Report Number : ICRR0021356

1. Project Data

Operation ID P153203	**Operation Name** BR Manaus Service Delivery & Fiscal Mgm	
Country Brazil	**Practice Area(Lead)** Governance	

L/C/TF Number(s) IBRD-85540	**Closing Date (Original)** 31-Jul-2017	**Total Financing (USD)** 150,000,000.00
Bank Approval Date 03-Dec-2015	**Closing Date (Actual)** 31-Jul-2017	
	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	150,000,000.00	0.00
Revised Commitment	150,000,000.00	0.00
Actual	150,000,000.00	0.00

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2. Project Objectives and Policy Areas

a. Objectives

According to the Loan Agreement (p. 7) and Program Document (p. 17), the development policy loan's (DPL's) objectives were to assist the Borrower in "improving management of the Borrower's finances, and of its education and transport sectors."

b. Were the program objectives/key associated outcome targets revised during implementation of the series?
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c. Pillars/Policy Areas

There were two pillars:

1. Strengthened public sector and fiscal management. This pillar was to support measures to improve public and fiscal management in Manaus, starting with the Municipal Secretariat of Finance (SEMEF). It included the following policy areas: tax administration, procurement, pensions, payroll, and introduction of results-based management. The main reforms aimed to control expenditures through expansion of the results-based Plan, Do, Check and Act (PDCA) methodology; improve efficiency, savings, and transparency in procurement procedures; and increase tax collection through recovery of arrears.

2. Enhanced management and quality of the education and transport sectors. This pillar was to support measures to improve the quality of the municipal education system and urban mobility through enhanced management practices. In education, these practices were to include meritocratic selection of school directors, the establishment of school-level targets, and the creation of minimum standards for school staffing. In transport, the reforms were to include upgrading of capacity to monitor and control public concessions, and regulating some modes of transportation, especially microbuses and moto-taxis.

d. Comments on Program Cost, Financing, and Dates

The DPL consisted of a single-tranche, stand-alone International Bank for Reconstruction and Development (IBRD) Loan of US$ 150 million. It was approved by the Board on December 3, 2015, and became effective on June 27, 2016 after a long approval process in the Brazilian Senate. It fully disbursed in two payments on June 29 and September 2, 2016. Brazilian states and municipalities must comply with the Brazilian Fiscal Responsibility Law, which sets expenditure and debt limits; the first withdrawal application requested the maximum authorized amount under the debt limit, and the remaining amount was claimed in the second withdrawal application. The operation closed on schedule on July 31, 2017.

3. Relevance of Objectives & Design

a. Relevance of Objectives

At appraisal, the economic situation in the country was dire. Drivers of growth over the preceding decade had been exhausted. A national corruption investigation, political polarization, and an increasingly unfavorable external environment contributed significantly to the economic slowdown. Gross domestic product was

forecast to decline from 2015 through 2017. The fiscal deterioration negatively affected subnational governments, with several states having experienced bankruptcy. The problems were similar across states: poor fiscal management, a growing wage bill and pensions, reduced federal transfers, limited own-source revenues, and restricted access to borrowing. The Manaus municipal administration, which is highly dependent on transfers from the federal and state government, took office in 2013 with a legacy of fiscal deficit. Committed expenditures without cash resources had reached R$ 347 million by the end of 2012, equivalent to about US$ 150 million, 9.3% of the city's primary expenditure. The city acknowledged the fiscal slippage in 2014 and had taken some drastic measures (expenditure cuts, plans to increase revenue) to put fiscal accounts back on track, but structural challenges remained. The operation was highly relevant to this local context.

The operation was also well aligned with the World Bank Group's Country Partnership Strategy for Brazil at appraisal (2012-2015), which highlighted the need to focus on subnational governments with innovative development solutions. The operation continued to be highly relevant to country and Bank strategy at closure. The municipal government's multi-year plan (2018-2021) has four of seven thematic objectives that are directly linked to the operation: basic education, social development, infrastructure and mobility, and public sector management efficiency. The policy areas and indicators remained strategic priorities in SEMEF's 2018 strategic plan. The Bank's 2016 Systematic Country Diagnostic stressed the importance of fiscal management and procurement as fundamental areas for improvement, and education and infrastructure as critical obstacles for the country's development. The Country Partnership Framework at closing (2018-2023) acknowledges the importance of strengthening fiscal management at all levels of government, increasing fiscal sustainability and fairness of the pension system, and increasing the effectiveness of service delivery in education.

Rating
High

b. Relevance of Design

The operation's logic was sound. Improvements in the efficiency of revenue and expenditure management would address spending pressures, which in turn would address Manaus' capacity to deliver services to its citizens. Under the first pillar, the introduction of results-based management through the PDCA methodology was expected to increase efficiency throughout SEMEF. Updates in the taxpayers' property tax cadaster and enhancements in direct communication with taxpayers were logically expected to increase tax collection. Overhauling of the processes and procedures for planning and managing procurement, including the introduction of electronic bidding, framework agreements, centralization of processes, and publishing all contract awards would plausibly lead to increased efficiency of public procurement. Decreasing exposure to high-risk assets and receiving the Pension Conformity Certificate would be expected to improve the governance and transparency of the pension system, increasing efficiency and reducing costs. Under the second pillar, the new Integrated School Management Model based on management-for-results, as well as an accreditation process through which teachers could become school directors and the introduction of

objective rules for allocation of school staff to support pedagogical processes, were logically linked to improvements in management and quality of education. Support to street vendors through accrediting them as microentrepreneurs and relocating them to shopping galleries, as well as increased service compliance and control of bus concessions and informal moto-taxi services, would plausibly be expected to enhance the management and quality of urban transportation.

At appraisal, Brazil was, as noted above, in the throes of an acute economic crisis. The severity of this crisis was underestimated by the Bank's preparation team (ICR, page 10). Real GDP was projected to contract by 2.7 percent and 0.7 percent for 2015 and 2016, respectively, followed by a 1.4 percent expansion in 2017. The actual contraction was 3.8 percent in 2015 and 3.6 percent in 2016, with growth of only 1 percent in 2017. The economy seems to be gradually strengthening in 2018, with projected growth at 2.4 percent. Strong actions had been taken in 2015 -- including sharp exchange rate adjustments and some degree of fiscal consolidation -- to address macroeconomic imbalances. However, given apparently insufficient resolution in addressing the large fiscal deficit (7.8 percent of GDP in 2017) against the background of forthcoming elections, macroeconomic uncertainties remain prevalent.

Manaus' overall macroeconomic framework was considered adequate for the operation (Program Document, p. 9). Even though policy space had been reduced because of the economic crisis, the policy framework continued to provide some flexibility. Debt levels were low and were expected to continue dropping in the long term despite sizeable loans contracted in the past and the impact on debt levels of this operation (ICR, p. 13).

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1
Objective

Improve management of the Borrower's finances

Rationale

Outputs

With the support of the operation, the city implemented several actions to strengthen tax collection and curb expenditure growth. SEMEF adopted a management model following the PDCA (results-based) methodology, as well as an integrated electronic document management system (Prior Action # 1). A web

portal and call center were adopted to offer SEMEF's services online, and its databases were cross-referenced with those of the Federal Revenue Office and of credit card providers. A public-private sector council was created, meeting weekly to discuss issues to improve the city's business environment. On the expenditure side, the number of municipal agencies was cut; the fleet of official vehicles was reduced; total contract costs were reduced to below 2012 levels; and social programs were put through a re-registration process to verify beneficiaries. Framework agreements and centralization of purchasing were introduced, including electronic bidding and inspection of goods delivery (Prior Action # 2). The municipal government established a methodology and protocol for identifying irregularities in the payroll and carried out a payroll audit in all of the secretariats (Prior Action # 3). Manaus is the only subnational government in the country that uses this type of methodology (established by the federal government) to identify nonconformities. A Pension Conformity Certificate was acquired and maintained from 2014 onward, including the establishment of clear and accountable rules for investing its resources (Prior Action #4), without resorting to judicial measures to improve pension system governance. Administrative procedures were adopted to enable taxpayers to pay arrears in installments and to facilitate government communication with taxpayers in arrears through various channels (Prior Action # 5).

Outcomes

The number of registered properties in the property tax cadaster increased from 214,914 in 2013 to 365,586 in 2017, not meeting the target of 560,000. The ICR (p. v) explained that the cadaster already contained 560,000 properties, and the project was able to "sanitize" about 366,000 of those, verifying that the information was complete and correct. (Given that this was the case, it is unclear why the target was initially set at 560,000). The remainder could not be completed because of high levels of informality and were scheduled to be handled by a specialized firm starting in September 2018 using the city's own resources. The task team explained that, as of August 2018, the government was in the final phases of the procurement process for the contract to carry out this work. The number of incomplete property registries decreased from 60.64% in 2013 to 35% in 2017, leading to a nominal increase (taking 17% inflation into account) in municipal property tax collection of 45%. Tens of thousands of property tax debtors were contacted by telephone and e-mail. However, overall municipal tax rate compliance decreased from 54.49% in 2013 to 50.8% in 2017, not reaching the target of an increase to 57.9%. According to the ICR (pp. vi, 18), the economic crisis severely affected the collection of service taxes, impacting this result. The level of overall tax revenues remained stable (in nominal terms), at R$ 922 million (22.3% of current revenues) between 2014 and 2016, despite the crisis; the increase in property tax collection and revenues compensated for the service tax loss.

The average execution time of bidding processes for the purchase of goods and services was reduced from 120 days in 2013 (with no electronic bidding) to 59 days (after the development of electronic bidding), not reaching the target of 50 days for bids between R$ 8,000 and R$ 1 million. All bidding results were published on the Manaus Compras open access website, exceeding the target of 90%.

The unit prices for supplies and contracted services were reduced by 23.9% between 2013 and 2017, exceeding the target of 5%, though the project was able to document comparative data for only nine items rather than the 35-item basket that was planned.

The number of nonconformities in the payroll declined from 54,222 in 2013 to 45,344 in 2017, not reaching the target of 1,000. The ICR (p. 22) explained that the target was too ambitious given the level of interagency coordination required. An additional 10,000 nonconformities were under revision at the time of the ICR and were expected to be solved in 2018. The project team confirmed that this work was still in progress.

The municipal pension system managed 95% more assets in 2017 than in 2014. It eliminated 3 of 17 high-risk investment funds (recovering R$ 54.2 million of R$ 57 million allocated to those funds) and decreased exposure to high-risk assets from 52% to 13.7% of total assets. The amount recovered was invested in low-risk fixed-income funds.

Manaus improved its rankings considerably in several areas. It went from being ranked 14th among Brazil's capitals on fiscal management to first, and improved its fiscal management ranking among all municipalities from 1200th (out of 5,500) in 2014 to 33rd (these rankings were awarded by the Rio de Janeiro Industry Federation). Its Federal Accounting Council was ranked first in 2017, and its pension system was ranked 1st in 2017 by the National Association for State and Municipal Pension Managers for best practices in pension management. Furthermore, although the economic recession has put almost 40% of Brazil's municipalities out of compliance with the federal Fiscal Responsibility Law, Manaus remains in compliance. A recently published federal methodology assessing subnational entities' debt repayment capacity gave Manaus the highest rating.

Although management of Manaus' finances demonstrably improved when compared with that of other municipalities in Brazil, the program did not reach targets on four of six outcome indicators, and achievement of the target on reduction of unit costs for procured supplies and services was based on a basket a quarter of the size originally planned. The ICR and the task team indicated that progress is ongoing along many dimensions of management where targets were not achieved, but the time frame and certainty of movement forward is not clear. Achievement of this objective is therefore rated Modest.

Rating
Modest

Objective 2
Objective
Improve management of the Borrower's education sector

Rationale

Outputs

An integrated school management model, including the establishment of school-level diagnostics, targets, and pedagogical planning, was implemented (Prior Action # 6). A certification program on school management skills for school directors was implemented, and a meritocratic selection process for school directors was developed and adopted (Prior Action # 7). Every school now monitors common indicators as well as achievement on individualized plans set for teachers and school directors. The reform engaged parents so that the percentage of parents attending school meetings increased from 29% at the beginning of the operation to 92% at closing. Procedures and criteria for appointment and relocation of public servants working in the Education Secretariat (SEMED) was adopted (Prior Action # 8). A Minimum Standards Framework for schools was revised and was to become legally binding beginning in June 2018; the project team confirmed that this framework has become legally binding.

Outcomes

147 of 400 schools achieved at least 19 of 24 Integrated School Management Model targets, not reaching the target of 278. The ICR (p. vi) explained that some schools are not eligible to achieve this number of targets; the project team explained that the indicators related to those targets were defined prematurely, not taking into account that some of the 24 indicators do not apply to all three levels of schools (basic, basic + fundamental, and creches). The 24 indicators range from environment-related variables such as prevention of drug use and early pregnancies, to pedagogical variables such as fulfillment of the calendar year and parent participation in school meetings, to results indicators such as dropout rates and student proficiency. The percentage of Manaus schools with a score of 0.8 or above on an aggregate index that combines these 24 indicators on a scale of 0 (poor performance) to 1 (excellent performance) increased from 11% in 2013 to 73% in 2018.

All 490 school directors were certified through the new certification process, exceeding the target of 150. 161 schools were compliant with the Minimum Standard Framework in 2017, exceeding the target of 150.

Between 2013 and 2015, Manaus' position on the Basic Education Development Index, which measures proficiency in Portuguese and mathematics, moved from 18th to 11th among Brazil's capitals. This represents the highest rate of improvement in the country over this time period for grades 6-9, reaching targets set by the Ministry of Education (most importantly parity with the national average) four years earlier than expected. The project team added that more recent, just-released proficiency test results placed Manaus in even better position, ranked # 10 among Brazil's capitals.

Rating
Substantial

Objective 3
Objective

Improve management of the Borrower's transport sector

Rationale

Outputs

An integrated urban regeneration policy was adopted for the city center, including licensing, retraining, and relocating street vendors to selected (shopping center) venues, including some empty buildings that were refurbished as shopping malls to host the vendors (Prior Action # 9). Processes (including real-time tracking and control of the bus fleet) were adopted for managing the concession of bus services, intended to improve bus flow, reduce travel time, and decrease average bus occupancy; and policies to license informal moto-taxis were put in place (Prior Action #10). Infrastructure interventions were undertaken to construct integrated terminals connecting lower-capacity bus lines with high-capacity bus rapid transit lines, and to upgrade traffic light coordination with the bus system to prioritize bus movement. A central operational control facility now oversees the services of ten bus operators through a computerized system.

Outcomes

688 street vendors were accredited as individual micro-entrepreneurs and relocated to shopping facilities, not achieving the target of 1,642. However, 1,509 vendors were trained, certified, and relocated to shopping facilities, even though they were not formally accredited.

The percentage of bus trips completed in a given month increased from 88% in 2013 to 100% in 2017, exceeding the target of 97%.

2,957 moto-taxi licenses were issued, not quite reaching the target of 3,303.

Rating
Substantial

5. Outcome

Relevance of objectives is rated High due to strong alignment with country conditions, country and municipal strategy, and Bank strategy. Relevance of design is rated Substantial, with the policy actions logically and plausibly linked to expected outcomes. Achievement of the objective to improve management of the municipality's finances is rated Modest. Although management demonstrably improved when compared with that of other municipalities in Brazil, the project did not reach targets on four of six outcome indicators, and achievement of the target on reduction of unit costs for procured supplies and services was based on a basket a quarter of the size originally planned. The ICR and the task team indicated that progress is ongoing along many dimensions of financial management where targets were not achieved, but the time frame and certainty of movement forward is not clear. Achievement of the objectives to improve management of the education and transport sectors is rated Substantial, with most outcome targets met, and additional evidence provided beyond the formal results framework. These ratings are indicative of moderate shortcomings in the operation's objective to improve management of the municipality's finances, leading to an Outcome rating of Moderately Satisfactory.

a. **Outcome Rating**
Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

The policies and reforms implemented under the operation appear to be well established. According to the ICR (p. 28), the operation provided a foundation for long-term improvements in the management of financial resources and service delivery in key sectors, with the impact of the reform likely to be "positive and long-lasting." The incorporation of results-based management in SEMEF and SEMED, where new practices have been embedded in day-to-day work and routines, should have a sustained impact on efficiency and effectiveness of services. SEMEF's purchase of an advanced data center will allow business intelligence analytics to be applied to future evidence-based reform initiatives. At the time of the ICR, the Bank was in the pre-identification phase of a follow-on project aimed at enhancing urban resilience in Manaus through integrated urbanization with higher-density and lower-disaster risk; the project team confirmed that this follow-on project is still under preparation. The city is also collaborating with the Bank in fiscal intelligence efforts to raise property tax compliance rates using "big data."

a. **Risk to Development Outcome Rating**
Negligible

7. Assessment of Bank Performance

a. Quality-at-Entry

The Bank team had extensive experience in Brazil. It worked closely with the municipal government during preparation to ensure alignment with government strategy. The operation incorporated lessons

from other operations in the country, including the importance of appropriate implementation arrangements, and the wisdom of limiting prior actions to a few key policy and institutional reforms (Program Document, p. 17). Previous Bank analytical work (Program Document, pp. 27-29) helped the Bank team to identify gaps in specific sectors, inform stakeholders, build consensus, and prepare the groundwork for engagement and dialogue. The policy reforms supported by the operation were discussed extensively with Municipal Councils and citizens (Program Document, p. 30). Risk analysis was thorough, with the overall operation's risk assessed as moderate and no risks identified as substantial or high (Program Document, pp. 37-38). However, some of the indicators were not well defined, and in other cases outcome targets were deliberately set at an overly ambitious level. The ICR states, that this high level of ambition was intended to motivate staff. Whether or not this was actually the case, the failure to meet these targets presents challenges in fair and appropriate assessment of project outcomes.

Quality-at-Entry Rating
Moderately Satisfactory

b. **Quality of supervision**

Supervision was thorough and appropriate. The Bank team remained in constant contact with SEMEF throughout the operation to identify challenges and opportunities. The Bank team received an award from the Governance Global Practice in February 2018 to investigate, together with the municipal government and the World Bank Big Data team, the causes of low municipal property tax rate compliance.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

8. Assessment of Borrower Performance

a. **Government Performance**

The municipal government, especially SEMEF, remained strongly committed to the operation through a period of economic crisis. SEMEF provided strong leadership and a technically competent team (ICR, p. 18), appointing an undersecretary of Management for Results who developed action plans, activities, and goals, and providing managerial training to staff. These action plans included targets for revenue increases and expenditure reductions and for weekly monitoring of indicators. Change management was implemented gradually and with a low profile, flexibly taking the interests of stakeholders and participants into account in order to overcome opposition and facilitate buy-in. Government officials were proactive in learning from what other successful governments were doing in specific areas and establishing partnerships where appropriate. SEMEF was the implementing agency for the policy areas on tax

administration, procurement, and financial management; *Prevedencia Manaus* for pension reforms; SEMED for education; and the Institute of Urban Planning and SEMEF for urban mobility. SEMEF was responsible for coordination of all the implementing agencies and for reporting to the Bank; the ICR (p. 28) described its leadership as active and technically sound.

Government Performance Rating
Satisfactory

b. Implementing Agency Performance

The municipal authorities as a whole, under the leadership and coordination of SEMEF, implemented the program, and therefore implementing agency performance is not separately assessed here.

Implementing Agency Performance Rating
Not Rated

Overall Borrower Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Policy and Results Matrix was detailed and logical (Program Document, pp. 39-44). Results indicators were clearly linked to each of the prior actions. SEMEF was responsible for data collection and consolidation. Targets were ambitious in some instances at the explicit request of the municipal government, in order to generate external pressure for reform. There could have been more direct measures of achievement of some of the objectives, specifically the objective to improve management of the transport sector; more direct indicators might have included bus flows, travel time along bus routes, or rush hour bus occupancy.

b. M&E Implementation

SEMEF collected, consolidated, and reported data as planned. SEMEF requested the Bank's assistance in understanding the causes of low property tax compliance rates, and a data sharing agreement was signed allowing the Bank and a team of researchers to analyze compliance.

c. M&E Utilization

Results were used throughout to inform the course of implementation and plans for future operations. Two pedagogical activities (bimonthly student assessments and core curriculum for elementary schools) were redesigned based on data and analysis from the Secretariat of Education.

M&E Quality Rating
Substantial

10. Other Issues

a. Environmental and Social Effects

The ICR did not report on any environmental issues. It indicated (p. 28) that there would likely be positive distributional effects on poor and vulnerable groups because of increased efficiency and better delivery of public services.

b. Fiduciary Compliance

Procurement: The DPL proceeds were provided as general budget support to the municipal government and not earmarked for any agency or purpose. Hence, no special procurement requirements were issued. No procurement issues were reported.

Financial Management: The ICR did not mention any fiduciary compliance issues. The ICR also did not mention any financial audit.

c. Unintended impacts (Positive or Negative)
None reported.

d. Other
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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	Achievement of the objective to improve management of the municipality's finances is rated Modest.
Risk to Development Outcome	Negligible	Negligible	---
Bank Performance	Satisfactory	Moderately Satisfactory	Outcome targets were reported to be deliberately overly ambitious, with the aim of motivating performance, but complicated assessment of outcomes.
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		High	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR (pp. 31-32) presented a number of insightful lessons, including:

Change management processes require buy-in from both the leadership and technical staff of organizations centrally involved. In this case, all key stakeholders were involved in the design of reforms, allowing buy-in and flexibly shaping decisions to accommodate resistance. Reforms were introduced gradually and in a low-profile manner, with rewards for performance clearly and fairly explained, allowing managers to check progress, identify obstacles, and solve problems.

Leadership is key. In this case, senior municipal government officials showed strong leadership and engaged in continual communications within and across organizations.

The incorporation of management-for-results in schools can improve student performance. In this case, SEMED implemented an on-line monitoring system with clear, school-level targets and pathways for finding solutions when school-specific issues were identified. Management contracts, signed between the school directors and SEMED, and based on school-specific indicators and bimonthly student assessments, enhanced monitoring and accountability.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was clear, concise, and outcome-oriented. It skillfully presented the project's storyline together with an objectives-based assessment of achievement. The operation's challenges (particularly in a context of economic crisis) and initiatives employed to overcome these challenges were explained thoroughly. Lessons were insightful and should prove highly useful to future operations wishing to learn about factors that can facilitate achievement of intended outcomes.

a. Quality of ICR Rating
   High