Latin American countries using the social rate of time preference (STP) method⁷ and is relatively close to the social discount rates adopted by European countries (ranging between 3.5-5.5 percent).

B. Fiduciary

Financial Management

74. **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 Interim Financial Reports (IFRs); and a review of the external audit arrangements. The FMA concludes that SEPLAN has sufficient capacity to fulfill its FM responsibilities with the implementation of the proposed mitigating measures and agreed actions to strengthen the FM system. 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 **Moderate**. There are no FM related conditions for negotiations, board, and effectiveness.

75. **The Public Financial Management System of Tocantins has satisfactory internal rules and controls, with a clear definition of responsibilities and institutional arrangements.** The SEPLAN is responsible for budget preparation. The State Treasury Department (*Superintendência do Tesouro Estadual, STE*) under the SEFAZ is responsible 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. 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.

76. **The FMA identified risks related to budget provision, implementation capacity, internal control, and audit.** The State of Tocantins recently completed prior World Bank operation with the SEPLAN as the PMU closed with an FM risk rating Moderately Satisfactory, but faced issues related to weak internal control arrangements at the PMU level, staffing and adequate monitoring.⁸ Progestão Tocantins has a complex design supporting various sectors with multiple executing agencies. The current PPA and Annual Budget (LOA) did not envisage the project's activities. This may cause delays at the start of the project. Post-pandemic fiscal pressures may translate into budgetary constraints throughout implementation. Low budget execution in the relevant budget lines for the project since 2020 is indicative of low

⁷ 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](#))

⁸ Tocantins Integrated Sustainable Regional Development (P121495); closing date: December 31, 2021. The last Implementation Status Report (ISR) FM performance rating was Moderately Satisfactory: financial management arrangements adhered to the standards required by the World Bank. The overall Project FM risk rating was maintained as Moderate until the closing date.



implementation capacity. The State follows 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. CGE faces challenges to adopt internal audit functions and 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*, SIAFE) has many advanced functionalities satisfactory to the Bank. TCE has no experience in financial auditing, international organization operations procedures, accounting standards (MCASP, NBC TSP and IPSAS) and other Project's financial management matters, it also faces lack of human and technical resources.

77. FM risks can be addressed by appropriate mitigation measures. The Project Operations Manual (*Manual de Operações do Projeto*, POM) will detail FM procedures. The World Bank will provide close support and supervision on the PMU and implementing agencies, including trainings for implementing agency staff. The State will provide Bank staff with direct access to SIAFE and its Project Management System (*Sistema de Gerenciamento de Operações de Créditos e Projetos*, SIGOP) to obtain timely information on implementation. The SIAFE and the SIGOP 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.⁹ The SEPLAN will appoint at least two dedicated FM staff member, and each implementing agency appoint at least one dedicated FM staff 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 create budget lines for the 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, informing the World Bank and the CGE. The State government will monitor budget forecasts and execution by source of funds (*Fontes de Recursos*) and it will report the current status in IFRs identifying corrective measures. The State will 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 to 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. Specific audit Terms of Reference (TOR) for external independent auditors will be prepared by the PMU and will be approved by the Bank. The Bank will closely follow-up on the status of accounting standards implementation in the State using the National Treasury's accounting standards implementation ranking¹⁰ as parameter and will follow up adequacy of minimum requirements of the FMIS (Decree 10,540/2020).

Procurement

78. The project procurement risk is assessed as Moderate. The project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers, dated November 2020. A Procurement Capacity Assessment reviewed the project management unit's organizational structure and the current operating environment available for implementing procurement transactions expected by the project. The assessment focused on the capacity of the agency responsible for implementing the procurement transactions and management of contracts, in accordance with the Bank's procurement regulations. 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 27 contracts for the

⁹ The System was designed and developed to manage the execution of Tocantins Integrated Sustainable Regional Development (P121495) project and will be customized for the Progestão.

¹⁰ 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>



development of information systems and consulting services for diagnostics and technical studies. Many of the systems related contracts involve cybersecurity aspects, which adds to the complexity and scope, 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, and ensure a bidding process that is attractive to market participants.

79. The SEPLAN and each implementing agency will 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 procurement activities will require appropriate coordination amongst technical and procurement specialists. SEPLAN will establish a Special Bidding Committee (*Comissão Especial de Licitações*, CEL) properly staffed and equipped to meet the project's procurement needs. Procurement planning, design, and technical execution of the contracts will be the responsibility of each implementing agency, with the responsibility for evaluating the demands of procurement and deciding the appropriate for their implementation. The PMU's procurement team will work exclusively on matters related to the project's procurement. This team will comprise at least one procurement analyst, one contract management analyst, one procurement assistant, one ad-hoc individual consultant (with expertise in the Bank's rules, to provide specific guidance on procurement matters and support the PMU's decision-making process). Additionally, the PMU will have focal points in procurement to dialogue with the other secretariats and support the agile preparation of the TORs, technical specifications, and other bidding documents.

80. 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

81. Based on the results of the environmental and social risks and impacts screening, this project is rated as low risk under the World Bank' Environmental and Social Framework. The Following Environmental 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— though the activities that may cause the later are outside of the scope of the Project – that could associated with the supported technical assistance activities, paying special attention to potential distributive impacts in disadvantaged and vulnerable social groups (such as the traditional and *quilombola* or Afro-Brazilian communities). The EESIA was disclosed on the Borrower' website on November 7, 2022. The final EESIA will be disclosed no later than 30 days after the Effective Date, and any relevant measures will be implemented as set out in the EESIA,



as applicable.

82. **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 07, 2022.

83. **Environmental risk.** Progestão Tocantins 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) systematic screening and assessment of public investment; (ii) development and implementation of a public procurement strategy that considers the lifecycle of products; (iii) rationalization of the movable assets; and (iv) reductions in consumables, travel time, and energy consumption through the digitalization of public administration services and processes.

84. **Social risk.** Progestão Tocantins 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 Tocantins 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

85. **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

86. **The overall risk of the proposed operation is Moderate.** The Political and Governance risk at appraisal stage has been downgraded from Substantial to Moderate while the Institutional Capacity for Implementation and Sustainability risk remains Substantial.

87. **Political and Governance risks are rated Moderate given government continuity after the elections for State Governor in October 2022.** The Governor for Tocantins was re-elected Governor during the last elections. . Stability in



the government in terms of technical and appointed staff who fully supported the Progestão project could minimize political and governance risks to the project. To further consolidate these gains, the World Bank Task Team will work closely with permanent technical staff to ensure the continuity of the outputs and outcomes of the operation in each component activity, focusing on core management systems that are required by Federal regulations, notably the asset public investment, transfers management and pension management systems. A high-level launch of the Progestão is also expected in the first year of the program to further garner support and align all stakeholders at both subnational and Federal levels around key Program reforms.

88. **Institutional Capacity for Implementation and Sustainability of the project risk is rated as 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 Tocantins has technically sound, tenured public officials in key management positions and an experienced PMU and project preparation team familiar with lending operations. However, there are capacity gaps in lower ranks. The Project finances many contracts that will be executed across multiple agencies. The management reforms and information systems supported by the project are complex. The World Bank and State of Tocantins will mitigate this risk by: investing in capacity building activities across all management levels and not only to high officials; providing targeted support to develop terms of reference which include direct support for a limited time after systems are in place; and encouraging 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 Project will involve permanent public employees to ensure the continuity of the operations.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Brazil

Progestão Tocantins: Public Sector Management Efficiency

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improve efficiency in public resources management in selected departments of the State of Tocantins							
Public sector workforce replacement rate in non frontline service delivery staff (Number)		1.01	1.00	0.99	0.98	0.97	0.96
Branches contributing to the Central Management Unit for the Public Servant Pension Regime (Number)		1.00	1.00	2.00	2.00	3.00	3.00
Time between opening and finalizing the procurement process (Days)		69.00	65.00	60.00	55.00	50.00	45.00
Share of public real estate with complete legal documentation (Percentage)		0.00	30.00	45.00	55.00	70.00	80.00
Project investments time		319.00	319.00	300.00	250.00	200.00	150.00



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
overruns (Days)							

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	0.00	0.30	0.30	0.30
Public officials covered by the workforce planning reports (Percentage)		0.00	25.00	40.00	60.00	75.00	85.00
Identified Pension payroll non-conformities/irregularities (Percentage)		0.00	0.00	0.00	0.30	0.30	0.30
Implementation of an electronic invoice database for price references (Yes/No)		No	No	No	Yes	Yes	Yes
Public investment projects prepared and selected in line with PIM methodology (Percentage)		0.00	0.00	20.00	30.00	40.00	50.00
Implementation of new modules of the Intergovernmental Transfers Management System (Yes/No)		No	No	No	Yes	Yes	Yes



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Inventory on State ICT Infrastructure (Yes/No)		No	No	Yes	Yes	Yes	Yes
Net fixed property income (Number (Thousand))		1,721,000.00	1,721,000.00	2,000,000.00	2,500,000.00	3,000,000.00	3,500,000.00
Management Systems in Strategic Sectors							
Percentage of state health units with management and costing system implemented (Percentage)		0.00	0.00	10.00	30.00	60.00	70.00
Implementation of the transport information management system (Yes/No)		No	No	No	Yes	Yes	Yes
Municipalities that are using the new cofinancing financial management system (Percentage)		0.00	0.00	20.00	40.00	60.00	70.00

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 the personnel leaving active post due to retirement, resignation or death) in non-	Last four years average	Secretariat of Administration (SECAD)	Sum of # public officials new hires in the last 4 years / Sum of # public officials leaving in the last 4 years.	SECAD



	<p>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).</p>				
Branches contributing to the Central Management Unit for the Public Servant Pension Regime	Measures the adoption of the Central Management Unit for the Public Servant Pension Regime - RPPS, coordinated by IGEPREV, for all State's civil servants.	Annual accumulated	Tocantins Pension Agency (IGEPREV)	Implementation Status Report of the Information Interoperability of the Payroll Management of the three branches (Executive, Legislative, and Judiciary).	IGEPREV



Time between opening and finalizing the procurement process	Days between Demand Registration in procurement system and award of contract to provider for acquired goods (non-complex items).	Annual	Secretariat of Finance (SEFAZ)	Average difference between procurement opening and finalizing dates for all non-complex state purchases (goods)	
Share of public real estate with complete legal documentation	State real estate properties with complete legal documentation proving state ownership as share of total number of state real estate properties listed in state database	Annual (accumulated)	Secretariat of Administration (SECAD)	Technical report from the state asset management system indicating newly added properties and the sum of properties with complete legal documentation	Secretariat of Administration (SECAD)
Project investments time overruns	It measures the investment projects time extension in days for different projects.	Last 4 years average	SIAFE, CONV-TO and PMB project aggregation	Average of the last four years for the days of finalized investment projects per year	SEPLAN

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	One time only based on expected payroll of	Audit of 2025	Review of Audit report in the active personnel payroll findings	SECAD



	analytics product would identify risk areas for control Baseline is total payroll and target is 0,3% of it.	2025.			
Public officials covered by the workforce planning reports	Public officials covered by strategic workforce planning reports as a percentage of the total workforce.	Annually	Human Resources Management Information System (HRMIS)	Percentage of Public Officials contemplated in the workforce strategic planning methodology / Total State Workforce including non-permanent officials.	SECAD
Identified Pension payroll non-conformities/irregularities	Expenditure nonconformities (any category) of the retired personnel and pensioner payroll. Data would come from Audits. The management analytics product would identify risk areas for control.	One time only based on expected audit payroll of 2025.	IGEPREV	Review of Audit report in the inactive and pensioner payroll findings	IGEPREV
Implementation of an electronic invoice database for price references	It measures the implementation of the electronic invoice database for price reference in the State.	Annual	Secretariat of Finances (SEFAZ)		SEFAZ
Public investment projects prepared and selected in line with PIM methodology	Measures degree of application of the new PIM methodology to public	Annual	Secretariat of Planning (SEPLAN) and	# of investment project prepared and selected under PIM	SEPLAN



	investment projects. A review of all new projects will be carried out to determine compliance.		GIP	methodology / total of investment project carried out by the State.	
Implementation of new modules of the Intergovernmental Transfers Management System	It measures the customization and implementation of new modules for the intergovernmental transfers management system, including the integration with SIAFE, new modules for fund transfers, decentralization, and special transfers (to municipalities and Civil Society Organizations) with an integrated dashboard to allow for Government and Citizens monitoring and feedback processes.	Annual	SEPLAN	Implementation Reports of the Intergovernmental Transfers Management System	SEPLAN
Inventory on State ICT Infrastructure	Complete inventory report on state ICT infrastructure and systems finalized and available	Annual	Secretariat of Administration (SECAD) and Pensions (IGEPREV)	Review of Inventory report provided by SEPLAN	SEPLAN
Net fixed property income	Average net fixed property income of State "receita patrimonial" element in	Annual	Secretariat of the National Treasury	(Sum of revenues of the budget items (1.3.1.0.01.1.0 - Rents;	SECAD



	Budget revenues. Measured as moving 5 year average.		(SICONFI) Annex 1-C	1.3.1.0.01.2.0 - Foros, Laudemios and Occupation Fees; 1.3.1.0.99.0 - Other immobile assets.	
Percentage of state health units with management and costing 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)
Implementation of the transport information management system	It measures the implementation of the transport management system in the SEDUC.	Annual	Secretariat of Education, Culture and Sports (SEDUC)	Administrative records and Implementation Status Reports	Secretariat of Education, Culture and Sports (SEDUC)
Municipalities that are using the new cofinancing financial management system	It measures the share of municipalities that implemented and are	Annual (accumulated)	SETAS	Implementation Status Reports	SETAS



	extracting reports from the new financial management information system				

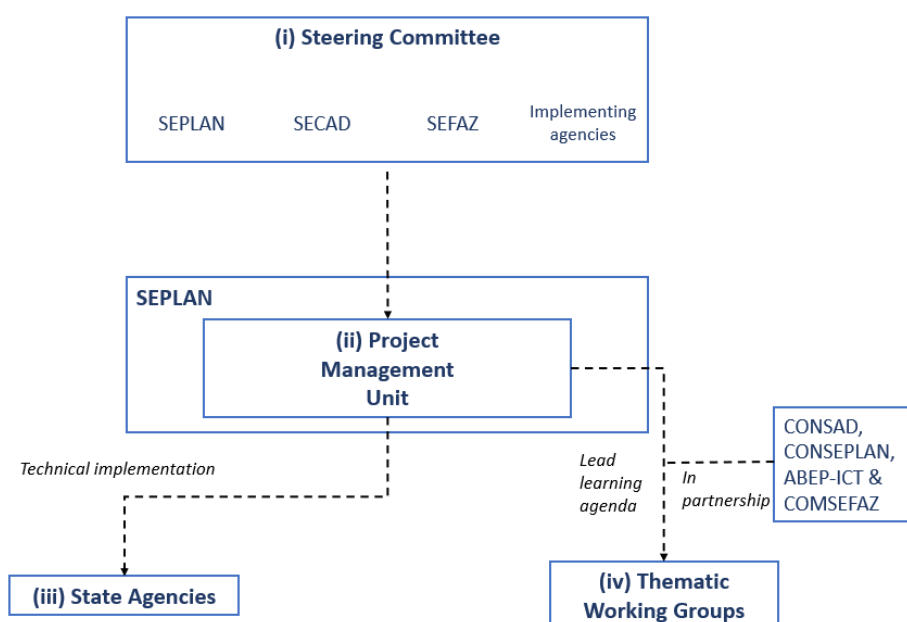


ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

Project Institutional and Implementation Arrangements

1. **Tocantins'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 SEPLAG 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 State Government has selected the SEPLAN as the lead and implementing 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: lead, 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. Establishment of a Project Management Unit is a condition of effectiveness of the project.

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 SC 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.** The State will establish the PMU in SEPLAN and maintain the PMU throughout project implementation as a condition of effectiveness of the Project. The PMU will be established by 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 fully 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 Project Operations Manual (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. Procurement staff will be appointed to the PMU as detailed in the POM.
7. **POM.** 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.** SECAD, SEPLAN, SEFAZ and IGEPREV will implement activities under Component 1 directly or through its subordinate agencies through an inter-institutional agreement between the State (SEPLAN) and IGEPREV. The State Secretariats of Health (SES), Education (SEDUC) and Social Assistance (SETAS) 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 IGEPREV with staffing, functions, and responsibilities acceptable to the Bank.



Table 1: Progestão Tocantins Implementing Agencies Responsibilities for Project Components

Agency	Institutional Structure and Function	Subcomponents
State Secretariat of Planning SEPLAN	SEPLAN is an administrative body of the executive branch advising the State Governor on planning, coordinating the planning and budgeting cycle of the executive branch. SEPLAN monitors the budget plans and evaluates the performance of the public sector.	Public Investment Management and Budgeting; Change Management
Secretariat of Finance SEFAZ	SEFAZ is an 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 Tocantins.	Public Procurement
State Secretariat for Administration SECAD	SECAD is an administrative body of the executive branch responsible for advising the State Governor on administrative actions and for human resources management, public asset and administrative service policies.	Human Resource Management; Asset Management
Tocantins Pensions Agency IGEPREV	IGEPREV 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 Tocantins (RPPS-TO), operationalizing the respective social security benefits, covering active, inactive, and retired civil servants.	Pensions Management
State Secretariat for Labor and Social Assistance SETAS	SETAS is an administrative body of the executive branch 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.	Social Assistance
Secretariat of Health SES	The Secretariat of Health is an administrative body of the executive branch responsible for the coordination, formulation, control, and implementation of health policies and guidelines in the State of Tocantins	Health
Secretariat of Education SEDUC	The Secretariat of Education is an administrative body of the executive branch responsible for the coordination, formulation, control, and implementation of education policies and guidelines in the State of Tocantins	Education

Financial Management

9. **Planning and Budgeting.** The State's budget process follows Law 4.320/64, and the budget and financial accounting frameworks are aligned with Brazilian regulations. The key planning and budgeting instruments are the medium-term plan (*Plano Plurianual*, PPA), the annual budget circular (*Lei de Diretrizes Orçamentárias*, LDO) and annual budget (*Lei Orçamentária Anual*, LOA). The procedures in place to plan project activities, prepare related budgets, and collect information from the other entities involved in the project are Satisfactory. Progestão Tocantins 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 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 satisfactorily. However, the current PPA and LOA do not include the project, which could cause a delay in project start-up. SEPLAN (in coordination with SEFAZ) will need to adjust the LOA by including the project's activities in the budget lines not later than three months after loan signing.



Mitigation measures to address these risks include: SEPLAN will create budget lines on PPA and LOA to control the execution of Project components and activities and allocate necessary amounts; the PMU will provide a comprehensive forecast of budget expenditures related to Project activities in the financial reports of the Project (IFRs), and liaise with the implementing agencies, identifying constraints, informing the relevant parties (World Bank management, FM and procurement staff and CGE); SEPLAN will monitor the forecast and execution of budget by source of funds (*fontes de recursos*) and report the current status in the financial reports of the project (IFRs), providing inputs for corrective measures; and frequently interaction between the CMU and State leadership will be undertaken.

10. **Accounting.** The Federal Government published Decree n. 10.540/2020, which established additional mandatory guidelines for art. 48 of Complementary Law n. 101, of 2000, establishes the minimum requirements for accounting and control systems of budgetary and financial execution and the requirement to elaborate and publish an action plan to migrate to the new standards by the year 2023. The State's financial and monitoring system (SIAFE) can adequately account for and control all transactions and records in real-time and individually. The accounting system maintains the standards acceptable according to the Bank guidelines. All transactions under the Project will be accounted for on a cash basis for disbursements, reporting, and auditing purposes. Although the 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 implementing agencies will need to ensure a proper FM and control environment. The PMU will ensure proper accounting for assets acquired with the loan proceeds. The PMU will ensure (for the whole period of Project implementation) that there is a control in place that guarantees all purchased assets by each implementing agency are: used only for the Project's activities; listed in an inventory record; 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); physical inventory control is performed annually for these assets and reconciled with the respective control accounts; and the asset is maintained in good condition. The project's assets will be accounted for through SIAFE.

11. **Accounting Standards.** The State of Tocantins follows the Federal Government accounting standards. These include: the Public Sector Accounting Standards (*Normas Brasileiras de Contabilidade*, NBC TSP) which represents the adoption of International Public Sector Accounting Standards (IPSAS) in Brazil; Law N. 4,320/64 which establishes high-level accounting principles related to budget and accrual accounting; and the Accounting Manual applied to the Public Sector (*Manual de Contabilidade Aplicado ao Setor Público*, MCASP) issued under Law 10,180 of February 6, 2001. STN publishes the Public Sector Accounting Manual (*Manual de Contabilidade Aplicada ao Setor Público*, MCASP), whose use is mandatory for all public sector entities across the Federation. The MCASP is aligned with the accounting practices set forth in NBC TSP issued by the Brazilian professional accountancy organization, the Federal Accounting Council (*Conselho Federal de Contabilidade*, CFC). The NBC TSP translates IPSAS into Portuguese, with very few adaptations (indirect adoption). STN issues other relevant standards regarding budget execution accounting, chart of accounts, fiscal and LRF limits reports and other legal and special accounting procedures. STN has issued a detailed implementation plan for the adoption of IPSAS accrual accounting standards (*Plano de Implantação dos Procedimentos Contábeis Patrimoniais*, PIPCP) with broad participation of key stakeholders, including the Federal Court of Auditors. The State of Tocantins is in the first position among the Brazilian states on accounting standards implementation, as it has executed 100 percent of the applicable accrual accounting procedures established in MCASP. 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. 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 Objectives.

12. **Internal Control.** All Project budgeting and accounting transactions will be processed through SIAFE, which is used by all state institutions that receive/transfer government funds. A specific ledger of accounts is created in the SIAFE 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. SEFAZ monitors budget execution in coordination with SEPLAN. All executing agencies will execute their budget observing the monthly fiscal budget limits determined by SEPLAN. No payments shall be made outside SIAFE. Approval and authorization controls are adequate to approve budget transfers/allocations, are currently described in State's regulations and will also be described in the POM. Actual expenditures are compared to budgeted expenditures monthly, and justifications are provided for variations. SIAFE is not in compliance with the mandatory requirements established by Decree 10.540/2020. Each executor will only have access to its budget and financial transactions per its Budget Management Unit (*Unidade Gestora*, UG). However, the SEPLAN and the SEFAZ will have full access to the Program's executor's entity budget and financial transactions through the "read-only" access of the SIAFE and SIGOP systems. The SEPLAN will provide, in accordance with the financial action plan, "read-only" access to SIAFE and SIGOP for Bank staff, implementing agencies and the PMU.

13. **Internal Audit.** The State Comptroller General (*Controladoria Geral do Estado*, CGE) is responsible for supporting the State's direct and indirect agencies on legal procedural compliance for contracting public expenditures and complying with the public information access law. The CGE assists the Government of the State of Tocantins in the safeguard of public assets, internal control, internal auditing, prevention of corruption and in ensuring transparency. CGE supervises the entities that make up the Internal Control System, providing normative guidance and training (courses/training). CGE will implement the Internal Audit Capability Model (IA-CM), issued by the Institute of Internal Auditors (IIA), to strengthen internal audit functions in all entities that execute the State budget. IA-CM identifies the fundamentals needed for effective internal auditing in the public sector, promotes audit as an integral component of effective governance, and helps organizations achieve their objectives and account for their results. IA-CM consists of five levels, tied to leading practices. At level 3 (integrated) internal audit management and professional techniques are uniformly applied following international practices. The Bank will support the government's effort to achieve level IA-CM 3 by the project closing date by financing some activities. CGE will assess the adequacy and effectiveness of internal control in the Project implementing agencies throughout Project implementation.

14. **Financial Reporting and Monitoring.** SIAFE and SIGOP systems can adequately control, account for, report on, and manage the proposed Project. The system can provide FM data to prepare the reports in local currency Brazilian Reais (R\$) 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 IFRs for submission to the Bank within 60 days after the end of each semester. SEPLAN will submit the automatic IFRs generated by SIAFE and/or SIGOP for Bank's validation no later than one year after Loan signing. 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.

15. **Disbursement Arrangements.** SEPLAN (in coordination with SEFAZ) will open a segregated Designated Account (DA), in the name of the State of Tocantins, to receive loan funds and to process disbursements in Brazilian Reais (R\$) in the Bank of Brazil (*Banco do Brasil*) for payments in local currency. The frequency of 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 the implementing agencies. SIAFE requires that funds be committed by source, enabling the tracking of loan disbursements to Project expenditures. 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 SIAFE and/or SIGOP 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 Designated Account 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 Disbursement Letter that will be prepared by the Bank's Loan Department. Disbursements will be made through the IFRs to be generated directly from the SIAFE and/or SIGOP systems by category, component, and subcomponent (budget and actuals). 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. A financial action plan will detail that the PMU should: provide to Bank staff direct access to SIAFE and SIGOP; ensure that all relevant staff participated in training offered by the Bank; appoint at least two fully dedicated Financial Management staff on SEPLAN and at least one in each implementing agency (under the coordination of SEPLAN), specifically for this Project, to undertake all FM related tasks; create specific budget lines for the Project on PPA and LOA; and have specific audit Terms of Reference (TOR) of the external auditors prepared by the PMU approved by the Bank.

16. **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.

17. **Retroactive financing.** If requested by the Borrower, it is allowed Retroactive Financing (RF) for eligible expenditures up to an aggregate amount not to exceed ten million dollars (USD \$10,000,000) made for payments up to 12 months before the signing date of the loan agreement. RF 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.

18. **Payments.** All payments from the Designated Account will be authorized by PMU once expenditures have been received, approved, and adequately documented through the SIAFE and SIGOP systems. Funds will be committed by source, making it possible to track loan disbursements/receipts to Project expenditures. These processes will be detailed in the POM and approved by the Bank. The Project will also have four months after the closing date to document expenditures incurred before the Closing Date.

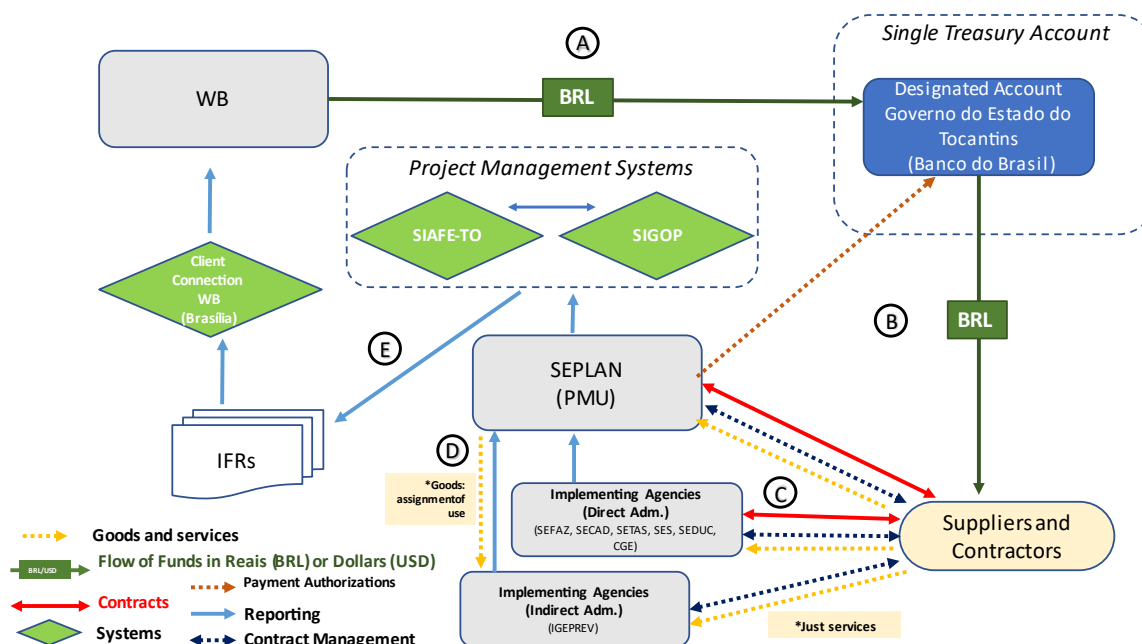
Table 2 - Category of Expenditures and Financing Percentages (expressed in US\$)

Category	Amount of the Loan Allocated	Percentage of Expenditures to be financed (Inclusive of Taxes)
1. Goods for the Project	12,500,000	100 %
2. Non-consulting services, Consulting services, Operating Costs and Training for the Project	37,375,000	100%
3. Front-end Fee	125,000	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
<u>Total Amount</u>	<u>50,000,000</u>	



19. **Flow of Funds.** The figure below presents the flow of funds:

Figure 2: Flow of Funds



A. SEPLAN will open a segregated DA in Brazilian Reais (BRL, R\$) at the Bank of Brazil (*Banco do Brasil*), in the name of the State of Tocantins, to receive Loan funds and process disbursements in R\$. The frequency for reporting eligible expenses paid by the DA will be semi-annual.

B. SEPLAN (PMU) will be responsible for authorizing all payments once payment obligations have been incurred and properly documented by suppliers and contractors. SIAFE requires 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.

C. Goods and services will be provided by suppliers and contractors directly to the beneficiary agencies. Contracts will be signed and managed by each implementation agency with suppliers and contractors, except for IGEPREV, whose contracts will be signed by SEPLAN and contract management will be shared between IGEPREV and SEPLAN. IGEPREV will receive services directly, but not goods (see note "D").

D. IGEPREV will not receive goods purchased by the Project directly from suppliers. Goods destined for IGEPREV will be delivered to SEPLAN (PMU), which must formally authorize the use of the goods by IGEPREV, but SEPLAN still be responsible for safeguarding these assets during project implementation.

E. The IFRs will be prepared directly from SIAFE and SIGOP, and will be supported by accounting records, extracts from designated and operational bank accounts, their respective reconciliation and 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.

20. **Record Keeping.** The 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 Loan 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 Loan Agreement complies with its government's regulations.

21. **External Auditing.** For Project 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 thirty days after project signing 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 (ie. IPSAS or national accounting standards where, as determined by the Bank, they do not significantly depart from international standards). The auditors should be hired within thirty days after loan effectiveness. 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. 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 two years after the Closing Date; or 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 implemented satisfactorily. 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.

22. **Financial Management Supervision Plan.** The Bank will undertake formal supervision of the Project based on a risk profile. Supervision missions will involve: 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

23. **Procurement will be carried out in accordance with "World Bank Procurement Regulations for IPF Borrowers" dated July 1, 2016 and 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 (ToRs), 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 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.

24. **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) properly staffed and equipped to meet the project's procurement needs. The procurement planning, design, and



technical execution of the contracts will be the responsibility of each implementing agency, with the responsibility for evaluating the demands of procurement and deciding the appropriate moment for their implementation.

25. **Procurement Staff.** In addition to establishing the Special Bidding Committee, SEPLAN will be staffed by a seasoned procurement team at the PMU. The PMU's procurement team will be exclusively dedicated to matters related to the project's procurement. This team will comprise 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 PIU will 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.

26. **Capacity Assessment.** A detailed procurement capacity assessment was carried out and focused on assessing the capacity of the implementing agency responsible for the procurement transactions and management of contracts, in accordance with the World Bank's Procurement Regulations. The assessment reviewed the implementing agency's organizational structure and the current operating environment available for implementing procurement transactions expected by the project. Most of the issues/risks have been identified and include: (i) weakness in the capacity of the administrative staff; (ii) lack of familiarity of the staff of the implementing agency with procedures to select consultants as well as in procurement goods and non-consulting services in accordance to the World Bank's procurement policies; (iii) capacity constraints to prepare realistic procurement plans; and (iv) lack of sufficient staff with the right skills and behaviors and a satisfactory track record in carrying out procurement. The Project risk rating is **Moderate**.

27. **Mitigation measures were proposed on basis of the major likelihood of occurrence of inherent risk on procurement.** To mitigate risks the project will: (i) Identify qualified staff with the required skills and behaviors, and appoint them to be trained and guided on procurement aspects related to regulations and procedures that govern project procurement; (ii) prepare an action plan considering measures to support and enforce regulations and systems related to procurement planning activities, including training on best planning practices; (iii) prepare a Contract Management Plan for each of the main contracts of the project that are in execution; (iv) 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; (v) prepare and adopt a simplified bid/proposal evaluation flow that should be widely disseminated among involved staff and other implementing agencies; (vi) Training of procurement staff working in the implementing agencies involved in project implementation or with the responsibility in preparing procurement documents, and carry out procurement processes. The World Bank team will monitor implementation of all recommended measures and propose additional mitigation measures during project implementation or whenever needed.

28. **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.

29. **Mandatory use of the procurement planning and tracking tool.** The implementing agencies will 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.

30. **Procurement Plan.** The first Procurement Plan has been drafted and has been approved in STEP prior to the completion of loan negotiations. The procurement plan defines appropriate procurement category and selection methods, contract description, estimated costs, and market approach based on the following summary:

Table 3: Procurement Plan



ID	Category	Agency	Description	Amount (US\$)	Procurement Approach	Selection Method	Evaluation Method
1	Consulting Services	SECAD	Strategic workforce planning of all agencies and capacity building activities	2,000,000	International Open	QCBS	Rated Criteria
2	Consulting Services	SECAD	Review of the Functional Structure and Senior Position Model, as well as Career Model Redesign	2,000,000	International Open	QCBS	Rated Criteria
3	Consulting Services	SECAD	Development and implementation of Workforce Sizing System	3,500,000	International Open	QCBS	Rated Criteria
4	Consulting Services	SECAD	Diagnosis of Payroll Inputs Processes	600,000	International Open	QCBS	Rated Criteria
5	Consulting Services	SECAD	Design of Automatic Audit	400,000	International Open	QCBS	Rated Criteria
6	Consulting Services	SECAD	Design of Business Intelligence Platform	500,000	International Open	QCBS	Rated Criteria
7	Consulting Services	IGEPREV	Integration between the active and inactive system and predictive models of actuarial impact	600,000	International Open	QCBS	Rated Criteria
8	Consulting Services	IGEPREV	Development of a virtual platform to monitor projections	600,000	National Open	CQS	Rated Criteria
9	Consulting Services	IGEPREV	Diagnosis and review of the pension management system and assets	600,000	International Open	QCBS	Rated Criteria
10	Consulting Services	IGEPREV	Implementation of a monitoring system to evaluate investment strategy	600,000	International Open	QCBS	Rated Criteria
11	Consulting Services	SEFAZ	Digital transformation services for the development and implementation of an integrated public procurement system, including consultancy for the identification of improvement and simplification of flows and processes	3,500,000	International Open	QCBS	Rated Criteria
12	Consulting Services	SEFAZ	Development of an integrated stock management system	3,000,000	International Open	QCBS	Rated Criteria
13	Consulting Services	SEFAZ	Development, customization, or establishment of partnerships for e-Marketplace solutions in corporate public procurement in the state	1,800,000	International Open	QCBS	Rated Criteria
14	Consulting	SEFAZ	Consulting services for	200,000	International	QCBS	Rated



ID	Category	Agency	Description	Amount (US\$)	Procurement Approach	Selection Method	Evaluation Method
	Services		diagnosis, implementation of improvements and development of sustainability plans for public procurement in the state		Open		Criteria
15	Consulting Services	SEFAZ	Digital transformation services for the development of a computerized solution aimed at using the Electronic Invoice database to define reference prices for purchases	1,300,000	International Open	QCBS	Rated Criteria
16	Consulting Services	SEFAZ	Consulting services for the development and implementation of a strategic sourcing methodology, and potential fraud in public procurement system	200,000	National Open	CQS	Rated Criteria
17	Consulting Services	SEPLAN	Hiring an audit to verify accounting adherence	200,000	National Open	LCS	Rated Criteria
18	Consulting Services	SEPLAN	Systems to monitor cash transfers and agreements with municipalities to implement social programs	1,200,000	International Open	QCBS	Rated Criteria
19	Consulting Services	SEPLAN	Design and implementation of a system to standardize project preparation, evaluation and screening procedures, including possible public-private partnerships	5,500,000	International Open	QCBS	Rated Criteria
20	Consulting Services	SECAD	Technical support for mapping, documenting, and evaluating the value of real estate	3,500,000	International Open	QCBS	Rated Criteria
21	Consulting Services	SECAD	Development of asset management system integrated with accounting and financial management	4,600,000	International Open	QCBS	Rated Criteria
22	Consulting Services	SEPLAN	Design the governance structure of ICT solutions that ensure monitoring, evaluation, cost reviews and strategic guidelines	1,600,00	International Open	QCBS	Rated Criteria
23	Consulting Services	SEPLAN	Implement data layer enabling interoperability between systems	1,600,000	International Open	QCBS	Rated Criteria
24	Consulting Services	SES	Implementation of hospital expenditure management	5,000,000	International Open	QCBS	Rated Criteria



ID	Category	Agency	Description	Amount (US\$)	Procurement Approach	Selection Method	Evaluation Method
			system focused on financial and budgetary practices and registries				
25	Consulting Services	SETAS	Development of an Financial MIS System to support financial and budgetary management of state funds transferred to SUAS delivering benefits and services and its rollout to 139 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
26	Consulting Services	SEDUC	System for financial management of school transport	2,800,000	International Open	QCBS	Rated Criteria
27	Consulting Services	SEDUC	System for financial management of school meals	2,200,000	International Open	QCBS	Rated Criteria

31. **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 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.

32. **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. SEPLAN 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.

33. **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 4. 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

34. **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.

35. **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.

36. **Anticorruption Arrangements.** The State of Tocantins will implement actions to prevent and combat fraud and corruption in connection with the use of loan proceeds. The State will (but not limited to): adopt appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the Loan are used only for the purposes for which the Loan was granted; ensure that all of its representatives involved with the Project, and all recipients of Loan proceeds with which it enters into an agreement related to the Project, receive a copy of the Bank's IPF Anti-Corruption Guidelines and are made aware of its contents; immediately report to the Bank any allegations of Fraud and Corruption in connection with the use of Loan proceeds that come to its attention; if the Bank determines that any person or entity has engaged in Fraud and Corruption in connection with the use of Loan proceeds, take timely and appropriate action, satisfactory to the Bank, to address such practices when they occur; include such provisions in its agreements with each recipient of Loan proceeds as the Bank may require giving full effect to the Bank's IPF Anti-Corruption Guidelines; cooperate fully with representatives of the Bank in any investigation into allegations of Fraud and Corruption in connection with the use of Loan proceeds; and if the Bank declares any recipient of Loan proceeds ineligible take all necessary and appropriate action to give full effect to such declaration.



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 2024.¹¹
- 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

¹¹ Memorandum of Understanding between the Ministry of Economy and World Bank, "Fiscal Sustainability Program, Efficiency and Effectiveness of Public Spending in the States and Federal District PROGESTÃO. Operational Regulations of the Program." ([Link](#))



implementation of management reforms and those States where Bank assistance is expected to have the greatest impact in terms of restoring a State's fiscal balance.

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, social assistance, and environmental management. 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 2 summarizes priority areas covered and activities targeted by each project under preparation and/or approved of the Progestão Program. The following criteria will help 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, particularly services that will benefit the poor and vulnerable.

Table 2.1: Areas of Intervention across State Progestão Projects

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



Area/State	Alagoas 07/21/22	Mato Grosso 08/23/22	Piauí 01/17/23 (est)	Acre 07/02/23 (est)	Tocantins 07/02/23 (est)
Debt management system		(new)		(new)	(upgrade)
State Owned Enterprises					
Financial management system for SOEs				(new)	
Asset Management					
Registry the real estate assets	(upgrade)	(upgrade)	(upgrade)	(upgrade)	(upgrade)
Asset management system	(new)	(upgrade)		(upgrade)	(upgrade)
Fleet management system	(new)			(upgrade)	(new)
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 MIS 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's Secretariat of Planning.** 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 Committee of State 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 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



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; (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; and (iii) the adoption of best practices and models of procurement that considers the lifecycle of goods and an inclusive ecosystem. 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.

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.¹² 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 States¹³ 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 States¹⁴ 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 de Previdência Social*) and 4.1 percent of GDP spent on civil servant pension regime (RPPS, *Regimes Próprios de 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

¹² Brazil Public Expenditure Review (2016)

¹³ 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. [\(Link\)](#)

¹⁴ 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". [\(Link\)](#)



main drivers of increasing RPPS pension spending are a large wave of civil servants hired in 1980s currently reaching retirement, especially generous benefits of civil servants hired before 2003, steep seniority-related wage increases culminating in high pensions, and exemption of uniformed personnel from the 2003 reform. Assessment of the fiscal impacts of pensions on state and municipal governments is challenging. Data on wages and pensions of civil servants employed at executive, legislative, and judiciary branches of the government is not unified, is rarely audited, and contains errors. Data on remuneration histories 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.¹⁵

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 “Portal do Servidor” by extending the services available for the pensioners and retirees online;</p> <p>Development of a unified database 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, 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</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>

¹⁵ The October 2019 reform does not apply to security and military personnel, which constitute around a third of the membership of state RPPS and which were also exempt from the 2003 pension reform.



Activities	Results
expenditures; Ensuring increased transparency of pension calculations and pension funds' investment performance.	

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

Public Investment Management

15. **Brazil lacks a well-regulated public investment management system at both the federal and 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 SOEs 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.¹⁶

18. **The SOEs 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 SOEs 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 SOEs 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 SOEs and PPP portfolios with the objective of monitoring overall performance and potential fiscal risks.

¹⁶ Tesouro Nacional: "As empresas dos estados brasileiros: um panorama das empresas estatais estaduais". ([Link](#))



Table 2.7: Potential Activities and Results in State Owned Enterprises

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

Asset Management

19. **States are beginning to explore options for improving the return on physical assets, rationalizing real estate portfolios, and disposing of assets where they are not needed.** Some States have established specialized asset management institutions to manage this process, usually following one of two models: holding companies that concentrate both movable and immovable public assets or real estate investment funds. At the federal level, the National Treasury's has issued an Implementation Plan of Asset Accounting Procedures and, through Decree n.10,540/ 2020, established mandatory minimum requirements for the accounting and control systems to be implemented by the year 2023. Implementation of the asset reporting standard and management reforms is hindered by the lack of comprehensive, up-to-date registries of physical assets and valuations. 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 2050.¹⁷ 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

¹⁷ OECD (2021) *OECD Reviews of Health Systems. Brazil*. ([Link](#))



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 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 students. 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 Brazil* (former *Bolsa Família*) 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 the other management and fiduciary control instruments. Investments 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 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

1. **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, 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.

2. **The net present value of all project benefits using a social discount rate of 4.5 percent is estimated to be US\$108.5 million over 10 years with an internal rate of return of 46 percent.** The discount rate follows the recommendation of a recent study on 17 Latin American countries using the social rate of time preference (STP) method¹⁸ 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)	- 5.0	- 11.0	- 11.0	- 11.0	- 11.0	- 6.0	-	-	-	-	- 55.0
HRM	0.0	0.0	3.6	4.7	5.9	7.2	8.6	10.1	11.8	13.6	65.5
Pensions	-	-	1.6	1.8	1.9	2.1	2.4	2.6	2.8	3.1	18.4
Procurement	-	-	-	2.9	3.2	3.5	3.9	4.3	4.7	5.2	27.7
Public Investment Management	-	-	-	3.1	3.6	4.1	4.6	5.3	6.0	6.9	33.6
Asset Management	-	-	-	0.4	0.5	0.5	0.6	0.6	0.7	0.8	4.1
Health	-	-	2.6	2.7	2.9	3.1	3.3	3.5	3.7	3.9	25.7
Education	-	-	-	3.2	3.4	3.6	3.8	4.0	4.3	4.5	26.8
Social Assistance	-	0.1	1.2	1.2	1.3	1.4	1.5	1.5	1.6	1.7	11.5
Net Benefit	- 5.0	- 10.9	- 2.0	9.2	11.7	19.5	28.6	31.9	35.6	39.7	158.3
Present value of the Benefit (expected saving)	- 4.8	- 10.0	- 1.7	7.7	9.4	15.0	21.0	22.5	24.0	25.6	108.5
IRR											46%

3. **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 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 from 1.00 to 0.96. This represents a reduction of 0.09 percent in payroll growth per year since the third year of project implementation with savings of R\$182.1 million (US\$38.2 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

¹⁸ 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. [\(Link\)](#)



0.005 percent irregularities. An expansion of the sample to the entire payroll projected a total of 1.35 percent of irregularities. Applying these findings and assumptions to the Tocantins wage bill audit, the economic analysis expects a more conservative saving of 0.3 percent of the wage bill amounting to R\$129.4 (US\$27.1 million). The net present value of savings from HRM measures is estimated at R\$225.8 million (US\$47.4 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, generating a net benefit of R\$64.6 million until 2032 (US\$13.5 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 will 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, the savings are estimated in the range of 3-10 percent of benefit spending. Also, a time reduction in the process for benefit concession. Currently over 180 days on average. Target 60 days on average for 2026 (60 days for pensioners and 90 days for retirement).

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. Tocantins's proposed system modernization, centralized collection, and use of data through the project are conservatively estimated to generate cost savings of one percent from the third year of project implementation and until year ten, amounting to R\$132.1 million (US\$27.7 million) with a net present value of R\$95.7 million (US\$20.1 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. The increased revenue is a consequence of reducing the number of vacant State units, mapped, and evaluated properties, and the related operational cost. In 2022, Tocantins has around 90 percent properties that lack updated registries, unknown rent expenses and around R\$ 2.1 million (US\$ 0.44 million) in real estate assets revenue (sales and rents). Tocantins 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 Tocantins can benefit from a 25 percent increase in revenues resulting in additional revenue of R\$19.8 million (US\$4.1 million) over a ten-year time frame with a net present value of R\$14.2 million (US\$3 million).

7. **Public Investment Management.** Improvements to the methodologies and systems for investment project preparation, screening, and approval is 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. Tocantins provided a portfolio of the investment projects executed in the State during the COVID-19. The portfolio cannot be considered a true picture of the State's mechanisms of contracting and executing investments due to the exceptionality of the period. Costs overruns exceeded ten percent during COVID-19. A conservative reduction in cost overruns of 1.5 percent would generate savings from the third year of project implementation and until year ten, amounting of R\$159.7 million (US\$ 33.5 million) with a net present value of R\$115.1 million (US\$24.1 million). Various studies have shown that public investments have broader positive multiplier effects in the economy¹⁹. These second-order economic benefits are not included in the

¹⁹ IMF, *Fiscal Monitor*, October 2021: *Strengthening the Credibility of Public Finances* ([Link](#))



estimation of Table 1 above which includes only first-order benefits.

8. **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 Tocantins'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 prove financial execution of at least 33 percent of the procedures, and the data collected show relevant information that will be addressed with the system implementation. It is estimated a conservative 12 percent reduction in services that are financed by the State and could be paid by the federal government if proved properly. Also, and not considered in this analysis, a 2005 study²⁰ 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 12 percent reduction in service provision costs with benefits of R\$122.1 million (US\$25.6 million) over ten years, applied from the third year of project implementation, with a net present value of R\$90.9 million (US\$19.1 million).

9. **Education.** The economic benefits for the education component were estimated based on expected savings from 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 literature²¹, the optimization of the 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, and long waiting times. For improvements in school meal efficiency, the returns are up to US\$9 for every US\$1 invested, creating value across multiple sectors, including: education, health and nutrition, social protection and local agriculture²². The cost benefit analysis applies a conservative estimate of 15 percent reduction in resources that are financed by the State in the school transport program, with a net present value of R\$93.2 million (US\$19.5 million).

10. **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 139 municipalities. 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 STDS Integration system with accountability approval flow; however, functionality needs to be improved to receive individualized information and to serve all the municipalities in the state. The new financial system will cross-reference databases and produce reports indicating individual cases/records with duplication of benefits and/or misallocations. The cost benefit analysis applies a conservative estimate of 50 percent reduction in fuel costs and per-diem, a full reduction in mail and paper expenses, and an increase of 7.5 percent in social assistance budget execution rate, with a net present value of R\$41 million (US\$8.6 million).

²⁰ Girosi, Federico, Meili, Robin and Scoville, Richard (2005) *Extrapolating Evidence of Health Information Technology Savings and Costs*, Rand Health. ([Link](#))

²¹ 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

²² World Food Programme (2021) *State of School Feeding Worldwide 2020*. Rome, Italy