

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROGRAM FOR MODERNIZATION OF PENSION
SYSTEM MANAGEMENT
SECOND PHASE
PROPEV II**

(BR-L1269)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Claudete Camarano (ICS/CBR), Project Team Leader; Joel Korn (IFD/ICS); Carlos Herrera Gomez (SCL/LMK); Andrés Consuegra (LEG/SGO); Katia de Oliveira Sousa (VPC/CBR); Marilia Santos (FMP/CBR); Leise Estevanato (FMP/CBR); Flavio Galvão (Consultant); Nathalie Alexandra Hoffman (IFD/ICS); Melissa Gonzalez (IFD/ICS); and Valeria Wedolowski (BDA/BDA). Ariel Zaltsman (IFD/IFD) contributed to the quality of the document.

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. The Board may or may not approve the document, or may approve it with modifications. If the document is subsequently updated, the updated document will be made publicly available in accordance with the Bank's Access to Information Policy.

CONTENTS

EXECUTIVE SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problems addressed, and rationale	1
B.	Objective, components, and cost	6
C.	Key results indicators	9
II.	FINANCING STRUCTURE AND MAIN RISKS	9
A.	Financing, procurement, and contractual clauses	9
B.	Environmental and social safeguard risks	11
C.	Fiduciary risk	11
D.	Other issues and risks	11
III.	PROGRAM IMPLEMENTATION AND MANAGEMENT PLAN	11
A.	Implementation arrangements	11
B.	Summary of arrangements for monitoring results	12

ANNEXES	
PRINTED ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) (18 months) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773724
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35775520
3.	Procurement Plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773728
OPTIONAL	
1.	Project execution plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773737
2.	Matrix of problems, causes, solutions, and outcomes http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35394218
3.	Table of indicators http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773750
4.	Cost-benefit analysis http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36171808
5.	Terms of reference (TOR) for the study “Novas Tendências Demográficas e Impactos sobre a Previdência Social, até 2050” [New demographic trends and impacts on pension systems through 2050] http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773760
6.	TOR for the study “Acidentalidade dos servidores públicos federais, estaduais e municipais, com ênfase em saúde física e mental” [Accident rate among national, state, and municipal public sector workers, focusing on physical and mental health] http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773764
7.	List of program beneficiary federative entities http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35775548
8.	Project Completion Report (PCR) - Support for the Modernization of Pension System Management - PROPREV I http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36251854
9.	Safeguards form http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35773696

ABBREVIATIONS

AWP	Annual work plan
GDP	Gross domestic product
INSS	Instituto Nacional de Segurança Social [National Social Security Institute]
MPS	Ministry of Pensions
PCR	Project Completion Report
RGPS	Regime Geral de Previdência Social [General Pension Plan]
RPC	Regime de Previdência Complementar [Complementary Pension Plan]
RPPS	Regime Próprio de Previdência Social [Public Sector Pension Plan]
SE	Secretaria Executiva [Executive Secretariat]
SIPREV/Gestão	Sistema Integrado de Informações Previdenciárias [Integrated Pension Management System]
SPPS	Secretaria de Políticas de Previdência Social [Pension Policy Secretariat]
TOR	Terms of reference

PROJECT SUMMARY

BRAZIL PROGRAM FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT SECOND PHASE PROPEV II (BR-L1269)

Financial Terms and Conditions					
			Flexible Financing Facility*		
Borrower: Federative Republic of Brazil Guarantor: Ministry of Pensions (MPS)			Amortization period:		Bullet at 15 May 2027
			Weighted average life:		Maximum of 15.25 years**
			Disbursement period:		5 years
			Grace period:		Bullet at 15 May 2027
Source	Amount	%	Inspection and supervision fee:		***
			Interest rate:		LIBOR-based
IDB (Ordinary capital)	US\$10,000,000	50	Credit fee:		***
Local	US\$10,000,000	50	Currency:		U.S. dollars from the Bank's
Total	US\$20,000,000	100			Ordinary Capital
Program at a Glance					
Program objective/description: To help improve the financial sustainability of public sector pension plans (RPPSs). The specific objectives are: (i) to strengthen the management of the RPPSs of the federative entities participating in the Program for Modernization of Pension System Management, Second Phase (PROPREV II); and (ii) to generate greater knowledge to support pension policy formulation.					
Special condition precedent to the first disbursement of the loan proceeds: Cooperation agreements defining their participation will be signed with the governments of the federative entities as previously agreed upon with the Bank. Submission of the model agreement will be a condition precedent to the first disbursement of the loan proceeds (paragraph 1.21).					
Retroactive financing and recognition of expenditures: Pursuant to Operational Policy OP-504, the Bank may recognize up to \$1.9 million as a charge against the loan, and up to \$1.9 million as a charge against the local counterpart resources, respectively, to reimburse or recognize expenditures incurred by the executing agency to implement actions envisaged under the program, provided such expenditures have been incurred in accordance with Bank policies. Expenditures may be recognized if they were incurred during the 18 months prior to approval of the loan by the Bank's Board of Executive Directors and after the date of approval of the project profile (17 January 2011) (paragraph 2.4).					
Exceptions to Bank policies: None					
Procurement: Program procurement will be undertaken in accordance with Bank policies set forth in documents GN-2349-9 and GN-2350-9.					
Project consistent with country strategy:			Yes [X]	No []	
Project qualifies as:			SEQ []	PTI []	Sector [] Geographic [] Headcount []

(*) Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

(**) The original weighted average life will be determined when the contract is signed and may be less than 15.25 years.

(***) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

- 1.1 In 2000, the Brazilian government requested US\$188 million in Bank financing for a program to support the modernization of pension system management. Owing to the program's innovative nature and its complexity, the Brazilian authorities agreed with the Bank that it would be structured in two stages. A first program entitled Support for Modernization of Pension System Management (PROPREV I) (loan 1346/OC-BR), for US\$114 million, for which the Bank provided financing of US\$57 million, was approved on 12 September 2001 and completed on 30 July 2010. This operation represents the initial program's second stage.
- 1.2 The objective of PROPREV I was to support modernization of Brazilian pension system management, through two components: (i) strengthening of the National Social Security Institute (INSS), to enhance efficiency, effectiveness, and transparency in the management and administration of the General Pension Plan (RGPS); and (ii) strengthening of the Pension Secretariat, to expand its capacity to provide technical assistance to the municípios in managing their Public Sector Pension Plans (RPPS), which cover civil servants. The project completion report (PCR) rates the performance of the operation as satisfactory and likely to fulfill its development objectives. Of the eight milestones set, four were exceeded; one was fully attained; one was partially attained; there is no information for one other, and one was not attained (for further details see Table I-1). The Brazilian government has asked the Bank to continue its support for the sector, particularly in relation to the second component of the previous operation, through modernization of the management of RPPSs—particularly municipal ones, given their weaker management capacity—and the generation of greater sector knowledge to support policy formulation.
- 1.3 Of the Ministry of Pensions (MPS) agencies, the Pension Policy Secretariat (SPPS) is responsible for the formulation, monitoring, and evaluation of sector policies, having served as executing agency of component II of PROPREV I; and it will also be responsible for strategic coordination of PROPREV II.
- 1.4 **Structure of the sector.** Brazil's constitution defines three broad pension plans: (i) the RGPS, which covers private sector workers and public sector employees not covered by specific plans; (ii) the private or Complementary Pension Plan, for which contributions are voluntary; and (iii) the RPPS covering civil servants working in the federative entities (union, states, and municípios). Apart from the Complementary Pension Plan, all plans are based on a pay-as-you-go system.

Table I-1: Results of the PROPREV I Program (1346/OC-BR)

Indicator	Target	Achievement	Fulfilled (Yes/No)
<u>Coverage:</u> New individual members registered.	6.5 million	10 million	Yes
<u>Revenue received</u> Revenue growth (on a current price basis)	Equivalent to 80% of gross domestic product (GDP) growth	450% of GDP growth	Yes
Solvency of administratively consolidated credits.	50%	135%	Yes
<u>Customer service:</u> Index of customer satisfaction	65% according to the survey	The survey was not conducted following a political-managerial decision by the Ministry. However, 78% of the services can be accessed remotely through the WEB service, and waiting times (the most frequent reason for complaint by members) have almost disappeared. In addition, there are call centers to provide support, and an appointment management system.	The survey was not conducted, but there is evidence of improvement explained in the preceding column.
<u>Benefits:</u> Average time needed to grant benefits through the normal procedure	Cut to 12 days	23 days given the substantial increase in applications resulting from the larger number of beneficiaries and bankruptcy of the software manufacturer that was supporting improvements in this area, owing to breach of contract. The Ministry is continuing to improve the service provided to members, through the Citizens Service Management Program, and the signing and publicizing of the letter to citizens.	Reducing the timeframe was not possible due to the major growth in the number of pensioners.
<u>Institutional:</u> 100% of the INSS database and corporate network implemented	Database available and 900 units networked	The INSS corporate network database is fully implemented and connects all INSS agencies in Brazil.	Yes
100% of units using the results-based management model	100% of performance indicators defined	The results-based management model is being implemented through the Citizens Service Management Program. It is being applied in 125 pension agencies, 100 executive management units and five INSS regional superintendencies (100% at the central and regional levels, and 10% at the decentralized level owing to the large number of agencies–1,209).	Yes
100% of managers and staff trained	20,000 training places offered	Over 25,000 managers and staff trained.	Yes

- 1.5 The RPPSs cover the 27 federative entities (26 states plus the Federal District) in full, as well as 1,874 municípios out of a national total of 5,565. In December 2009, municípios with RPPSs had the following numbers of beneficiaries: (i) active workers (retired): 2,275,101; (ii) inactive workers (not working, mainly owing to medical leave with wages being paid by the pension systems): 423,712; and

(iii) pensioners (children and partners of pension entitlement holders): 150,750, for a total coverage of 2,849,563 people.

- 1.6 **Progress achieved.** In late 1998, Constitutional Amendment 20 took effect, guaranteeing employees of the union, states, the Federal District, and municípios a differentiated, actuarially balanced, contributory pension plan. The contribution period replaced length of service as a requirement for obtaining pension benefits; and the minimum retirement age was set at 55 years for women and 60 for men. Following this reform, Constitutional Amendment 41, of 2003, helped to consolidate the system, guaranteeing contributions from the federative entity, and from active, inactive, and pensioned employees.
- 1.7 Constitutional Amendment 20 secured numerous advances for the sector. It instituted the contributory concept¹ in retirement and pension benefits, and made the MPS responsible for setting parameters and directives, and for guiding and monitoring the various public sector plans. Its provisions include: determination of the initial actuarial evaluation and annual revaluation; prohibition on paying benefits through agreements with other entities; a requirement to use pension accounts that are separate from the accounts of the respective Treasuries; prohibition on using funds from RPPSs to make loans to federative entities and to members; and the investment of pension fund resources as specified by the National Monetary Board (*Conselho Monetário Nacional*). The law also defined sanctions for violation of the established rules.
- 1.8 In addition to wide-ranging training programs, the following records and systems were set up as tools to improve management: (i) the RPPS information system, which holds a large base of information on state and municipal pension plans; (ii) the Integrated Pension Management System (SIPREV/Gestão) which is an essential tool for RPPS managers; (iii) the system of legislation, jurisprudence, and opinions for consulting pension legislation relating to RPPSs; and (iv) the National Register of Social Benefits Information of the RPPSs, which facilitates data exchange between the RPPSs with the RGPS and among the RPPSs themselves.
- 1.9 SIPREV/Gestão is a pension management system that includes registry data (current employment, contribution period, pension benefits received, job history, posts held, and careers); financial data (amount of contributions and benefits); issuance of the Contribution Period Certificate, and verification of essential data records. Without this system, information is handled manually, and is subject to the concomitant natural occurrence of errors in both records and benefit payments (the 2009 National Pension Census resulted in a 0.4% saving in the amount of benefits paid).
- 1.10 The main lessons learned from PROPREV I, explained in greater detail in the operation's PCR were: (i) the need to allow more realistic execution periods, given the complexity of institutional modernization processes; (ii) the need to consider

¹ Previously this was almost a welfare-handout type of policy, with no relation between contributions and benefits.

political and electoral cycles affecting the public policy agenda; (iii) the importance of training the executing agency team in the Bank's policies; (iv) the importance of having good technical specifications and terms of reference (TOR) in place on a timely basis, as well as knowledge of international experience; and (v) the importance of project management and monitoring systems.

- 1.11 **Challenges for the future and rationale.** The key challenges for RPPSs, involve expanding the coverage of the records of the federative entities to achieve economies of scale, quantifying their impact in identifying the causes of the deficit, supporting their management and deepening and expanding sector knowledge, with the aim of continuously improving and updating pension policies. Financial equilibrium is the main challenge facing the RPPSs. In 2009,² their (cash) deficit was about R\$47.0 billion (with payments to 8 million beneficiaries), whereas the deficit for the INSS was on the order of R\$42.9 billion (but covering 28 million in benefits paid). The private and complementary pension schemes (RPCs) are financially sound and provide a major source of domestic saving (assets of R\$514.9 billion in 2009). In 2010, the cash deficit of the RPPSs of the program's 50 beneficiary federative entities was R\$102.9 million (the beneficiary entities are listed in [optional electronic link 7](#), and the selection criterion appear in paragraph 1.22); and the actuarial deficit was R\$35.0 billion. As there are no projections of the financial and actuarial behavior of these pension plans in the future, the program will make a contribution to this. In addition to management improvement, a further challenge is the need for future reforms based on the studies proposed here, which include the analysis and cross-referencing of the variables and key factors underlying the financial equilibrium of the pension system. The determinants of the deficit in RPPSs are different and independent in two ways: (i) structural, such as the failure to resolve the initial actuarial liability, financing of plans in a simple pay-as-you-go scheme, the lack of regulatory flexibility to adjust the benefits policy to members' longevity, the return on assets, and generous benefit rules; and (ii) managerial, caused by failures and shortcomings in the management of the plans.
- 1.12 The most important managerial determinants are: (i) RPPS records are deficient and out of date, with evidence, in prior records such as the 2009 National Pension Census, of the payment of improper benefits on the order of 0.4% of their value at that date, equivalent to R\$12.7 million;³ (ii) the lack of the pension management system to support the improvement of administration, decision-making, and real-time transmission of data to the MPS for ministerial supervision; (iii) shortcomings in the service provided to RPPS affiliates, which means that the approval of a pension can be delayed several months after the entitlement has been acquired;⁴ (iv) weaknesses in the actuarial evaluation of the RPPSs⁵ and in asset

² Source: Empresa de Tecnologia e Informações da Previdência Social (Pension Plan Information and Technology Company) and MPS.

³ Source: INSS Benefits Department.

⁴ Experiences suggest between 15 minutes to six months, depending on the RPPS.

⁵ Source: Audit reports of the Office of the Comptroller General.

management (amounting to R\$49.0 billion in 2010), which would afford greater predictability and financial sustainability to the plans in question; (v) inadequacy and poor availability of structured and continuously updated information for formulating public pension policies; and (vi) the low level of professionalization, since most personnel do not belong to the permanent RPPS staffing structures—also caused by the short lifetime of the plans which means that their careers have not yet been fully institutionalized.

- 1.13 The relative weight of each determinant of the deficit depends on the specific situation of each RPPS (number and wage level of its members, longevity of staff, years of existence of the plan, form of organization, actuarial model adopted, etc.); as well as the measures adopted by managers in each case to resolve the deficit. Structural factors, however, are responsible for most of the public sector pension deficit, but there are no studies on the magnitude of their importance compared to management issues. One reason for the greater importance of structural factors is that the INSS has already been subject to wide ranging management modernization (following the support of PROPREV I) and the RGPS still has a significant deficit. Management reforms, for their part, take less time than structural reforms to consolidate and have an impact on the financial sustainability of the pension plans, because the latter are only applied to new members. This justifies the decision made by the MPS to address the challenge of management improvement at this time.
- 1.14 The causal factors include the proliferation of public sector pension plans in the 1990s, which were structured without any national regulatory foundation, management models, computerized systems, specific staff career structures, or an actuarial study guaranteeing their sustainability. Moreover, the short time for which the RPPSs have been in existence has not yet enabled them to consolidate a modern management culture, with adequate tools and specialized professional staff.

Table I-2: RPPS financing needs (% of GDP) 2002 to 2010

2002	2003	2004	2005	2006	2007	2008	2009	2010
1.21%	1.04%	0.83%	0.81%	0.76%	0.78%	0.73%	0.72%	0.73%

Source: MPS

- 1.15 The actions undertaken by the MPS, including with IDB and World Bank support, enabled it achieve satisfactory, but not yet sufficient, development of RPPS financing needs in relation to GDP, as shown in the table above. In other words, the shortfall between the income and payments under the public sector plans has been decreasing, but still represented 0.73% of GDP in 2010.
- 1.16 As the system's governing body, the MPS requires research, training, seminars, and publications to provide a foundation for policy-making; support social and legislative debates on the country's pension systems; generate greater knowledge to improve legislation; create technical content to define short-, medium-, and long-term strategies; generate and disseminate knowledge for the managers and

staff of other RPPSs; and make Brazilian society aware of the scale and challenges faced by the RPPSs.

- 1.17 The lack of specialized information for policy-formulation and decision-making would justify studies on some of the main determinants of the deficit, such as demographic trends and their impacts on the system, the profile of members, aging and dependency, and coordination and compensation between the RGPS and RPPSs, etc., as well as their dissemination through training and seminars.
- 1.18 **Relationship with the country strategy.** One of the key objectives of the Country Strategy with Brazil (2012-2014) (document GN-2662-1) is to improve the capacity of public entities, particularly at the subnational levels, with a view to enhancing expenditure efficiency and quality. These activities will focus on other areas in terms of: (i) strategic planning; and (ii) the development of management models and tools, consistent with the proposed operation. The Bank's Ninth Capital Increase (document AB-2764) also sets a priority of strengthening institutions for growth and social welfare; and two of the priorities in this area are support for the decentralization of public expenditure and municipal public finance systems.

B. Objective, components, and cost

- 1.19 **Program objective.** To help improve the financial sustainability of RPPSs. The specific objectives are: (i) to strengthen the management of RPPSs in federative entities participating in PROPREV II; and (ii) to generate greater knowledge to support pension policy formulation. To achieve these objectives, the program's activities were organized in two components as described below.
- 1.20 **Component I – Strengthening the management of RPPSs.** This component aims to strengthen the management of RPPSs in at least 50 federative entities. To achieve this objective and simultaneously build the technical capacity for better management of the RPPSs, the following activities will be undertaken: (i) updating of the records of at least 50 RPPSs and cross-referencing of municipal databases with those of the state pension plans and the MPS, to eliminate redundancies and possible fraud; (ii) implementation of a technological structure and installation of SIPREV/Gestão in at least 50 federative entities; (iii) training for roughly 240 managers of RPPSs in the financial, actuarial, accounting, investment, and information technology areas, to support RPPS management; and (iv) training for some 1,040 civil servants of RPPSs in the areas of finance, accounting, law, and information technology (to operate SIPREV/Gestão).
- 1.21 In addition to the roughly 1,280 trained staff, this component will benefit at least 50 federative entities with the largest number of employees that have not yet been newly registered. This selection will involve newly registering⁶ a total of approximately 560,000 public sector employees. Thus far, the MPS has conducted 48 new municipal registrations, 42 of them with support from the International Bank for Reconstruction and Development and six with IDB support (through

⁶ To eliminate fraud, double registration, or “fictitious” staff.

PROPREV I). Given the positive incentives generated, there is strong subnational demand for MPS support in managing these registration systems. **For that purpose, cooperation agreements previously agreed upon with the Bank will be signed with the governments of the federative entities, specifying the Bank's participation. Presentation of the model for this agreement will be a condition precedent to the first disbursement of the loan proceeds.**

- 1.22 **Component II – Production, internalization, and dissemination of knowledge to the Pension Policy Secretariat of the Ministry of Pensions (SPPS/MPS).** This component will support pension policy formulation. Based on the socioeconomic problems and sector challenges discussed above, studies will be conducted on the following issues: (i) worker health and safety, to expand knowledge on the relation between health and work, and its consequences for the payment of disability benefits (in 2009 there were almost 750,000 workplace accidents);⁷ (ii) demographics, to monitor demographic factors of the population and public sector careers that are currently subject to rapid change, with a view to adapting the pension system to an aging society, changes in family composition, and an increase in the population aged 80 or older; (iii) the profile of the entry and exit of RPPS members to guarantee the plans' financial and actuarial equilibrium; (iv) coordination between the RGPS and RPPSs, to develop solutions and tools to evaluate the impact of pension reforms and issues that remain to be regulated to promote continued convergence between the two plans; (v) pension compensation, between RPPSs, to discuss alternatives for implementing compensation payments between plans, studying the need for a clearing house, and defining rules to unify procedures among the RPPSs; and (vi) aging and dependency in the RPPSs, to improve their financial and actuarial equilibrium.
- 1.23 This component will also finance technical assistance for the SPPS/MPS and managers and employees of other RPPSs on operating SIPREV/Gestão, and in the actuarial, financial, legislation, accounting, investment management, and information technology areas; training for roughly 100 auditors with the aim of unifying procedures to conduct joint audits (SPPS and the National Audit Office); training and seminars for groups of federative entities on finance, accounting, legislation, information technology, and investments, to generate economies of scale and a greater demonstration effect; and distance courses for managers and employees also from other RPPSs in the actuarial, financial, accounting, investment, and information technology areas, covering a total of roughly 1,500 trainees. Lastly, bearing in mind the need to raise civil-society awareness of pension issues and challenges, such as making public policy sustainable, funding will be provided to publish books in the *Previdência* collection.
- 1.24 **Program rationale.** The program design meets the Brazilian government's request, and the studies to be undertaken as part of it are expected to contribute to the

⁷ Source: MPS.

ongoing technical and policy debate in the country concerning the structural deficit and managerial shortcomings of the pension system.

- 1.25 **Overall budget.** The total cost of the program is US\$20 million, of which US\$10 million (50%) will be financed by the Bank, and US\$10 million (50%) will be funded from the local counterpart, as shown in Table I-3.
- 1.26 **Disbursement programming.** Disbursements will be made over a five-year period running from the effective date of the loan contract, according to the schedule shown in Table I-4.

Table I-3: Overall program budget by source (US\$)

CATEGORIES	IDB	Local	Total	%
Direct costs	9,696,670	10,000,000	19,696,670	98.48%
I. Strengthening of RPPSs	8,368,467	6,203,733	14,572,200	72.86%
1.1 Records of active, inactive, and pensioned employees	6,940,687	5,471,313	12,412,000	62.06%
1.2 Technological structure for RPPS management and data transmission	1,005,556	622,167	1,627,723	8.14%
1.3 Training of RPPS employees	288,891	89,542	378,433	1.89%
1.4 Training of RPPS managers	133,333	20,711	154,044	0.77%
II. Production, internalization, and dissemination of knowledge to the SPPS/MPS	1,328,203	3,796,267	5,124,470	25.62%
2.1 Technical assistance to the SPPS/MPS	-	2,733,333	2,733,333	13.67%
2.2 Studies/research	986,667	986,667	1,973,334	9.87%
2.3 Publication of pension issues	76,267	76,267	152,534	0.76%
2.4 Distance courses	198,602	-	198,602	0.99%
2.5 Training of auditors	66,667	-	66,667	0.33%
III. Program management	53,333	-	53,333	0.27%
Independent evaluation	53,333	-	53,333	0.27%
IV. Contingencies	249,997	-	249,997	1.25%
TOTAL	10,000,000	10,000,000	20,000,000	100%
PERCENTAGE	50.00%	50.00%	100.00%	-

Table I-4: Disbursement schedule (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	345,929	2,625,689	5,981,271	618,145	428,966	10,000,000	50%
Country	386,545	6,149,504	1,866,193	1,049,444	548,314	10,000,000	50%
TOTAL	732,474	8,775,193	7,847,464	1,667,589	977,280	20,000,000	100
%	3.7%	43.9%	39.2%	8.3%	4.9%	100%	

- 1.27 **Cost-benefit analysis.** Given the scale of the operation, it was decided to conduct a comparative temporal analysis between the incremental financial costs and benefits arising from implementation of the RPPS registrations. The calculation included the

resources saved by eliminating irregularities in benefit payments, the costs of component I, a period of analysis from 2011 to 2030 (20 years), and a discount rate of 12% per year.

- 1.28 It is thus estimated that, in 2020, the program will have recovered the investment of component I, with a net present value benefit of US\$1,047,935; and, in 2030 (end of the amortization period) the equivalent amount will be US\$10,683,483. The internal rate of return was calculated as 6.47% in the tenth year and 65.93% at the end of the amortization period.

C. Key results indicators

- 1.29 By the end of program execution, the main outputs will be: (i) at least 50 RPPSs with up-to-date records and with SIPREV/Gestão implemented; (ii) 1,040 RPPS staff trained; (iii) 240 managers trained; (iv) at least 50 program beneficiary federative entities provided with technical assistance; (v) six studies and/or research projects completed; (vi) at least six publications produced; (vii) 150 federative entities participating in distance courses; and (viii) 100 auditors from the SPPS and Audit Office trained. The most important expected results will be: (i) reduction of the data inconsistency rate in the records of program beneficiary RPPSs from 90% to 30%;⁸ (ii) 45 program federative entities with a pension compensation arrangement between federative entities (currently there are none);⁹ and (iii) at least two policy proposals for the sector stemming from the findings of research projects funded by this program. The impact of the program would be an estimated 15.5% reduction in the deficit of at least 50 RPPSs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing, procurement, and contractual clauses

- 2.1 The procurement of goods and works and the contracting of consulting services for the program, financed in whole or in part with the loan proceeds, will be undertaken in accordance with the Bank's policies set out in documents GN-2349-9 and GN-2350-9, respectively. International competitive bidding will be used for the procurement of goods and nonconsulting services estimated to cost more than US\$5 million. Procurement of goods and nonconsulting services with an estimated cost of between US\$100,000 and US\$5 million (both inclusive) will use national competitive bidding; while procurement for less than US\$100,000 can use shopping procedures. International advertising will be required for the selection of consulting services with an estimated cost of more than US\$200,000.

⁸ Functional, pension, and financial data not recorded in the SIPREV/Gestão, or recorded incorrectly, which are necessary for studies on public employment, formulation of pension policies, granting of benefits, actuarial evaluation, and issuance of the contribution period certificate.

⁹ Example: at the present time, if an employee has worked 20 years for the federal or state government and the last 15 years in a municipal government, the município pays all of his or her retirement benefits without any reimbursement from the previous employer. This generates inequities in contributions and benefits between the federative entities.

- 2.2 **Reverse auction.** The executing agency may use national legislation, pursuant to Law 10520/2002 (reverse auction) for the procurement of goods and nonconsulting services in amounts not exceeding US\$5 million per contract, provided the requirements of the Bank's procurement policies are fulfilled, in particular those relating to: (i) the origin of the goods; (ii) the nationality of the suppliers; (iii) changes in the purchase orders; (iv) prohibition of price ranges; and (v) publication in a national newspaper. The executing agency will indicate in the corresponding procurement plan whether it has opted to apply national legislation. In cases that use the procedures defined in Law 10520/2002, the following thresholds will also be observed: (i) reverse auction for procurement of goods and services of common use, with an estimated cost not exceeding US\$5 million; (ii) official price list (*Ata de Registro de Preços*), for goods procurement with an estimated cost of no more than US\$5 million, for which registration has previously been approved by the Bank; and; (iii) attendance-based auction for procurement of commonly used goods and services with an estimated cost of no more than US\$100,000. At any time during program execution, the Bank may cancel the possibility of using one or more of the procurement modalities described herein.
- 2.3 The first process to be awarded with an estimated cost of US\$5 million or more in the case of goods procurements, US\$200,000 in the selection and contracting of a consulting firm, and US\$50,000 in the selection and contracting of individual consultants, will be subject to ex ante review by the Bank, as will the TOR for the studies specified in paragraph 1.1. Based on these reviews, the Bank may decide that other procurement processes for amounts below the international thresholds will be subject to ex post review. All direct contracting of individual consultants costing US\$50,000 or more will be reviewed by the Bank on an ex ante basis.
- 2.4 **Retroactive financing and recognition of expenditures.** Pursuant to Operational Policy OP-504, the Bank may recognize up to US\$1.9 million as a charge against the loan and up to US\$1.9 million as a charge against local counterpart resources, respectively, in order to reimburse or recognize expenditures incurred by the executing agency in implementing actions envisaged under the program, provided the expenses in question were incurred in accordance with Bank policies. Expenses may be recognized if they were incurred in the 18 months prior to the approval of the loan by the Bank's Board of Executive Directors, but after the date on which the project profile was approved (17 January 2011).
- 2.5 **Advances of funds and supervision of disbursements.** Funds may be disbursed in the form of advances to meet the program's real liquidity needs projected for the ensuing 180 days. For that purpose, financial planning will be presented showing the funding need for the aforementioned period, or for another period previously agreed upon between the executing agency and the Bank. The executing agency will justify this amount as soon as 80% of it has been used, and always before requesting a new advance. Disbursements of the loan proceeds will be supervised on an ex ante basis, until the Bank authorizes ex post supervision.

B. Environmental and social safeguard risks

- 2.6 On environmental issues, the program was classified as a category “C” operation under the criteria of the “Environment and Safeguards Compliance Policy” (Operational Policy OP-703), which is consistent with the evaluation made by the project team, since this is an institutional modernization operation. Consequently, it is not considered necessary to prepare an environmental or social strategy for the program.

C. Fiduciary risk

- 2.7 The MPS has wide-ranging experience in procurement and contracting processes, using IDB and World Bank policies for the execution of a variety of programs. It has also served as the executing agency of PROPREV I and has made intensive use of the federal government’s financial management system.

D. Other issues and risks

- 2.8 Restrictions on budgetary allocation (which would delay program execution). This is a low risk since resources for the operation are provided for in the multiyear plan and are allocated in the General Budget of the Union for fiscal 2012 and in the budget proposal for 2013; and, in any case, the amounts are relatively small.

III. PROGRAM IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

- 3.1 The program’s executing agency will be the MPS, acting through the SPPS, responsible for strategic coordination of the program, and the MPS Executive Secretariat (SE), which will provide administrative support.
- 3.2 The SPPS will have the following main responsibilities: (i) prepare the TOR and technical specifications and monitor, supervise, and control the performance of contracts; (ii) supervise and monitor program execution; (iii) analyze and confirm receipt of goods and services contracted; (iv) integrate actions and consolidate the annual work plans (AWPs) and procurement plans; and (v) provide inputs for technical and managerial reports.
- 3.3 The main responsibilities of the SE will be to: (i) implement contracting and procurement processes; (ii) consolidate data and information, including that arising from the other areas, relating to programming, execution, monitoring, and evaluation of the program; (iii) produce management, progress, monitoring, evaluation reports, and reports justifying accounts, for submission to the Bank; (iv) implement operating procedures relating to payments, reimbursements relating to contracts, procurement, and accounting records, as well as property, accounting, financial, and budgetary controls; and (v) keep documentation on all stages of the program, including that required by the Bank.
- 3.4 The program will have a project manager who will receive basic support from an administrative coordinator, a financial coordinator, and a procurement coordinator.

Consultants may also be hired for a fixed term to help prepare the more complex technical specifications and TOR.

- 3.5 The Project Manager, supported by the managers of each of the program's services or outputs, is responsible for: (i) representing the MPS in dealings with the Bank; (ii) supporting the program's administrative and strategic coordination actions; (iii) coordinating the work of the SPPS and SE in relation to the program; and (iv) representing the program in dealings with the participating federative entities and other government institutions.

B. Summary of arrangements for monitoring results

- 3.6 Program monitoring will be based on semiannual monitoring of activities programming, and on the physical and financial details of the outputs included in the AWP, the project execution plan, and the procurement plan. The AWP and procurement plan will be sent to the Bank by 30 November of the year prior to the year to which they refer.
- 3.7 They will be evaluated on the basis of the fulfillment of targets compared to the baselines, as well as the respective outcome indicators in the Results Matrix.
- 3.8 These verifications will be undertaken at the time of the semiannual progress reports, midterm and final evaluations, the Loan Review Report and the PCR. All progress will be recorded in the Project Monitoring Report.
- 3.9 Program planning, monitoring, and evaluation will use the following instruments in addition to those described in the required electronic links: (i) audited financial statements with ex post review reports on procurement and disbursements, issued by the Federal Office of Internal Control of the Office of the Comptroller General, and sent to the Bank by 30 April of the following fiscal year; (ii) midterm evaluation: a report prepared by the MPS, using independent consulting services, to verify the degree to which the program's partial outputs, outcomes, and impacts are being achieved, to be submitted to the Bank halfway through the disbursement period, or when 50% of the loan proceeds have been disbursed, whichever occurs first; and (iii) final evaluation: a report prepared by the MPS, using independent consulting services, to verify the extent to which the program's final outputs, outcomes, and impacts have been achieved, to be submitted to the Bank 30 days before the expiration of the deadline for the last disbursement. The methodology to be used for program evaluation is described in the Monitoring and Evaluation Plan: (i) a descriptive evaluation comparing the situation before and after the program for component I (reduction in the RPPS data inconsistency rate and pension compensation between federative entities); (ii) a descriptive evaluation comparing the situation before and after the program for component II (at least two sector policy proposals resulting from the studies undertaken); and (iii) a descriptive evaluation of the program's impact comparing the situation before and after the program, also based on the ex post cost-benefit analysis, to verify economy of resource use and its effect on reducing the pension deficit in the 50 program-beneficiary RPPSs.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The project contributes to the Bank’s outputs: (i) Public financial systems implemented or upgraded, and (ii) Municipal and other subnational governmetns supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	(i) Reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government, and (ii) Promote sustainable fiscal balance at the subnational level.	
Country Program Results Matrix	GN-2661-4	The project is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.1		10
3. Evidence-based Assessment & Solution	6.8	25%	10
4. Ex ante Economic Analysis	7.0	25%	10
5. Monitoring and Evaluation	7.1	25%	10
6. Risks & Mitigation Monitoring Matrix	7.5	25%	10
Overall risks rate = magnitude of risks*likelihood		Low	
Environmental & social risk classification		C	
III. IDB’s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, Internal Audit, External Control, and Accounting and Reporting. Procurement: Information System, Shopping Method, and National Public Bidding.	
The project uses another country system different from the ones above for implementing the program	Yes	The project will use the "Pregao eletronico".	
The IDB’s involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The objective of this operation is to contribute to the financial sustainability of municipal social security systems in 50 municipalities in Brazil. For this the intervention will support the strengthening of the management of "local social security schemes of municipalities" and support the development of social security policies at the national level. The project contributes to the Bank the following products: Municipal governments and other sub-national governments supported, as well as public financial systems implemented or upgraded. The project is aligned with the Country Strategy and is included in the Country Program Document for 2012.

The project is consistent between diagnosis, project description and the results matrix, suggesting a sound vertical logic, although some indicators are not SMART, and there is not enough empirical evidence on the relative contribution of structural and institutional factors to municipal and local social security deficits. The project has a cost benefit analysis which does not include sensitivity analysis and where some of the assumptions cannot be empirically checked. The intervention has a monitoring and evaluation plan that includes the before-after methodology and the ex post cost-benefit analysis as tools to measure the expected results of the project.

Finally, major risks for project implementation have been identified, and corresponding mitigation measures.

RESULTS MATRIX
(IMPACT, OUTCOMES, AND OUTPUTS)¹

Program objective: To help improve the financial sustainability of public sector pension plans (RPPSs). The specific objectives are: (i) to strengthen the management of the RPPSs of the federative entities participating in the Program for Modernization of Pension System Management (PROPREV II); and (ii) to generate greater knowledge to support pension policy formulation.

PROGRAM IMPACT										
Impact	Indicator	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	General target	Source
Reduction of the deficit of at least 50 RPPSs	R\$ million at constant 2010 prices	102.9	2010					86.9	86.9	Final evaluation report by an independent consulting service contracted by the Ministry of Pensions (MPS), based on data produced by the Integrated Pension Management System (SIPREV/Gestão). The figure is based on an estimate of a sample of 50 RPPSs. Both the baseline and the target will be updated once the beneficiary RPPSs have been identified.

¹ This Results Matrix will be supplemented by the Monitoring and Evaluation Plan, providing details of arrangements (institutional and responsibilities), data sources, and operating rules; and showing how data will be compiled, verified, analyzed, and reported to the Bank.

PROGRAM OUTCOMES										
Outcomes	Indicator	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	General target	Comments
Reduction of the of RPPS data inconsistency rate ²	%	90	2010					30	Reduction of the of RPPS data inconsistency rate from 90% to 30%.	Final evaluation report by an independent consulting service contracted by the MPS, based on data from SIPREV/Gestão (report on the absence and inconsistency of essential data).
Federative entities implementing pension compensation with other federative entities ³	Federative entity	0	2010					45 ⁴	45 of the program's federative entities have a pension compensation system with other federative entities.	Final evaluation report produced by an independent consulting services contracted by the MPS, with prior cross-referencing of data by the MPS from SIPREV/Gestão with other databases (National Register of Social Benefits Information (CNIS)).

² Functional, pension, and financial data not recorded in SIPREV/Gestão or recorded incorrectly, which are needed for studies on public employment, the formulation of pension policies, the granting of benefits, actuarial evaluation, and issuance of the contribution period certificate.

³ Example: If an employee has worked 20 years in the federal or provincial government and the last 15 years in the municipal government, the município will pay all of his or her retirement benefits without any reimbursement from the previous employer.

⁴ The MPS has considered the target of 100% of federative entities participating in the program to be highly optimistic.

PROGRAM OUTCOMES										
Outcomes	Indicator	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	General target	Comments
At least two policy proposals for the sector arising from the findings of the research, related to the topics of the studies	Proposal	0	2010			1		1	At least two policy proposals for the sector arising from the research findings (evidence: official document, administrative decision by an MPS Secretariat, a Ministerial Order (<i>portaria</i>) issued by the MPS or jointly with other ministries, Draft Presidential Decree or reform proposal to the National Congress) to be sent by the MPS to the Bank and validated by the midterm and final evaluations.	Midterm evaluation, final evaluation, and/or loan review report (LRR), and based on MPS data.

PROGRAM OUTPUTS										
COMPONENT I – STRENGTHENING THE MANAGEMENT OF MUNICIPAL PUBLIC SECTOR PENSION PLANS										
Output	Indicator	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	General target	Source
Updated record of active, inactive, and pensioned employees	Updated record of RPPSs	48	2010			50			50	MPS report. Cumulative target of 98 pension plans brought up-to-date.
	Newly registered employees ⁵	1,079,385	2010			560,000			560,000	MPS report. Cumulative target of 1,639,385 employees newly registered (baseline plus program target).
Technological structure for the management and transmission of RPPS data installed (hardware)	Hardware purchased and installed	480	2010		500				500	MPS report. Cumulative target of 980 hardware units procured and installed.
	Federative entities with the pension management system (SIPREV/Gestão) implemented	48	2010			50			50	MPS report. Cumulative target of SIPREV/Gestão implementation in 98 federative entities.

⁵ For purposes of monitoring contracts for producing the records and also because they can affect the result of the cost-benefit analysis.

PROGRAM OUTPUTS										
COMPONENT I – STRENGTHENING THE MANAGEMENT OF MUNICIPAL PUBLIC SECTOR PENSION PLANS										
Output	Indicator	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	General target	Source
RPPS employees trained	Employees of federative entities trained and evaluated in financial, actuarial, legislative, accounting, and information technology issues	2,727	2010			400	400	240	1,040	List of training participants included in the MPS report. Cumulative target of 3,767 employees trained.
RPPS managers trained	Managers trained and evaluated in financial, actuarial, legislative, accounting, and information technology issues	303	2010		240				240 managers	List of training participants included in the MPS report. Cumulative target of 543 managers trained.

PROGRAM OUTPUTS										
COMPONENT II – PRODUCTION, INTERNALIZATION, AND DISSEMINATION OF KNOWLEDGE TO THE PENSION POLICY SECRETARIAT (SPS/MPS)										
Output	Indicator	Baseline	Baseline year	2011	2012	2013	2014	2015	General Target	Source
Federative entities to be provided technical assistance on actuarial, statistical, economic, accounting, engineering, workplace safety law, and investment analysis issues	Federative entity	0	2010		10	15	25		50 federative entities with technical assistance provided by the program.	MPS report.
Studies/research undertaken	Study	0	2010		2	2	2		6	MPS report. Cumulative target of 6 studies. Areas of health and safety of RPPS members; demography, aging and dependency; profile of the entry and exit of members; coordination between the General Pension Plan (RGPS) and the RPPS; pension compensation between RPPSs.

PROGRAM OUTPUTS										
COMPONENT II – PRODUCTION, INTERNALIZATION, AND DISSEMINATION OF KNOWLEDGE TO THE PENSION POLICY SECRETARIAT (SPS/MPS)										
Output	Indicator	Baseline	Baseline year	2011	2012	2013	2014	2015	General Target	Source
Pension topics published and disseminated	Publication	15	2010	1	2	3			6 publications produced (total of 4,000 copies)	MPS report with a list of publications and topics. Cumulative target of 21 publications.
Distance courses structured and available	Federative entity	6 ⁶	2010			50	50	50	150 federative entities	MPS report with a list of participants and courses offered. Cumulative target of 156 federative entities.
Auditors of the MPS and National Audit Offices, and federative entities trained	Auditors trained in finance, actuarial, legislation, accounting, and information technology issues	0	2010			100			100 auditors	MPS report with a list of persons trained.

⁶ Source: PROPREV I.

FIDUCIARY AGREEMENTS AND REQUIREMENTS¹

I. EXECUTIVE SUMMARY

- 1.1 The program will be executed by the Ministry of Pensions (MPS), through the Pensions Policy Secretariat (SPPS), which will be responsible for strategic coordination, and the MPS Executive Secretariat (SE) providing administrative support to the program.
- 1.2 This operation represents the second phase of the program Support for Modernization of Pension System Management (PROPREV I), the activities of which concluded in July 2010. The evaluation of fiduciary management was based on an institutional analysis of the executing agency and the identification of risks, with participation from the Bank's project team, staff from the executing agency, and key ministry staff. Account was also taken of experience gained by the Bank and the executing agency in similar projects, particularly PROPREV I.
- 1.3 This evaluation shows that, in general, the executing agency has an adequate organizational structure and sufficient administrative, technical, and financial management capacity to execute the program satisfactorily, in accordance with the conditions and requirements established by the Bank.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Brazil has a sound and transparent regulatory and institutional framework, as well as robust national fiduciary systems that allow for adequate management of administrative, financial, control, and procurement processes, upholding principles of transparency, economy, and efficiency. These systems need to be continuously improved and strengthened, however, to be further tailored to new fiduciary needs. In this regard, the Bank's fiduciary strategy with Brazil targets progressive and sustainable use of the country's fiduciary systems.
- 2.2 The Bank is not yet fully using the federal government's integrated financial management system (SIAFI) as a tool for financial and accounting management and reporting. A project is under way to customize this system, under the auspices of the Federal Government Data Processing Service (SERPRO), so that it can serve as a tool to generate financial and managerial reports from its accounting database, which is used throughout the federal public system. Also important are the audit and control functions exercised by the Office of the Comptroller General of the Union (CGU), through the Federal Office of Internal Control, in all external credit operations.

¹ Prepared by Leíse Estevanato (Financial Specialist) and Marília Santos (Procurement Specialist).

- 2.3 The Bank is also promoting greater use of national public procurement systems, mainly COMPRASNET (operated by the federal government).
- 2.4 The Bank recognizes that using country systems involves a number of initial risks until the systems are totally adjusted to international standards. Nonetheless, the Bank continues to support their use and promote their performance, so that they continue to improve and achieve levels of efficiency and economy that are appropriate to the country's needs. Moreover, public governance in Brazil is being strengthened through Bank-financed operations, such as the National Program to Support the Modernization of Public Administration and Planning in the Brazilian States and Federal District; the National Program to Support the Modernization of Fiscal Management in the Brazilian States; and the National Program to Support the Administrative and Fiscal Management of Brazilian Municípios.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 **Strategic and technical coordination of the program:** This will be the responsibility of SPPS/MPS, which will define and issue directives, priorities, terms of reference, and technical specifications for the program's activities.
- 3.2 **Coordination of support for the execution of program activities:** The execution (administrative/operational, accounting/financial, and procedural) and monitoring of program actions will be the responsibility of the SE, consisting of a project manager; an administrative coordinator; a financial coordinator; and a contracts and procurement coordinator, in addition to other support professionals and consultants who will be hired for specific activities.
- 3.3 **Financial execution and recording of program actions:** This will be done directly in the SIAFI, pursuant to the acceptance directives issued by the Bank on the use of country management systems, once the customization currently under way in SERPRO has been finalized. Until then, the COFRE system will be used, which was employed by the PROPREV I coordination unit and is being customized for PROPREV II.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 The risk analysis performed during the project design stage identified low risks relating to procurement and financial management: **Lack of immediate availability of the use of the SIAFI.** Mitigation measure: Owing to the delay by SERPRO in customizing the national financial management systems (SIAFI), with no date defined for delivery of the final product, the project coordination unit will use the COFRE system which was used during execution of PROPREV I.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

5.1 Procurement will be executed on the basis of the following:

- a. **Procurement of works, goods, and nonconsulting services:** The procurement of works, goods, and services financed in whole or in part with Bank resources will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), March 2011 version. In goods and services procurement with an estimated cost of over US\$5 million, international competitive bidding (ICB) will be used; when the estimated cost is no more than US\$5 million, national competitive bidding (NCB) may be used; and procurements for less than US\$100,000 can use the shopping method.

In addition, the Bank may recognize the following procurement modalities envisaged in national legislation (Law 10,520/2002, the Electronic Auction Law) as a charge against the loan proceeds: (i) electronic reverse auction, using systems approved by the Bank for the procurement of commonly used goods and services, with an estimated cost of no more than US\$5 million; (ii) official price list, for procurement of commonly used goods and services with an estimated cost of no more than US\$5 million, for which registration has previously been accepted by the Bank; and (iii) attendance-based reverse auction, for procurement of commonly used goods and services with an estimated cost of below US\$100,000. The Bank may cancel the option of using one or more of the modalities described in this paragraph at any time during the execution period.

- b. **Selection and contracting of consulting services:** The selection and contracting of consulting services financed in whole or in part with Bank resources will be conducted according to the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), March 2011 version. For the selection and contracting of consulting services with an estimated cost of more than US\$200,000, international advertising through United Nations Development Business (UNDB) online will be required. The shortlists of consulting firms to undertake work costing less than US\$1 million may consist entirely of national firms.
- c. **Selection of individual consultants:** The selection and contracting of individual consultants financed in whole or in part with Bank resources will be based on the provisions contained in section 5 of the Bank's consultant contracting policies set out in document GN-2350-9. When selecting individual consultants, account will be taken of their qualifications to undertake the work, comparing the qualifications of at least three candidates. If the situation so requires, advertisements can be placed in local or international print media inviting qualified consultants to submit their résumés.

- d. **Direct contracting:** No direct contracting is foreseen in the program. Nonetheless, should this need arise during the project execution period, the Bank will review all direct contracting on an ex ante basis.

2. Table of thresholds (US\$ thousands)

5.2 The table below shows the procurement thresholds for each method and expenditure category:

Works			Goods ²			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertising	100% national shortlist
≥ 25,000,000	< 25,000,000 and ≥ 500,000	< 500,000	≥ 5,000,000	< 500,000 and ≥ 100,000	< 100,000	≥ 200,000	< 1,000,000

3. Initial procurement plan

No.	Description of contract	Procurement method	Source		Dates		Estimated amount (US\$)
			IDB (%)	Local (%)	Publication	Contract	
GOODS							
Component 1: Strengthening of strategic management							
1.2	Procurement of computer hardware for technological structure RPPS data management and transmission	Electronic auction	62%	38%	Oct. 2011	Jun. 2012	1,616,666.67
NONCONSULTING SERVICES							
Component 1: Strengthening of strategic management							
1.1	Contracting of technical services for the re-registration of active, inactive, and pensioned civil servants	ICB	55%	45%	Apr. 2012	Mar, 2013	12,282,832.22
Component 2: Production, internalization, and dissemination of knowledge to the Pension Policy Secretariat (SPS/MPS)							
2.4	Contracting of graphic services to publish and distribute books in the <i>Previdenciária</i> series	NCB	50%	50%	Jan. 2012	Dec. 2014	152,533.33
2.5	Contracting of training services for auditors from the SPS/MPS and the Offices of the Comptroller General of the union, states, and municípios	NCB	50%	50%	Apr. 2012	Dec. 2012	66,666.67
CONSULTING SERVICES							
Component 2: Production, internalization, and dissemination of knowledge to the Pension Policy Secretariat (SPS/MPS)							
2.1	Selection and contracting of consulting services to provide technical assistance to the SPS/MPS in the actuarial, statistics, economics and accounting, workplace safety engineering, law, and investment analysis fields.	IC	0%	100%	Oct. 2011	Dec. 2012	854,166.67
2.2	Selection and contracting of consulting services to undertake studies/research	LCS	50%	50%	Oct. 2011	Dec. 2012	657,777.78
2.3	Selection and contracting of consulting services to undertake studies and research (miscellaneous)	IC	50%	50%	Oct. 2011	Dec. 2012	213,333.33
	Total (US\$)						15,843,976.67

² Including nonconsulting services.

4. Procurement supervision

- 5.3 Following an assessment of the executing agency's institutional capacity to manage procurement, it was agreed with the project team that the first process of each type/method would be subject to ex ante review, irrespective of its value. The second and subsequent processes in each procurement method will be reviewed by the Bank on an ex post basis.

5. Special provisions

- 5.4 The COEPI will update the procurement plan annually or whenever requested by the Bank, to reflect the project's actual execution needs and progress achieved; and the COMPRASNET system will be used for goods procurement and the contracting of nonconsulting services.

6. Records and files:

- 5.5 The program's records and files will contain at least the following:
- a. The files will contain original documentation filed in chronological order, which will be sealed and sequentially numbered.
 - b. The files must be kept in a secure room for that exclusive purpose, with restricted access.
 - c. A file register must be kept.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 The strategic and technical coordination of the program is the responsibility of the Pension Policy Secretariat (SPPS) of the Ministry of Pensions (MPS), which will define the directives, priorities, terms of reference, and technical specifications for the program's actions.
- 6.2 At the same time, and in accordance with its function within the MPS, the SE will be responsible for supporting the operational execution of program actions: (i) preparation and updating of annual work plans, procurement plans, semiannual execution reports and program evaluation reports; (ii) operational dialogue with the Bank; (iii) coordination with the SPPS, including payment requests, monitoring of contracts, support for procurement processes, funding disbursements, and rendering of accounts; and (iv) fiduciary management of the operation's execution, and responsibility for program contracting and financial management, including the provision of resources and payments, preparation of financial reports, rendering of accounts, preparation of disbursement requests, and submission of audit reports.
- 6.3 The budget will be duly recorded and operated through SIAFI and in the COFRE system, until SIAFI has customized all its functions to perform the full monitoring and recording of the program. The budget for program activities will be approved by an appropriate legal instrument. The Bank will reimburse eligible project expenses, under the defined and executed categories.

1. Accounting and information system

- 6.4 Budgetary and financial execution of the program will be the direct responsibility of SIAFI, pursuant to the Bank's directives on acceptance of the use of country management systems, provided the customization process for generation of the necessary financial reports has been finalized under the terms agreed upon between the Country Office in Brazil/ Operations Financial Management and Procurement Services Office (CBR/FMP) and the federal government.
- 6.5 For that purpose, internal plans will be drawn up to facilitate the inclusion of budgetary items under the nomenclature used in the expenditure components/category, with the level of detail agreed upon with the Bank's Project Team Leader.
- 6.6 Until SIAFI customization has been completed, the COFRE system will be used in parallel. COFRE was developed for execution of PROPREV I and is currently being adapted for PROPREV II.
- 6.7 In the financial module, in addition to the standardized Bank reports, the "Financial Plan" report will be produced to support requests for advances of funds for the project.
- 6.8 The executing agency will submit annual financial statements to the Bank, duly audited by the Federal Office of Internal Control, in accordance with the terms of reference provided by the Bank.

2. Disbursements and cash flow

- 6.9 The program will use the Treasury System of the Union.
- 6.10 Expenditure will be subject to the budgetary and financial execution process, and this will need to be duly registered in the SIAFI and COFRE financial monitoring system. Resources used to pay expenses will be managed through the Single National Treasury Account.
- 6.11 The program will operate with resources provided by the Bank, to meet the project's real liquidity needs, with a 180-day expenditure forecast. For that purpose, a disbursement request will be submitted, duly accompanied by financial planning showing the funding need for the period indicated, previously agreed upon with the Bank.
- 6.12 The executing unit will send the Bank an initial financial plan for the project, which will show the disbursement schedule for the entire project execution period. This will be used to produce an annual plan covering the first fiscal year of execution, based on which the first disbursement of funding will be planned.
- 6.13 For future advances, accounts will be rendered for at least 80% of the resources advanced previously. In the same process, or whenever necessary, a new advance request will be submitted, supported by projections based on a new financial plan for the period of the request.

- 6.14 Documentation supporting expenses incurred will be reviewed on an ex ante basis by the staff or consultant appointed by the Bank in the first year of execution, or until the routine is formally changed by the Bank to ex post review, whereupon it will be reviewed at the time of the annual audits or whenever the Bank so requests. The ex post review will be duly documented in an appropriate report.
- 6.15 In accounts recording the use of the loan proceeds and local counterpart contributions, the following exchange rate rules will be used to convert amounts paid in local currency into the currency of the operation:
- a. To determine the equivalence of an expense paid in whole or in part from the loan proceeds, the exchange rate used to convert funds disbursed in the loan currency into local currency will be applied to the entire expense;
 - b. To determine the equivalence of an expense paid using non-loan funds, and for which the borrower requests either full or partial reimbursement charged against the loan or its recognition as a charge against the local counterpart funding, the exchange rate published by the Central Bank of Brazil (buyer rate) on the day prior to the date of presentation to the Bank of the request for reimbursement or recognition of the aforementioned expense (latest published rate), will be applied to the entire expense.
 - c. In the case of direct payments to consultants, contractors, goods suppliers, or service providers, the exchange rate of the Central Bank of Brazil prevailing on the date of effective payment to the beneficiary will be applied, provided current regulations in the country so permit.
- 6.16 Expenses considered ineligible for Bank funding will be reimbursed from the local counterpart funding or other resources, at the discretion of the borrower, depending on the nature of the ineligibility.

3. Internal control and internal audit

- 6.17 The control environment and activities, as well as communication, information, and monitoring of the executing unit's activities will follow the country's regulations, consolidated with the regulations of the Office of the Comptroller General.
- 6.18 It is recommended that the executing unit include the main internal control processes in its Operating Manual to ensure they are effectively applied.

4. External control and reports

- 6.19 External control will be performed by the Office of the Comptroller General, through the Federal Office of Internal Control, which will be responsible for the annual audit of the project's financial statements. The contents of the reports and certificates to be issued will meet the standards defined by the Bank for external audits and will be submitted to the Bank by the deadline specified in the loan contract.

5. Financial supervision plan

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Responsible party	
			Bank	Third party
OPERATIONAL	Review of the physical status of the actions/activities envisaged in components, in relation to disbursements	Semiannual	Technical team	
	Review of the Status Report	Semiannual	Fiduciary and technical teams	Executing agency
	Portfolio review	Annual	Technical team	
FINANCIAL	Ex post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and Federal Office of Internal Control
	Financial and operational audit	Annual		Federal Office of Internal Control
	Review of disbursement requests and attached reports	Periodic	Fiduciary team	
	Inspection visits/analysis of internal controls and control environment	Annual	Fiduciary team	
OTHER	Annual allocation of the budgetary funding needed for project execution	Annual	Fiduciary team	Executing agency
	Presentation of audited accounting statements and operational audit	Annual	Fiduciary and technical teams	
	Conditions precedent to the first disbursement	Once only	Fiduciary and technical teams	

6. Execution arrangements

6.20 In view of the execution arrangements defined in the proposal for operation development, a centralized administrative-financial execution plan needs to be implemented through the executing unit, for annual formulation of the budget and financial execution, for both the local counterpart and the Bank loan.