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Report No: PP4923

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT *AND/OR*
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF
US$ 0.130 MILLION

TO THE

NATIONAL COUNCIL FOR INTERNAL CONTROL - CONACI

FOR A

GOVERNANCE RISK ASSESSMENT SYSTEM BRAZIL SCALE-UP
March 8, 2022

Governance Global Practice

Latin America And Caribbean Region

Note to Task Teams:
1. Please modify amounts above and provide equivalent in US$ if applicable.
2. Enter the date the Project Paper is sent for final approval.

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 8, 2022)

Currency Unit	=	Brazilian Real
5.11	=	US$1

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

CONACI	National Council for Internal Control
CGE	General Comptroller of the State
CGM	General Comptroller of the Municipality
CGU	General Comptroller of the Union
DT4D	Disruptive Technologies for Development Trust Fund
GRAS	Governance Risk Assessment System
M&E	Monitoring and Evaluation
PPP	Purchasing Power Parity
SFLAC	Spanish Fund for Latin America & Caribbean

> **Note to Task Teams:** The following sections are system generated and can only be edited online in the Portal.

BASIC INFORMATION

Is this a regionally tagged project?	Country (ies)
No	
Financing Instrument	Classification
Investment Project Financing	Small Grants

Approval Date	Closing Date	Environmental and Social Risk Classification
11-Mar-2022	30-Jun-2022	Low

Approval Authority	Bank/IFC Collaboration	
CDA	No	

Please Explain

Proposed Development Objective(s)

Improve the process of detecting fraud in public expenditure, identify savings and increase the effectiveness of audits using data science.

Components

Component Name	Cost (USD Million)

Organizations

Borrower :	National Council for Internal Control - CONACI
Implementing Agency :	National Council for Internal Control - CONACI

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	0.13
Total Financing	0.13
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

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

Expected Disbursements (in USD Million)

Fiscal Year	2022
Annual	0.00
Cumulative	0.00

INSTITUTIONAL DATA

Financing & Implementation Modalities

Situations of Urgent Need of Assistance or Capacity Constraints

[ ] Fragile State(s)   [ ] Fragile within a non-fragile Country   [ ] Small State(s)   [ ] Conflict   [ ] Responding to Natural or Man-made Disaster

Other Situations

[ ] Financial Intermediaries (FI)

[ ] Series of Projects (SOP)

[ ] Performance-Based Conditions (PBCs)

[ ] Contingent Emergency Response Component (CERC)

[ ] Alternative Procurement Arrangements (APA)

[ ] Hands-on Expanded Implementation Support (HEIS)

Practice Area (Lead)

Governance

Contributing Practice Areas

OVERALL RISK RATING

Risk Category	Rating
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	Not Currently 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	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

Legal Covenants

Conditions

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Daniel Ortega Nieto	Team Leader(ADM Responsible)		ELCG2
Sinue Aliram De Souza	Procurement Specialist(ADM Responsible)		ELCRU
Efraim Jimenez	Procurement Specialist	APS - Procurement coordinator	ELCRU

Silmara Moreira Da Silva	Financial Management Specialist(ADM Responsible)		ELCG1
Susana Amaral	Financial Management Specialist		ELCG1
Alberto Coelho Gomes Costa	Social Specialist(ADM Responsible)		SLCSO
Maria Bernadete Ribas Lange	Environmental Specialist(ADM Responsible)		SLCEN
Fernanda Balduino de Oliveira	Team Member		ELCG1
Flavia Nahmias da Silva Gomes	Team Member		LCC5C
Kjetil Hansen	Team Member		ELCG2
Michele Martins	Procurement Team	ACS Procurement	LCC5C
Patricia Rodrigues de Melo	Team Member		WFACS

Extended Team

Name	Title	Organization	Location

Note to Task Teams: End of system generated content, document is editable from here.

BRAZIL
GOVERNANCE RISK ASSESSMENT SYSTEM BRAZIL SCALE-UP

TABLE OF CONTENTS

I. STRATEGIC CONTEXT

A. Country Context

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

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

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

B. Sectoral and Institutional Context

4.   **Over the last decade, Brazil has seen high profile corruption scandals related to public**

procurement. The "Brazil: A Study on the Impact of Corruption"[1] estimates that between 3 to 5 per cent of GDP is lost annually due to corruption schemes that go undetected at all levels of government. The impacts directly affect the population through poor public service provision and private sector development. President Jair Bolsonaro, who took office in 2019, campaigned on an anti-corruption platform and expectations to address corruption are particularly high among the population. In addition, several state Governors and recently elected Mayors have emphasized the need to expand anti-corruption efforts. Recent media reports have focused on corruption in the response to the COVID-19 pandemic. The Office of the Comptroller General (CGU) has launched 40 special operations since April 2020, together with other law enforcement agencies, to combat diversion of federal resources destined for fighting Covid-19 pandemic.

5.   **Brazil's state General Comptrollers rely heavily on documentary reviews to assess corruption risks and identify priorities for investigation**. This approach tends to be reactive, responding to denunciation of possible cases, rather than systematic. It is inefficient because it relies on labor intensive, manual review of documents. It uses a limited range of data from core government systems. Information is drawn from siloed systems. It is difficult to cross reference manually. Data is transferred to spreadsheets for analysis limiting the range of variables and quantity of data that can be used.

6.   **The Governance Risk Assessment System (GRAS) is an IT solution that uses data analytics to extract approximately 200 firm-level and agency-level corruption risk red-flags.** GRAS was developed by the Governance team in Brazil as a prototype with funds from the Disruptive Technologies for Development (DT4D), and this project will help develop and implement a functional system in selected agencies. GRAS integrates large databases, uses algorithms for extracting red flags, and has an intuitive user interface. GRAS allows the identification of a broad range of risk patterns, such as collusion, conflicts of interest, and companies owned by straw men. GRAS is more comprehensive than the MACROS application developed by General Comptroller of the Union (CGU) at the Federal Government and identifies procurement red flags at a more granular level. GRAS can help improved fraud investigations, detect firms and individuals that present high-risk of fraud, increase savings in procurement, and enhance the use of evidence for decision-making.

C. Higher Level Objectives to which the Project Contributes

7.   **The project is aligned with the World Bank Group's (Country Partnership Framework (CPF) 2018-2023 (Report #113259-BR).** The CPF, discussed by the Executive Directors on May 16, 2017, proposes a reorientation of new lending toward addressing challenges identified in the Systematic Country Diagnostic (SCD), including government effectiveness and the quality of policymaking and implementation. The 2019 regional update to the Board of Directors highlighted the importance of addressing corruption challenges that limit the effectiveness of public policies and undermine trust in public institutions. The Board stressed the need to increase the World Bank Group's effectiveness through innovation.

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[1] https://www.corporatecomplianceinsights.com/brazil-a-study-on-the-impact-of-corruption/

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

8. Improve the process of detecting fraud in public expenditure, identify savings and increase the effectiveness of audits using data science.

B. Project Beneficiaries

9. **Direct beneficiaries are selected Comptroller Generals' offices and their staff.** These include: Comptroller General – CGU, Comptroller General of the State of Mato Grosso, Comptroller General of the State of Rio de Janeiro, Comptroller General of the Municipality of Rio de Janeiro and Comptroller General of the Municipality of Sao Paulo. By benefitting the mentioned institutions, the following State and Municipal governments will also be benefited: the Governments of the State of Mato Grosso and the State of Rio de Janeiro, and the Municipality of Rio de Janeiro and Sao Paulo, in addition to the Federal Government. These institutions and their employees will benefit from more efficient and effective systems for identifying potential fraud**.**

10. **Indirect beneficiaries are citizens, businesses, and civil society organizations**. Citizens and businesses will benefit from improvements in government transparency and increased public sector ability to identify potential fraud. Civil society organizations and academics will have access to better quality and more timely public procurement information that can be used to accountability.

C. PDO-Level Results Indicators

11. **The achievement of the PDO will be monitored through three key indicators**:

- Number of new investigations resulting from recipient-executed applications
- Number of procurement processes supported through recipient-executed applications
- Number of datasets made public

III. PROJECT DESCRIPTION

A. Project Components

12. **The project has a two components (Governance Risk Assessment System and Training) and two key activities:**

- Activity 1 supports the development and implementation of a functional GRAS and new features for clients. This includes: GRAS customization for each of the participating Governments, and data updates; direct support to implement and use all features of the GRAS; and training of public officials in the use of all GRAS features and capabilities.
- Activity 2 supports capacity building on GRAS and data analytics for CONACI members (comptroller generals across Brazil) with the aim of strengthening scale-up efforts.

B. Project Cost and Financing

13.   **The proposed small Investment Project Financing (IPF) has a total cost of US$190,000**, **financed by a recipient executed grant of US$130,000 through the Spanish Fund for Latin America & Caribbean (SFLAC), complemented by government counterpart funding of approximately US$12,000 annually for each beneficiary for web-service maintenance (US$60,000 total).** The project will finance 100% of expenditures (including taxes). The Project will be delivered by June 30th, 2022.

Project Components	Project cost	Trust Funds	Counterpart Funding
Total Costs			
Total Project Costs	190,000	130,000	60,000
Total Financing Required	130,000		

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

14.   **The *Conselho Nacional de Controle Interno* (National Council of Internal Control - CONACI) will be responsible for implementing the project.** CONACI is a private, non-profit entity, headquartered in Brasilia (Federal District), which brings together representatives from Brazilian states and the Federal District, as well as municipalities and the Federal Government. CONACI's mandate is to strengthen internal control in Brazil through representation, integration, and institutional advice, with the aim of fighting corruption, increasing transparency, strengthening social control, and generating effective public service, respecting the principles of Public Administration.

B. Results Monitoring and Evaluation

15.   **CONACI will be responsible for project M&E**. CONACI will carry out the M&E tasks of the Project, including planning, managing, and collecting and reporting on data for the Project, in coordination with the project beneficiary institutions. The M&E will verify implementation of activities, the level of achievement of the results framework indicators, and financial information. CONACI will ensure that each Project Report is furnished to the Bank no later than one month after each calendar semester.

C. Sustainability

16.   **There is a strong demand for the GRAS from beneficiaries which will translate into ownership as soon as it is implemented.** Comptroller Generals of each of the beneficiaries fully supports the implementation which will enable the GRAS to use its full potential and show results.

Moreover, the project activities will allow the beneficiaries a full implementation of the GRAS, including training of public officials that will be able to use the System immediately. In addition, as part of the project and with the aim of expanding the use of GRAS across more States and Municipalities, there will be training on GRAS and data analytics available to all CONACI members with the aim of further explaining the System and showcase the results. It is expected that this training will help additional scale-up in Brazil. It is expected that the beneficiaries will be able to make full use of the GRAS at least for an entire year without updating the entire datasets; this is enough time for users to identify results and strengthen ownership.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

17.   **The overall risk of the proposed operation is Moderate**. The principal risks are technical / implementation and political.

18.   **Technical / implementation risks are related to possible delays in providing data and short time frame for implementation given the hard closing date of June 2022.** In order to expedite implementation, the Team has started discussions with beneficiaries and has already requested them to start collecting data so that they are ready to share when project is approved. Delays may also arise from the need to customize GRAS in five jurisdictions simultaneously. The team will make sure that the vendor has the adequate team composition to avoid delays.

19.   Political risks arise from **Governor elections in late 2022, which may lead to changes in leadership in three of the clients** (Federal Government, State of Mato Grosso, and State of Rio de Janeiro). The project mitigates this risk by working with Office of Comptroller Generals, where there are more tenured staff. The team expects to have completed project activities by the time of government transition and delivered results that would favor its continuity.

VI. APPRAISAL SUMMARY

A. Technical and Costs

20.   **GRAS has been designed with a user-friendly and customizable interface that will be adapted to each beneficiary.** The cost of implementation and maintenance is marginal compared to the potential benefits of identifying fraud in procurement processes, and expediting investigations of potential fraud. GRAS will save time substantial time of public officials that usually take months or years to identify complex red-flags in thousands of bidding processes.

B. Financial Management

21.   **The Bank performed a Financial Management Assessment of the FM arrangements for the Governance Risk Assessment System Brazil Scale-Up Project (P176877).** The FMA was carried out in accordance with Bank Policy: Investment Project Financing and Bank Directive: Investment Project

Financing and the Financial Management in Bank Financed Operations and Other Operational Matters issued and effective on September 7, 2021. Given that this is a Small Grant operation, the FMA also enforces the observance of Bank Procedures on Small Recipient-Executed Trust Fund Grants, dated January 1st, 2020, and Guidance note on Small Recipient Trust Fund Grants dated June 2020. The FMA included: (i) an evaluation of existing FM systems to be used for Project monitoring, accounting and reporting; (ii) a review of staffing arrangements; (iii) a review of the flow of funds arrangements and disbursement methods to be used; (iv) a review of internal control mechanisms in place, including internal audit; (v) a discussion with regards to reporting requirements, including the format and content of Unaudited Interim Financial Reports (IFRs); and (vi) a review of the external audit arrangements.

22.   **The overall conclusion of the FMA is that: (i) the FM arrangements for the proposed Project are considered adequate; (ii) the funds flow, disbursements, monitoring, auditing and supervision arrangements have been designed in a way to respond to the Project's implementation arrangements; and (iii) the residual FM risk associated with the Project is rated as MODERATE.** There are no FM-related conditions for negotiations, board and/or effectiveness.

23.   **The only FMA risk identified to the achievement of the Project Development Objective is the limited experience of CONACI with Bank financed projects.** The mitigation measure includes hiring a dedicated FMS for the Project[2] and train her on Bank's procedures and fiduciary requirements of Bank financed Projects.

C. Procurement

24.   **Procurement will be conducted in accordance with the World Bank's "Procurement Regulations for IPF Borrowers", issued in July 2016, for the supply of goods, works, non-consulting and consulting services under the Project.** The assessment of CONACI's capacity to implement procurement aspects was carried out in December 2021 to review the organizational structure for implementing the Project. CONACI has functioning procurement capacity but no experience with World Bank Regulations and no experience on selecting consulting services. However, the procurement processes are quite simple and in small value. The main procurement activities will be centered around consulting services and noncomplex non consulting services.

25.   **In view of the lack of experience with World Bank procurement policies and procedures, the overall risk for procurement is rated MODERATE.** Proposed mitigation measures include the hiring of specialists to strengthen the capacity of the CONACI's team. The World Bank will provide support on Bank procurement procedures and on drafting adequate Bidding documents. A procurement plan covering the initial 18 months of the Project has been prepared and will be made available through the Systematic Tracking of Exchanges in Procurement (STEP). Mandatory Procurement Prior Review Thresholds detailed in Annex I of the World Bank's Procurement Policies will be followed.

D. Legal Operational Policies

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[2] The hiring process has been finalized, the consultant has been already in contact with the Fiduciary team in the Bank to be trained.

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

E. Environmental and Social

26.   **The E&S risk ratings of the project are Low.** The project is not expected to have adverse environmental and social impacts. Direct project workers will work under terms and conditions of work set by the national labor law that address issues of fair treatment, non-discrimination and equal opportunity as well as occupational health and safety. The activities do not foresee support to the preparation of feasibility studies, detailed technical designs, safeguard instruments, bid documents, and so on in preparation for the future construction of physical. Hence there is neither activities located in hard-to-supervise areas, nor risks related with labor influx. CONACI keeps channels of contact with stakeholders and citizens through its website, e-mail address and phone line. The Environmental and Social Plan (ESCP) requires to keep a register and report on grievances associated to the use of the Governance Risk Assessment System that are received and responded through its channels of contact with key stakeholders and citizens in general.

VII.   World Bank Grievance Redress

27.   Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB'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 WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

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VIII. RESULTS FRAMEWORK AND MONITORING

Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

Results Framework
COUNTRY : Brazil
Governance Risk Assessment System Brazil Scale-Up

Project Development Objectives

Improve the process of detecting fraud in public expenditure, identify savings and increase the effectiveness of audits using data science.

Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of new investigations resulting from recipient-executed applications		Number	0.00	1.00			
Description:							
Name: Number of procurement processes supported through recipient-executed		Number	0.00	10.00			

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
applications							
Description:							
Name: Number of datasets made public		Number	0.00	1.00			
Description:							

Intermediate Results Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of governments using GRAS		Number	0.00	5.00			
Description:							

Target Values

Project Development Objective Indicators

Indicator Name	End Target
Number of new investigations resulting from recipient-executed applications	1.00
Number of procurement processes supported through recipient-executed applications	10.00
Number of datasets made public	1.00

Intermediate Results Indicators

Indicator Name	End Target
Number of governments using GRAS	5.00

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