



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Dec-2021 | Report No: PIDC33302



BASIC INFORMATION

A. Basic Project Data

Country Brazil	Project ID P178339	Parent Project ID (if any)	Project Name Progestão Mato Grosso: Public Sector Management Efficiency (P178339)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Feb 22, 2022	Estimated Board Date Apr 28, 2022	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) State of Mato Grosso	Implementing Agency Secretariat of Finance - Mato Grosso	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	50.00
Total Financing	50.00
of which IBRD/IDA	40.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

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

Counterpart Funding	10.00
Borrower/Recipient	10.00



Environmental and Social Risk Classification

Low

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

1. **The proposed project is the second operation in a Series of Project (SoP) under the Progestão Program designed to assist Brazilian States implement reforms that will improve efficiency in public expenditure.** The Progestão Program recognizes that the subnational fiscal crisis is largely a result of structural problems in public sector management. The Program, available to all Brazilian States regardless of their fiscal situation, will provide technical assistance to help participating States modernize and improve the following whole-of-government functions through investments in management reforms and information systems: human resource management; pensions; public procurement; public investment; debt management; state-owned Enterprises; and asset management.

Country Context

2. **Several subnational governments are in a difficult fiscal situation.** Prior to the pandemic, seven out of the 26 Brazilian States and the Federal District had declared a state of fiscal calamity, and twenty had delayed payments to public servants and/or providers. During the COVID-19 pandemic, subnational governments had to address the negative effects of the health crisis yet, paradoxically, in 2020, states experienced improved fiscal outcomes. This was due to the large federal transfers to address the COVID-19 pandemic (R\$97 billion, 1.4 percent of GDP), through the federal social protection program – *Auxílio Emergencial* – that helped to maintain a reasonable level of economic activity and contributed to tax revenue increases. As these temporary measures wind down through 2022, the States' fiscal position is expected to deteriorate rapidly if State governments do not implement structural reforms to reduce spending.

3. **The Federal Ministry of Economy has launched programs to support States in fiscal distress and encourage them to implement structural reforms.** The Federal government intends to implement a broad range of national structural reforms that will have to be implemented by subnational governments. These include reforms to pension, procurement, civil service, and measures to facilitate privatization of state-owned enterprises (SOEs).

4. **Mato Grosso's Human Development Index (HDI) was 0.774 in 2018, the 7th highest among Brazilian states but below the country's average of 0.778.** Mato Grosso successfully reduced the main imbalances in its public accounts through a strong fiscal adjustment and administrative modernization, as reflected in the upgrading of the CAPAG from C in 2017 to become one of the few States assessed as grade A. The Bank has supported these reforms through Development Policy Operation (P164588). In January 2019, the State approved a package of fiscal adjustment and reform measures termed *Pacto por Mato Grosso* (Pact for Mato Grosso). The package focused on expenditure control, including a State Fiscal Responsibility Law, public sector payment adjustments, a pension reform, and reduction of the number of State Secretariats. Despite these important fiscal improvements, Mato Grosso has requested World Bank support to consolidate the reforms and improve efficiency in whole-of-government public sector management systems and in service delivery sectors.



Sectoral and Institutional Context

Whole-of-Government Management

5. **Human Resources.** The State of Mato Grosso has 53,875 active staff (January of 2021). In 2018 the State surpassed the limits established by the Fiscal Responsibility Law, with wage bill reaching 69.3 percent of its net current revenue. In the following years, this scenario was reversed as the State implemented controls. As a result, the wage bill was reduced to 53.1 percent of net current revenue in 2021. Human resources policy and management challenges remain. Decision-making is hindered by the proliferation of public sector careers, each with its own salary scale with unique promotion and progression rules. Fragmentation results in staff undertaking similar functions receiving different levels of pay. Government agencies negotiate pay increases and readjustments separately with differential impacts and escalation pressures. Lack of consolidated HRM data prevents strategic workforce planning across the State government.

6. **Pensions.** The State of Mato Grosso has 40,941 retired employees. The pension deficit was reduced from R\$ 66 billion to R\$ 28 billion with pension reforms implemented in 2020 that raised public officials' contribution rate, introduced a new benefit calculation rule, and created the Complementary Fund which includes all new members and employees of the Executive, Legislative, Judiciary and Public Ministry. Recurrent pension deficits and lack of information remain areas of concern. MTPREV (*Mato Grosso Previdência*), the State agency in charge of pension management, cannot generate timely actuarial impact projections for workforce changes. The State is undertaking a census conducted with all beneficiaries and plans to digitalize analysis and monitoring services. This will allow MTPREV to automate the calculation of actuarial impacts arising from changes in the active personnel.

7. **Public Procurement.** Mato Grosso recently created an Acquisition Center in SEPLAG, an agency to centralize public procurement for standardized acquisitions, while specific sectors in the secretariats and entities carry out other specific items that require a more technical description, governance, and enforcement policies. The scarcity of data on procurement demonstrates a lack of control in relation to how the bidding processes are conducted, with different bidding modalities, analysis requirements and average prices for equivalent items. The COVID-19 pandemic reinforced the need to improve these processes, as it highlighted structural challenges, especially in procurement for the health sector.

8. **Public Investment.** Mato Grosso's public investment stands at 4.5 percent of State expenditure in 2020, slightly higher than the average for Brazilian States at 4.1 percent but down from 6 percent in the period 2015-2017. Investment seems to have picked up in 2021, with investment expenditures 76 percent higher for January and August than the same period in 2020. The State of Mato Grosso lacks a formal system and clear rules for public investment preparation, appraisal, and approval. Projects are not screened for climate risks or to assess their alignment with policy objectives. There is no formal appraisal system, and those feasibility studies that are undertaken are usually commissioned and reviewed by the project sponsor. In addition, there are no systems for project management after approval to address contract monitoring, performance tracking, control of court orders and liabilities.

9. **Asset Management.** A report produced by the State's Comptroller General (CGE) calculated that the State spent at least R\$ 26 million on property rent between 2014 and 2016. The State does not have a comprehensive asset register covering its real estate assets, vehicle fleet, and movable property. The State prepares periodic reports on the overall condition of known public assets, but without any relevant management information or assessment. Data on the regularization of real estate assets, movable property and other expenses specified is not outdated and probably inaccurate. There are no procedures and methods for the valuation of public assets.

Management in Strategic Sectors

10. **Health.** In the State of Mato Grosso, 83 percent of the population depends on the public health system. The characteristics of the State, with a large area (904,000 km²) and a low population density (6.9 inhabitants per km²), pose significant challenges on the health services across the State. Demands on the health system increased significantly



during the Covid-19 pandemic. In 2020, the health sector accounted for 14.8 percent of State expenditure, significantly more than the average for Brazil's States at close to 13 percent. Despite the significant investment in health services, health management systems are weak. Patients' medical records of patients are still manual. There is limited integration across information systems for services, administrative and financial data, human resources, and health indicators. Health data is rarely used for service delivery planning.

11. **Social Assistance.** Municipalities' Social Assistance Reference Centers (CRAS) offer services, programs and benefits with the aim of mitigating social risks, including family protection and assistance and services for people with disabilities and the elderly. The ID-CRAS (CRAS Development Index) measures financial execution and integration across municipalities' social services and benefits. In 2018, Mato Grosso's ID-CRAS rating ranked 7th in Brazil, but 19 percent of municipal CRAS scored "lower than expected quality", a decrease from 2017 when 16.2 percent were in this condition. The State lacks robust systems for monitoring the quality of Social Assistance System (SUAS) services, transfers to and management of resources by municipalities and NGOs. Administrative systems are manual and fragmented. Weak service management leads to overlaps and gaps in service provision.

12. **Environment.** Mato Grosso includes areas of rainforest that are part of the Amazon biome, *cerrado* savannah landscape and the vast *pantanal*, the world's largest wetland. Historically, the State has had high rates of deforestation and forest fragmentation as land was converted to agriculture. Agriculture accounts for nearly one third of State GDP, dominated by soybean, grains, sugarcane and livestock. Environmental licensing and control activities are strategic to combat illegal deforestation, mitigate climate change and ensure compliance with environmental regulation. However, environmental management faces significant logistical challenges given the State's size, low population density, long travel distances and the large number of municipalities (141). The State lacks up to date information on deforested and at-risk areas and their location. Inspectors are currently using paper-based tools and spreadsheets to control inspections and deal with administrative matters such as travel and administration of fees. In 2019, the State of Mato Grosso initiated development of the Environmental Management Integrated System (SIGA) and but still requires technical assistance to implement the system and improve management, reduce costs and generate reliable information.

Relationship to CPF

13. **The proposed project is aligned with the Brazil FY18-23 Country Partnership Framework (CPF).** *Progestão* supports the CPF's Focus Area 1 Fiscal consolidation and government effectiveness and Focus Area 2 Private sector investment and productivity growth by helping improve whole-of-government functions and service delivery, strengthen fiscal management, and setting up institutional arrangements such as guarantee funds to encourage public-private partnerships which can attract and leverage private sector investment. The project's activities respond to the government's need to improve public sector performance and expenditure quality as identified in the Country Partnership Framework. These reforms are expected to improve public service delivery in the medium- to long-term by providing an environment for more efficient use of public resources.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

15. The following outcome indicators are proposed to measure PDO achievement:

- Share of recruitment processes supported by strategic workforce planning system
- Price accuracy (estimated price – executed prices) of competitive bidding processes
- Increased ratio between rent revenue and expenses on real estate properties
- Increased Development Index of Social Assistance Units - IDCRAS in the State of Mato Grosso



D. Concept Description

16. **The proposed IPF operation support of investments in management information systems and reforms for whole-of-government functions and in strategic sectors in the State of Mato Grosso.** The project scope and structure are aligned with the Progestão Program. The State did not request support in debt management because the IADB's PROFISCO II project is already supporting SEFAZ in this area. The State also did not request support for state-owned enterprises because major privatizations have already taken place and priority was given to the other components. Specific interventions in sectors were selected where they can lead to improvements in efficiency and where State agencies are ready to proceed with implementation. The project will support management systems in health, social protection, and environment. The project does not include education because the World Bank is preparing a project for that sector in Mato Grosso. The Progestão Mato Grosso Project will have three components.

Component 1. Whole-of-Government Management Systems

17. **Sub-Component 1.1 Human Resource Management. Implementing Agency: SEPLAG.** Activities financed under this subcomponent target the central HR management of the State of Mato Grosso in SEPLAG and 17 Secretariats that comprise the State government. Activities include the development and implementation of a strategic workforce planning management system to reorganize the state's career system, according to competencies, create workforce management processes and provide predictive models for adequate replacement of public officials.

18. **Sub-Component 1.2 Pensions. Implementing Agency: MTPREV.** Activities financed under this subcomponent include, among others, the development and implementation of an actuarial impact calculation system; and the design and implementation of a pension financial asset and liability management system implemented to balance public accounts.

19. **Sub-Component 1.3 Public Procurement. Implementing Agency: SEPLAG.** Activities financed under this subcomponent include, among others, the development and implementation of a sustainable procurement strategy, which addresses environmental, climate and gender equality considerations, and an implementation plan to help embed sustainable procurement across the State's purchases; and the development and implementation of a centralized e-procurement system, including green and climate sensitive procurement and the redesign and automation of key processes to ensure cost-effective acquisitions.

20. **Sub-Component 1.4 Public Investment Management and Budgeting. Implementing Agency: State Secretariat of Finances (SEFAZ) and SEPLAG.** Activities financed under this subcomponent are focused on enhancing public expenditure efficiency and include, among others, the development and implementation of a public investment system, integrating environmental and climate change considerations in project preparation, screening, and appraisal.

Sub-Component 1.5 Asset Management. Implementing Agency: SEPLAG. Activities financed under this subcomponent include, among others, hiring of technical support to assess up-to-date information of real estate properties, including geospatial data, area, occupation rate, valuations and registry's status; and the development and implementation of a comprehensive public asset management system that includes a climate risk assessment of real estate assets.

Component 2. Management Systems in Strategic Sectors

21. **Sub-Component 2.1: Health. Implementing Agency: SES.** Activities financed under this subcomponent include, among others, the implementation of an expenditure review to identify cost structure and assess budgeting practices in Mato Grosso public health units; and the development and implementation of systems to support budgeting and expenditure management in the State's health units.

Sub-Component 2.2: Social Assistance. Implementing Agency: SETASC. Activities financed under this subcomponent support SETASC management activities and contribute indirectly to monitor implementation in municipalities. Activities include, among others, the design and implementation of an integrated management system to facilitate the execution



of social assistance policy, including financial management, cash transfer programs and management of other benefits, as well as internal registries; and the development and implementation of a transparency panel to support decision-making in social assistance.

22. **Sub-Component 2.3: Environment. Implementing Agency: SEMA.** Activities financed under this subcomponent intend to reduce emissions and improve ecosystem services to enhance climate resilience. Activities include, among others, the design and implementation of new modules to the Environmental Management Integrated System (SIGA), including environmental compensation, rural settlements registration, geoprocessing reference base, and fees revenue management; and the digitalization and automation of key transactional and support processes.

Component 3. Project and Change Management

23. **Sub-Component 3.1: Project Management Unit. Implementing Agency: SEFAZ** Activities financed under this sub-component include project management, including procurement, financial management, and environmental and social safeguards (staff, equipment, and operating costs); and communications and capacity building to support project management functions.

24. **Sub-Component 3.2: Change Management. Implementing Agency: SEFAZ.** Activities financed under this sub-component support the development a transversal change management strategy encompassing on incentives, processes and skills.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

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APPROVAL

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