Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 19-Jun-2019 | Report No: PIDC27281
BASIC INFORMATION

A. Basic Project Data

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<th>Country</th>
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<td>Brazil</td>
<td>P171272</td>
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<td>Brazil Pro-Gestão: Public Sector Modernization (P171272)</td>
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<td>Oct 30, 2019</td>
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<td>Secretaria de Planejamento, Gestao e Patrimonio de Alagoas</td>
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Proposed Development Objective(s)

Enhance public sector performance and improve expenditure efficiency of Brazilian States.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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DETAILS

World Bank Group Financing

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<th>International Bank for Reconstruction and Development (IBRD)</th>
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Environmental and Social Risk Classification

Moderate

Concept Review Decision

Track II-The review did authorize the preparation to continue
B. Introduction and Context

Country Context

1. **Brazil’s economic crisis has resulted in large fiscal imbalances at the federal and subnational levels.** Subnational governments, which are responsible for providing critical public services such as education, health, and public security, are in a dire fiscal situation. More than half of the 27 Brazilian States present a critical situation and have delayed payments to public servants and/or providers and eight of them have already declared a state of financial calamity. Moreover, 20 of the 27 States have delayed payments to public servants and/or providers; 14 States spend over 60% of their current net income on their wage bill, and recent data from 20 States show that public investment has decreased by approximately 64% with respect to 2015.

2. **The rising poverty levels and recurrent corruption scandals have increased the overall discontent with Government.** Poverty increased three percentage points between 2014 to 2017 as a result of Brazil’s worst recession in history, and which translated into 7.3 million more people in poverty. At the same time, the perception of corruption has increased substantially partly due to constant news about traffic of influence and misuse of funds involving high level officials across levels of government. In the past decade over 14,000 individuals have been found guilty of corruption crimes, including a former President. As a result, Government approval has decreased from 86% in 2010 to 7% in 2018, the lowest in Latin America, and satisfaction with democracy in 2018 was 34%, also amongst the lowest in the region.

3. **The new administration’s priorities are reducing the size of the State, cutting public expenditure and liberalizing the economy with the aim of improving the efficiency of the State and service delivery.** The government aims to pass a broad range of structural reforms that will have implications for subnational governments, such as pension, procurement, privatizations and civil service, among others. Also, it has expressed that it will devolve additional responsibilities to subnational governments through what the President refers to as reforms toward “More Brazil and Less Brasilia”.

Sectoral and Institutional Context

4. For the last three decades the Brazilian State has been growing steadily, without, however, any indication that this expansion has led to a commensurate improvement in the quality or reach of public services. While Brazil has made substantial progress in the access to certain public services yet their quality lags behind its peers – see Figure 1. For example, Brazil spends more on education (6.6% of GDP) than the average OECD country and more than many...
middle-income countries with better outcomes. Despite the investments in education, on average Brazilian students perform below most countries in international comparable tests and functional illiteracy remains a serious problem. Similarly, Brazil spends 9.2% of GDP on health, slightly above the OECD average, yet research from the World Bank in Brazilian municipalities suggests that, for example, the number of doctor’s appointments could increase almost 98% through efficiency gains. With respect to infrastructure performance, the World Bank estimates potential efficiency gains in the order of 1.4% of GDP in transport and 0.7% of GDP in water and sanitation – equivalent to almost twice the amount invested in both sectors.

Figure 1: Brazil’s Generally Spends More than Most Peers but Achieves Less

5. The overall discontent with Government is reflected in the inability to fulfill key functions and given the current fiscal situation, States will be forced to cut spending and do “more with less” while putting citizens at the center of a reform agenda. Suboptimal public sector and fiscal management processes are reflected in poor service delivery and in the intricate bureaucracy that requires Brazilians to visit an agency three or more times in almost 30% of public procedures, and spend over 5.5 hours completing administrative processes. In short, the fiscal situation will invariably require reforms to improve the State’s efficiency and effectiveness while incorporating citizens as an integral part of the process mainly through greater transparency, automation and digitalization of administrative processes.

6. The Federal Government submitted to Congress the Plano de Equilíbrio Fiscal (PEF) in early June to help the States address the fiscal challenges and improve the efficiency of expenditures. The PEF will allow States without market access to secure loans with Federal guarantees in exchange of a frontloaded program of fiscal consolidation. Disbursements under the PEF will be linked to achievements of key fiscal indicators. In parallel, the federal

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4 World Bank, Um Ajuste Justo, 2017.
5 World Bank, Brazil Policy Notes, Note 8 on Infrastructure.
government is aiming to implement a broad range of public sector and structural reforms that will directly impact the States, which will have to make substantial adjustments to align to the new legislation. To overcome the relatively fragmented impact that past reforms had across states, the federal government aims to implement a “national” agenda, that is, a joint federal-state agenda that would support the implementation of the federal government’s vision, and help the States address their public sector management challenges through a program called Pro-Gestão.

7. The Government’s Pro-Gestão approach acknowledges that the subnational fiscal crisis is partly a result of structural problems in public sector management (PSM) and has requested the World Bank’s support to design, finance, and supervise the program. At the direct request of the Secretary of the Treasury (STN), Pro-Gestão is being designed as a multi-phased umbrella operation to help States raise the efficiency of public expenditure and address fiscal imbalances in a coordinated way and in line with upcoming federal reforms. The proposed umbrella operation would be on the order of US$ 1BLN in its first round and would consist of a credit line, guaranteed by the Federal Government, of approximately US$80-100M available to the 27 States. The Bank would support between 10-12 States in the first round of the umbrella operation – eligibility criteria for the first phase is discussed below.

8. A Multiphase Programmatic Approach (MPA) is the appropriate instrument to achieve the long-term national vision of the Government and address the urgent demand to tackle the subnational fiscal imbalances. An MPA will send a strong signal of commitment to a long-term engagement and the instrument’s flexibility fits the vast diversity of Brazil’s States and the different PSM and fiscal challenges they face. The first operation in the MPA will be an Investment Project Financing (IPF) with Disbursement Linked Indicators (DLI) in the State of Alagoas which has the lowest Human Development Index in the country and a Governor with strong commitment to reform that partly resulted from the analytical work conducted by the team which showed, through micro-data fiscal modelling, that public sector challenges are at the core of the State’s fiscal problems - See details for MPA in the following Section.

Relationship to CPF

9. The proposed Project aligns well with the Brazil FY18-23 Country Partnership Framework (CPF). It will support the CPF’s Focus Area 1 & 2 (Fiscal consolidation and government effectiveness and Private sector investment and productivity growth) by helping adopt policy reforms necessary to improve service delivery, reestablish fiscal stability and strengthen fiscal management, as well as setting up institutional arrangements that can attract and leverage private sector investment.

C. Proposed Development Objective(s)

Enhance public sector performance and improve expenditure efficiency of Brazilian States.

Key Results (From PCN)

10. The following outcome indicators are proposed to measure PrDO achievement:

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6 STN expressed an interest in expanding Pro-Gestão for additional rounds, depending on results.
The World Bank has been working closely with counterparts, both at federal and state-level, and has identified three pillars for Pro-Gestão. The pillars will have specific actions from which the States, together with the Bank, will identify priorities depending on local needs. To this end, the team, together with CONSAD and the Federal Government is forming task forces for each pillar with the objective of identifying the specific actions to be supported and ways to help harmonize systems across the country. The national task forces will also serve as sounding board to continuously improve processes and procedures during implementation. All actions are aimed to help address fiscal imbalances, including macro-fiscal, and to a certain extent improve service delivery, hoping that the latter will generate incentives for States to adopt difficult measures. Pro-Gestão will also be monitored and evaluated to improve implementation as the program is rolled-out. (see Figure 3).

Figure 3 - Pro-Gestão Preliminary Pillars – Actions are Indicative & Not exhaustive.

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7 The World Bank has held talks with CONSAD (Conselho de Secretarios de Administracao), which represents all 27 States, as well as Office of the President of Brazil, the Deputy Vice-Minister and numerous Secretaries of the Ministry of Economy.
8 See Annex I for eligible activities that would have a fiscal impact and help improve expenditure efficiency.
9 See Annex II for a short discussion on some key challenges.
12. The Government’s Pro-Gestão approach acknowledges that the subnational fiscal crisis is partly a result of structural problems in public sector management and three key pillars, each with specific actions to be financed, are being defined to maximize the impact of the operation and improve fiscal sustainability.

13. The main components of the Expenditure Efficiency pillar suggest the following:

   i. Human Resource Management & Pensions: The system is characterized by a high public sector wage premium as well as a fragmented, rigid and time-based progression career system. In addition, the subnational civil service pension system is also on the verge of a crisis given the projected deficit as many public servants will retire under generous pre-2003 benefit rules. The actions under this pillar would support fiscal sustainability through strategic workforce planning as well as career reform to identify the right-size of the State and establish a promotion system based on merit. This, in turn will also impact the pension system as it would enable a review of pensionable benefits, among other things.

   ii. Public Investment & Funds: Brazil lacks planning, prioritization, and appraisal of capital investment, all of which has led to poor quality of infrastructure and over-cost, among other problems. The quality of public investment management in Brazil is, in most areas, substantially lower than the average in Latin America, emerging markets and BRICs. The latest PIMA (2018) shows that Brazil is well far behind in terms of project appraisal, selection, and management from regional peers and emerging market economies. Fiscal savings would mostly come from identification of financially viable capital investments and investments that could leverage private financing. Furthermore, in general the effective cost of many PPPs is questionable; there are regular renegotiations of contracts, delays in completion and high incidence of corruption. Additionally, most States do not have updated public asset maps - if they have them at all- and therefore the value of these assets is generally not known to the governments and tax-payers. Not understanding the real value of these assets means a government has no sense of the opportunity cost of leaving these assets under-managed and under-utilized. These actions would support fiscal sustainability by attracting private investment, as well as generating revenue and/or reducing costs through better management of existing assets.

   iii. State-Owned Enterprises (SOEs) & Privatization: SOEs executed less than 30 percent of the planned investment expenses between 2001 and 2015 showing that States generally require support to improve the management and even potential privatization of SOEs. In some cases, there is no rigorous evaluation on the pertinence of the existence of these companies and when a decision to privatize is made decisions are not necessarily supported with solid evidence. Furthermore, SOEs generally have weak corporate governance models and inadequate management, and are in the process of incorporating recent legal reforms. It is expected that actions under this component will reduce fiscal pressure through support to potential privatization and optimization of SOE’s investments.

14. The main components of the Modernization / Digital Government pillar suggest the following:

   iv. Digital Government: 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

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10 The has been important progress in this area since the revised Law on State-Owned Enterprises of 2016 established mechanisms for transparency and governance to be observed by SOEs. These include rules for disclosure of information, risk management practices, codes of conduct, forms of state and company oversight, constitution and functioning of boards, and minimum requirements for appointment of governing officials (World Bank 2017).
and outdated technologically. Overall, Brazil lacks an integrated and coherent digital government policy, which is reflected in a segmented approach in terms of provision of digital services organized in accordance with the structure of government, and not according citizens’ needs.¹¹ Pending challenges in Brazil point to the poor use of information and communication technologies to improve workflows and facilitate transactions. Fiscal sustainability would be improved through automatization and digitalization of administrative processes that could reduce the cost of workforce and time-consuming and unnecessary face-to-face interactions. Perhaps more importantly, enhancements in the efficiency of the selected services will be directly reflected in the citizens’ and firms’ time spent on transactions.

v. **Governance & Accountability:** The Brazilian legal framework for public financial management is well-developed at all levels of government, which is underpinned at the Federal Constitution yet, despite having the basic institutional arrangements, at the state level, the Secretariats of Internal Control (CGE) and Subnational Supreme Audit Institutions (TCE), face challenges to adopt internal audit functions, risk-based approaches, perform finance auditing, and also lack proper training on International Public Sector Accounting Standards (IPSAS) and International Standards of Supreme Audit Institutions (ISAIs). Fiscal sustainability could be improved by reducing fraud and mismanagement.

15. **The main components of the Public Sector Management in Strategic Sectors pillar suggest the following:**

vi. **Education and Health:** A PSM strategy in the States would be incomplete if it does not focus on strategic sectors such as health and education. This pillar will support PSM actions and reforms that directly affect the quality of service provision and the cost to provide them. For example, the demographic trend in Brazil shows that the country will need less school teachers in the coming years and States need to reorganize their school network to respond to this challenge. The World Bank has also supported subnational governments introduce evidence for decision-making, for example Manaus, with the introduction of school-level indicators to improve educational outcomes with great success, as explained before. In the health sector, a couple of States, for example, are finalizing the construction of public hospitals (e.g. Rio Grande do Norte) yet they’ve surpassed the personnel expenditure legal limit hence limiting their ability to directly hire doctors and forcing them to think on alternative management and service provision models. In other States, such as Alagoas, data suggests that health care results are poor but coverage is not necessarily an issue; instead the system that allocates patients to hospitals is extremely inefficient.

16. **Pro-Gestão** will also be monitored and evaluated to improve implementation as the program is rolled-out. In addition to the three pillars, Pro-Gestão will support national learning agenda based on strong monitoring and evaluation; with the objective of building an evidence base for decision-making across all pillars. The World Bank team, together with CONSAD and the Federal Government is forming task forces for each of the pillars with the objective of identifying the specific actions to be supported through Pro-Gestão and ways to help harmonize systems across the country.¹²

17. **Pro-Gestão** will be accessible to all States, however and building on past experiences, specific criteria will have to be met for the World Bank team to devote resources and engage in project preparation. The team is considering

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¹¹ OECD Brazil Digital Review (2017). In addition, a recent digital service census (ENAP 2017) assessed 627 public services provided by the Federal Government (there are over 1,000) and found that 37% had “partial digitalization” and 24% had “no digitalization”, showing that there is a vast potential for improvement.

¹² Task Force meetings on Human Resource Management and Digital Government took place in Brasilia in May and June, respectively, and gather representatives from over 15 States.
at least three basic criteria to prioritize and start engaging with States. First, level of development as per the latest Human Development Index (HDI); Second, commitment to prepare a rigorous fiscal modeling exercise and; Third, results of a readiness assessment and commitment to reforms. As mentioned above, Alagoas will be the first operation. The State has the worst HDI in the country; it has capacity of payment rating (CAPAG) B but with the possibility of being downgraded; the Governor has expressed his willingness to reform to the Bank and; the State has, among other things, recently finalized a right-sizing consultancy of the health sector, and is drafting legislation to create a public asset management fund and a PPP Guarantee fund. The team is in advanced preparation talks with the Government and is considering a project design in which progress observed in priority areas could be used to trigger disbursement through DLIs.

18. The proposed operation incorporates lessons from World Bank’s experiences in Brazil. Recent operations that focused on public sector reform, service delivery, and/or fiscal management confirm that the Bank can have a positive impact. For example, the World Bank helped the State of Amazonas double the number of firms providing electronic invoices; it also improved its procurement system by reducing processing times and fostering the use of price registration. The Bank was critical in helping Manaus move from being one of the worst performing Municipalities to one of the best performing in terms of fiscal management. In 2017, Manaus was ranked first of all 27 Brazilian state capitals and 33rd of all 5,570 Brazilian municipalities. Among several positive results, the Bank helped upgrade the revenue and expenditure processes; incentivize the meritocratic and results-oriented management of schools; and incorporate systematic wage bill audits. In the State of Paraná, a public sector management approach to reforms in sectors has also been critical for positive outcomes, for example, by helping decrease maternal mortality rates substantially by, among other things, introducing risk-based prevention and treatment approaches. The public sector management approach in the health sector has helped the program become an international reference. The Paraná project also helped increased the number of municipalities with environmental licensing and monitoring and; strengthened disaster risk monitoring capacity. Also, in Rio Grande do Sul the Bank’s operation helped map the State’s assets, improve legislation, and establish a georeferenced asset management system. It also played a key role in establishing a centralized procurement system and introducing data analytics for decision-making. In addition, implementation lessons from successful public sector reform projects in Acre and Ceará show the importance of high-level political commitment that the Bank’s presence can foster, including strong collaboration among government agencies.

19. Pro-Gestão also considers lessons that hindered the results of Bank operations. Previous engagements, for example in Alagoas DPL, showed that the Bank did not establish a solid learning agenda that could help the teams adapt, and there was also poor engagement with stakeholders due to intermittent supervision. In Rio Grande do Sul, the team did not have the right incentives to embed technical criteria in workforce planning, and some components lacked ownership. In Rio de Janeiro, there were important procurement delays due to lack of capacity, little ownership of the project and inability of the Bank to provide adequate supervision due to language barriers and by mostly relying on headquarters-based staff. Perhaps more striking is that in general, projects were developed in isolation from each other without having a clear learning agenda to exchange experiences and lessons, and mostly relied on team members participating in several projects.

20. The abovementioned lessons in Brazil and other umbrella-operations in the country, namely IDB’s PNAGE and PROFISCO I & II are reflected in Pro-Gestão’s design. In this respect and to overcome the relatively fragmented impact that past reforms had across States, the Pro-Gestão is built around a “national” agenda, that is, a joint

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13 The PNAGE (Programa Nacional de Apoio à Modernização da Gestão e do Planejamento) was implemented from 2006-2011. The IADB’s PROFISCO (Programa de Apoio à Gestão dos Fiscos do Brasil) is currently on its second phase and its focus is on strengthening revenue, the STN sees Pro-Gestão as complementary by focusing on expenditures.
federal-state program to help the States address their public sector management challenges. In addition, the proposed design intends to overcome implementation and absorption challenges observed in the past by:

i. Establishing a national Task Force per Pro-Gestão pillar that will establish national guidelines and minimum standards;

ii. Relying on the technical mandate, competence and experience of the staff in the State Secretariats of Administration and Planning to lead the reform process since previous efforts relied on Finance Secretariats which do not oversee the PSM agenda;

iii. Making use of innovative and advanced analytical techniques that use micro-data to identify key reforms and potential economic returns;

iv. Focusing the phased interventions and their implementation on a subset of selected areas based on their fiscal impact ensure that the efforts are more effective;

v. Adapting the use of financing instruments such as DLIs to help shift the focus from inputs and processes to the actual achievement of results;

vi. Establishing national mechanisms for peer learning by state officials through CONSAD and CONSEPLAN which can have an “accelerator effect” through peer pressure.

vii. Supporting State Procuradorias in charge of approving contracts and who’s limited capacity can delay the implementation as a result of long and complex hiring processes; and

viii. Establishing criteria to assess the level of commitment, readiness, and potential fiscal impact before the World Bank engages fully in the preparation of a loan.

21. The STN is considering a streamlined approval process to facilitate implementation given the urgency of the required response. First, as an umbrella operation with guarantees from STN, Pro-Gestão will not have to go through the regular COFIEX process; Second, the Pro-Gestão would be accessible to all States regardless of their CAPAG and; Third, individual operations will not count towards Federal guarantees hence avoiding competition with other projects financed by international organizations.14

22. The team has discussed with STN potential implementation arrangements that would reduce the World Bank’s supervision requirements. The first option is an operation through a public bank such as BNDES or Caixa, however, this would require two separate stages, first an operation between the World Bank and the intermediary and then the intermediary would have to go through COFIEX and the Senate for every State loan. The operation between the WB and the intermediary would follow the traditional COFIEX approval process and would compete for federal guarantees. STN would like to streamline the operation and thus has ruled out this option. The second option is the possibility of using a federal fund (such as the Export Guarantee Fund – FGE) from which States could access financing. However, the Ministry of Economy intends to close federal funds and STN will also not consider this arrangement. At the same time, however, STN has been clear that it is engaging with the Bank because it sees its direct supervision as an important value add of the operation.

14 As part of the Pro-Gestão “umbrella”, the team is also discussing a potential loan with the Federal Government (Secretaria Especial de Desburocratização within the Ministry of Economy) that would address similar PSM issues.
23. The first operation in the MPA will be an Investment Project Financing (IPF) with Disbursement Linked Indicators (DLI) in the State of Alagoas which has the lowest Human Development Index in the country and a strong commitment to PSM reform. The choice of instrument stems from the need to provide both technical assistance and strong financial incentives to adopt policies that will substantially modify a number of backward policies. As per initial conversations with Alagoas State representatives, including the Governor and the Secretaries of Finance and Planning and Administration, the operation would focus on the following areas: Human Resource Management and Pensions; Procurement; Digital Government; Funds and; Management in Health and Education. Figure 4, below, describes the preliminary activities, as well as expected outputs and outcomes.

**Figure 4**

**Alagoas MPA Operation ~ Theory of Change**

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<tr>
<th>Activities</th>
<th>Outputs</th>
<th>Outcomes</th>
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<tr>
<td>HRM &amp; Pensions: Strategic workforce planning processes; right-sizing with functional reviews; new career system proposal; pension impact analysis</td>
<td>New career system; evidence-based replacement plans; new organizational structure of key Secretaries; strengthened actuarial calculations and use of new tools</td>
<td>Savings due to revision of promotion systems, streamline processes for efficient service delivery; sustainable pension fund mgmt.</td>
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<td>Management in Sectors: Hospital management proposal and; plan for restructuring of school network and system for data-driven decision making in schools</td>
<td>Five new hospitals adopt innovative management; reformed school network and use of performance indicators in schools with the objective of providing better services to citizens</td>
<td>Savings due to efficiency gains from more flexible management rules; and improved public services to citizens</td>
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<tr>
<td>Procurement: Establishment of a comprehensive State procurement system and proposal for legislation to regulate new processes</td>
<td>Improvement in public procurement processes including procurement planning, acquisitions, contract management and price panels</td>
<td>Savings through better informed policies, improved processes, and strategies for public procurement</td>
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<td>Funds: Institutional modeling of PPP guarantee funds and; mapping of assets and institutional modeling of asset management fund</td>
<td>Establishment of PPP guarantee fund; and of a State asset management fund</td>
<td>Attract private investment to avoid use of public funds; Revenue generation and lower maintenance costs on existing assets</td>
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<tr>
<td>Digital Government: Mapping of public services with digitalization potential and digitalization of key services</td>
<td>Adoption of digitalized services to simplify access and availability to citizens and firms</td>
<td>Service delivery efficiency gain which will result in savings; Speed up processes and reduce time and legal requirements from citizens and firms</td>
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**Legal Operational Policies**

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**Summary of Screening of Environmental and Social Risks and Impacts**

Overall, the Pro-Gestão is expected to have social and environmental positive benefits: (i) it is expected that States will reform costly structures such as the public sector workforce and state-owned enterprises; (ii) it will allow administrative processes to be completed faster and with less procedures, which will be reflected in lower costs for citizens and businesses trying to access services; and (iii) the efficiency gains from improved and standardized administrative
processes and properly appraised capital investment combined with increased control, are expected to lead to better performance and use of public funds, saving energy and paper consumption by eliminating excessive and unnecessary printed paper. However, some activities supported by the project may be perceived as hurting the vested interests of some social groups and public servants and raise their opposition.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

### CONTACT POINT

**World Bank**

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Senior Governance Specialist

**Borrower/Client/Recipient**

State of Alagoas

**Implementing Agencies**

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### APPROVAL

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<thead>
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<th>Daniel Ortega Nieto</th>
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## Approved By

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<th>Role</th>
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<td>Practice Manager/Manager</td>
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