



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/15/2001	
<b>PROJ ID:</b> P064901		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Second Social Security Special Sector Adjustment Loan	<b>Project Costs (US\$M)</b>	505.06	505.06
<b>Country:</b> Brazil	<b>Loan/Credit (US\$M)</b>	505.06	505.06
<b>Sector(s):</b> Board: SP - Compulsory pension and unemployment insurance (100%)	<b>Cofinancing (US\$M)</b>	0	0
<b>L/C Number:</b> L4542			
	<b>Board Approval (FY)</b>		01
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2000	12/31/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Yvonne D. Jones	John H. Johnson	Ruben Lamdany	OEDCR

**2. Project Objectives and Components**

**a. Objectives**

Support of the reform of the Regime Geral de Previdencia Social (RGPS-Private Workers Pension System) system to improve the system's financial and actuarial balance, contributing to fiscal adjustment at the macroeconomic level (\$US 505.06). The fiscal reform is being implemented, while measures have been taken to ensure that retention of adequate benefits for the most economically vulnerable groups like women, rural and self-employed workers, and children. The loan also supported the creation of a modern regulatory framework for the system of privately managed pension funds (complementary pension funds.)

**b. Components**

**Major Reforms**

(a) Passage of laws and issuance of legal decrees :

- (i) Passage of Law No. 9876 of November 26, 1999, which introduced a new formula for the calculation of pension benefits under the RGPS;
- (ii) Issuance of Presidential Decree No 3112, regulating financial compensation between the RGPS and the social security system for public sector workers transferring from one system to the other;
- (iii) Issuance by the National Monetary Council of a resolution regulating the acquisition by any financial institution fully owned by the Government of shares of sub-national companies allocated to pension funds of the states and municipalities of Brazil. (Sub-national companies are companies slated for privatization, but controlled by the states and municipalities, and issuance of a decree regulating the investments of pension funds created by the federal, state, and municipal governments; and
- (iv) Issuance of a Presidential decree which approved the new regulation of the RGPS, including revised criteria for eligibility for workers' temporary and permanent disability programs .

(b) Consolidation under one system of registers for all workers under the RGPS, approval and implementation of a new organizational structure for the National Institute of Social Security (INSS), and launching of new service agencies by INSS to improve service to the public,

(c) Established new rules for contribution to the RGPS by self-employed persons,

(d) Created incentives for self-employed persons to join the system,

(e) Established higher fines for contribution evasion and incentives for debt resettlement ,and

(f) Conditioned payment of family allowances on childrens' school attendance .

**Submission to the Congress of complementary reforms :**

(a) Senate Bill 63/99 establishing the rules for the operation of the complementary pension fund system and the operation and supervision of its the complementary pension funds, including new vesting and benefit rules to protect workers and to permit portability of acquired rights;

(b) Senate Bill No 01/00 regulating the institutional relationship between the public sector at federal state and municipal levels as a sponsor of pension plans and as the administrator of pension funds . It sets requirements for

management of the Government Complementary Funds, establishing the principle of management parity between the sponsoring employer and the beneficiaries of the new plans and includes guidelines to avoid conflicts of interest and misuse of the funds.

(c) House of Representatives Bill 09/99 containing the rules for establishing and operating new government-sponsored complementary pension funds by the at the federal, state, and municipality levels . These funds would be supervised by the Federal Secretariat of the Complementary Pension System

**c. Comments on Project Cost, Financing and Dates**

As an adjustment loan, there were no detailed project cost figures . The loan was disbursed on time and on the original closing date.

**3. Achievement of Relevant Objectives:**

**Major Reforms .**

(a) Law 9876 was passed before the operation was sent to the Board . All presidential and Monetary Council of Resolutions decrees were issued;

(b) All social security and labor information registers were consolidated under the Unified Register of Social Information,;

(c)The executive branch of government approved and implemented a new INSS organizational structure, a review of temporary disability pensions was initiated, and a program was begun to improve public relations with the social security agencies

(d) Law 9876 introduced flexibility by giving access to maternity benefits for self -employed workers and permitting pension contributions to increase or decrease, according to workers' income;

(e) Law 9876 reduced contributions of self-employed workers providing services to 11 percent from 20 percent and reduced by half interest penalties on late contributions to the pension system as a measure to encourage workers to regularize their status with the INSS;

(f) Law 9983 defined crimes against the social security system and corresponding penalties

(g) Law 9876 conditioned payment of family allowances on childrens' school attendance .

**Complementary measures .**

Two of the three complementary bills, those in the Senate, were passed . The House of Representatives bill was not passed, leaving unfinished the reform of the public sector workers pension system, the RJU .

**4. Significant Outcomes/Impacts:**

Many legal and institutional measures required to implement Law 9876 were passed. These measures contribute to advancing the reform of the social security system, while not completing it .

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

(a) The Brazilian Congress failed to pass the provision of Law 9876 setting a minimum retirement age for the RGPS. The absence of this mandate implies the need for future benefit formula changes, since the Government is required by a Constitutional amendment to preserve actuarial balance in the pension system . (b) Failure to regulate the public sector workers pension system . This reform is actually envisaged under the third phase of the reform of the social security system. Reform of the RJU requires the passage of a constitutional amendment, as with the reform of the RGPS.

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	High	High	
<b>Sustainability :</b>	Highly Likely	Likely	The lack of a law specifying the minimum retirement age and the absence of any reform of the public employees' pension system leaves the social security system short of achieving a sound, long term financial footing.
<b>Bank Performance :</b>	Satisfactory	Satisfactory	.
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	The Government deserves high praise for carrying out complicated and politically sensitive reforms.
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

(a) Successful pension reform required substantial dialogue, discussion and debate with local counterpart, policy

makers and experts.

(b) Successful pension reform should be seen as a long term process during which not all branches of Government will agree on actions proposed by the executive branch of government . Different legislative methods may be needed to final objectives.

**8. Assessment Recommended?**  Yes  No

**Why?** This is the second phase of a highly innovative program to ensure the financial soundness of the social security system of a major borrower . The program has addressed the political, legal, technical, institutional and social constraints to changing the social security system . This experience is likely to be highly relevant to other countries tackling the same issues .

**9. Comments on Quality of ICR:**

Quality at entry was highly satisfactory as the Bank put extensive effort into providing the Government with state-of-the-art social security analytical tools and access to international expertise on social security reform . The ICR would have been strengthened by the inclusion of more quantitative data on the country's macroeconomic situation. The Borrower's contribution to the ICR was exemplary .