

SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT (PROPREV)

(BR-0327)

EXECUTIVE SUMMARY

Borrower and guarantor:	Federative Republic of Brazil		
Executing agency:	Ministry of Pensions and Social Welfare (MPAS)		
		<u>First phase</u>	<u>Second phase</u>
Amount and source:	IDB (OC):	US\$ 57 million	US\$37 million
	Borrower:	US\$ 57 million	US\$37 million
	Total:	US\$114 million	US\$74 million
Terms and conditions:	Amortization period:	20 years	
	Grace period:	3 years	
	Disbursement:	3 years	
	Interest rate:	variable	
	Inspection and supervision:	1 %	
	Credit fee:	0.75 %	
	Currency:	U.S. dollars under the Single Currency Facility	
Objectives:	<p>The purpose of the program is to support modernization of the Brazil pension system management, in the context of its reform approved by the National Congress in 1998.</p> <p>The specific objectives of the program are:</p> <ul style="list-style-type: none">(i) Modernization of the National Social Security Institute (INSS) in order to achieve greater efficiency, effectiveness, and transparency in the management and administration of the General Pension Scheme (RGPS), which serves member workers in the private sector; and(ii) Strengthening the Pension Secretariat (SPS) to expand its technical assistance capacity at sub-national levels of government, specifically among municipalities, in order to assist them in formulating proposals for reform and in		

modernizing the management and administration of their Public-Sector Pension Schemes (RPP) which serve civil servants.

Multiphase modality:

The program will require more than one project cycle owing to the following features: (i) the program has clearly identified long-term objectives; (ii) a sequence of two successive loans will support the program, with specific objectives and indicators concerning the results attained for the first phase within the overall framework of general development objectives; (iii) there is a financial plan and general description of the investments required, which will be reviewed and adjusted during execution of the first phase; (iv) the program will support development and strengthening of the management of institutions responsible for administering the pension system, centrally and in a number of pilot municipalities; and (v) the program includes the establishment of a well structured system of monitoring and evaluation, including means of verification of project status and defined indicators (triggers) for the second phase.

Description:

The first phase of the program includes execution of the two subprograms described below:

1. Modernization of RGPS Administration (US\$93.6 million), which aims to strengthen the INSS through the following components: (i) Strengthening Management: development and implementation of a new administrative management model that allows for compliance with current policies, having a long-term strategic plan as its fundamental element; (ii) Process Integration: development and implementation of mechanisms to support the integrated execution of activities, through an Information Technology Master Plan (PDTI) as its fundamental element; (iii) Human Resources: development and implementation of mechanisms to assist in strengthening human resources management through a Human Resources Management Plan; and (iv) Service to the Public: development and implementation of procedures and systems that help improve service to the public, including training of civil servants, improving procedures, and implementing and improving self-service systems.

2. Development of Public-Sector Pension Schemes – RPP (US\$5.8 million), which has two components: (i) Strengthening the SPS to improve its technical capacity in three basic functions: a) supervising management of government RPPs; b) supervising development of registration and information systems integrating the databases of the municipal RPPs; and c) preparing technical, legal and institutional studies, and providing the relevant technical training; and (ii) Support for the Reform and Management of Municipal Pension Systems:

performance of the actions required to prepare seven pilot projects for public-sector pension system reform at the municipal level.

**Bank strategy
in the country
and the sector:**

The Bank's strategy established in the country paper approved in June 2000 focuses on four basic areas: (i) promoting and expanding modernization of the State; (ii) supporting efforts to improve competitiveness and market access for national production; (iii) reducing social inequalities and poverty; and (iv) addressing environmental and natural resources management issues.

**Social and
environmental
review**

The Committee on Environment and Social Impact (CESI) approved the Profile II summary for this operation on 23 February 2001. CESI recommended verifying that the MPAS will ensure that reconstruction and renovation work at service facilities for INSS members complies with environmental protection procedures as provided in local building codes and national legislation (par. 3.23). CESI also requested that a description be included of how the information available in the systems may be used to monitor the situation of coverage and benefits paid in various categories by gender (par. 4.5).

Benefits:

Implementation of new information systems and management models in pension systems will ensure better quality, transparency, and control in managing beneficiaries' information, and will yield significant improvement in the services provided to affiliates (over 25 million direct private-sector members and 3 million private companies). Better control and security in the system will also help attain higher levels of efficiency and effectiveness in managing the benefits paid by the INSS, which now amount to more than US\$30 billion annually. A substantial reduction in errors and fraud will mean estimated savings in the system of 10 to 20% of the benefits paid. The Municipal RPP subprogram will benefit seven of the largest municipalities directly, and around 200 other municipalities indirectly (par. 1.10), by carrying out the reform and defining new management models for the public-sector pension system. Finally, program implementation will have a positive long-term impact on the fiscal adjustment process.

Risks:

With regard to the INSS subprogram, the main risk in terms of attaining the program's objective is creating consensus on priorities for institutional changes within the INSS. The MPAS, which is aware of this risk, has established the INSS Executive Board and the Technology Committee, and prepared strategic management and information technology plans. These initiatives have facilitated the development of this program. Additionally, the use of the Institutional Development Support Methodology (MDI) was effective in helping form interdisciplinary work teams, and helped achieve the institutional consensus needed for the development phase. It will provide basic support for the program implementation process.

With regard to the Municipal RPP subprogram, the main risk is achieving consensus at the municipal level for defining the reform of their systems. Strengthening of the SPS as provided in the program aims to resolve this problem by disseminating studies and alternative pension management models, and holding discussion workshops with the various parties involved.

Special contractual clauses:

Conditions precedent to the first disbursement: (i) establishment of the program coordinating unit and of the local executing units of INSS and SPS (par. 3.3); and (ii) implementation of an accounting, financial, and internal control system for the program (par. 3.14),

Conditions precedent to the first disbursement of the RGPS modernization subprogram: (i) legal execution instrument between MPAS and INSS (par. 3.5); (ii) establishment of the Information Technology Management Unit (par. 3.6); and (iii) legal instrument between the INSS and "Pension Data Processing Company" (DATAPREV) (par. 3.7).

Conditions precedent to the first disbursement of the RPP development subprogram: (i) the Operating Regulations for the Municipal Pensions component shall be in effect (par. 3.8); and (ii) submission of the draft legal execution instrument for municipal projects, to be signed by MPAS and the municipalities (par. 3.8).

Poverty-targeting and social sector classification:

This operation does not qualify as a poverty-targeted investment or as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None.

Procurement:

Procurement of goods and contracting for construction and services will be handled in accordance with the Bank's procedures. The threshold amounts above which international competitive bidding is required are US\$5 million for construction contracts, US\$350,000 for procurement of goods and related services, and US\$200,000 for consulting services.

I. FRAMEWORK

A. The pension system

1. Background

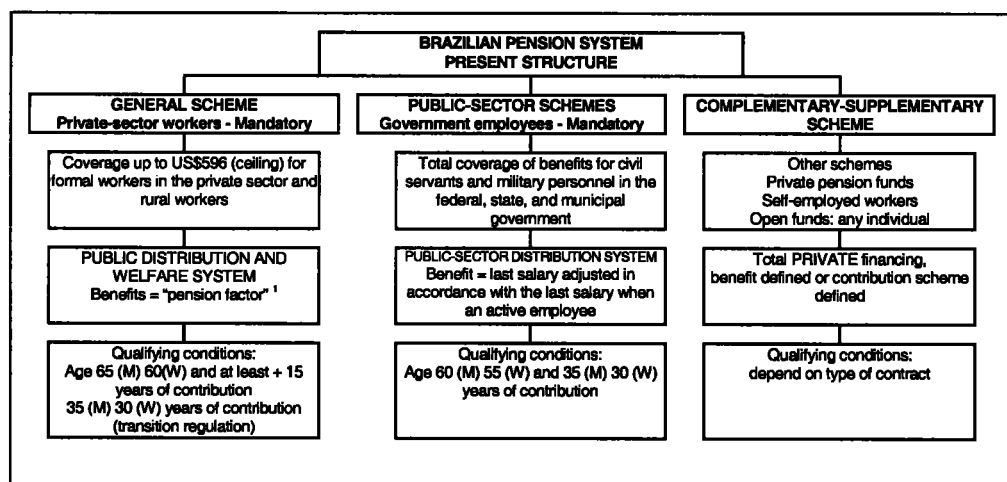
- 1.1 The origin of the Brazilian pension system dates from the passage of the Eloi Chaves Act of 1923, which gave Brazil the legal framework to regulate railroad "retirement and pension funds". By 1937 there were 183 such funds in Brazil, covering workers in public service companies and functioning as savings systems. With the advent of modernization in Brazil, the emergence of the urban middle class, and an increase in unionism came the appearance of "retirement and pension institutes" which linked members by professional category, not by company, under the protection of the State and following their own distribution schemes. It was not until 1967, after more than 20 years of parliamentary debate, that the various contribution systems and pension plans of the different institutes were standardized under the Organic Law on Pensions, and the institutes were unified under the National Pension Institute (INPS).
- 1.2 By the mid 1970s, the institutes unified under the INPS had expanded their coverage to workers not originally included under their systems, such as rural workers and domestic servants. In 1974, in light of this growing expansion and early concerns about long-term demographic trends and their fiscal implications, the "social security" concept became very important, and led to the establishment of the Ministry of Pensions and Social Welfare (MPAS). In 1977 MPAS became responsible for pension, medical, and social welfare policies and services, which were organized into three institutes: INPS, which handled the payment of benefits, the Pension and Social Welfare Administration Institute (IAPAS), and the National Institute of Medical Care in Social Security (INAMPS). At the same time, services for those lacking coverage were placed under the institutional responsibility of the Legión Brasileña de Asistencia (LBA). Ten years later, INPS and IAPAS merged to form the National Social Security Institute (INSS), and INAMPS was absorbed into the Ministry of Health. The LBA was placed under the institutional care of housing and social welfare.
- 1.3 In 1988, a new constitution was enacted that introduced a series of general rules supporting more generous pensions, particularly for rural workers. Several significant regulations were adopted in 1990 and 1991 reforming the current pension system, including: (i) definition of a minimum salary floor for all benefits, eliminating discriminatory treatment between urban and rural member populations; (ii) monetary correction of all contribution salaries for purposes of computing pension amounts; (iii) extension of proportional pensions to women by length of service; and (iv) lowering the retirement age by five years for rural workers. The first of these measures had a significant fiscal impact in that it doubled benefits paid to rural workers without being offset by additional contributions. However, from the distribution standpoint, the reform is estimated to have reduced the percentage of individuals living in poverty among those aged 70 and over from 37% to 18%

between 1988 and 1998. This is because 60% of the age group's income derives from retirement and pension payments; among women living in rural areas, that figure is 87%.

2. Present structure of the pension system

- 1.4 The pension system is structured around three schemes. The General Pension Scheme (RGPS) which serves private-sector workers, the Public-Sector Pension Schemes (RPP) which cover civil servants in the three levels of government, and the Complementary Scheme (RC), which operates with individual voluntary contributions (open RCs), or as the administrator of pension plans for employees in predominantly public enterprises (closed RCs).
- 1.5 With regard to the nature of the system's schemes, the RGPS and the RPPs are mandatory savings systems, the first administered by the INSS, the second by the various levels of federal, state, or municipal government. The RCs are optional savings schemes administered as capitalization funds, and are jointly supervised by MPAS and the Ministry of Finance. In terms of coverage, the RGPS presently has a member population of 27 million workers, approximately equal to 40% of the total population employed in the private sector, a level lower than in Argentina (53%), Bolivia (47%), and Uruguay (69%), but higher than in Mexico (36%), Ecuador (37%), and Nicaragua (15%). The RPPs cover a total of some 3 million civil servants.
- 1.6 The following chart (Table I-1) summarizes the structure of the pension system resulting from the 1998 constitutional reform:

Table I-1: Present Structure of Brazil's Pension System



3. Constitutional reform of 1998

- 1.7 In December 1998, the National Congress passed Amendment 20, which modified Articles 201 and 202 of the Constitution concerning the RGPS, and Article 40 concerning the RPPs, and defined the new pension model for Brazil, essentially as a contribution system in actuarial and financial equilibrium. In November 1999, this constitutional amendment was enacted with the approval of Law 9.876, which introduced definitions and substantive changes that enable the system to: (i) establish a link between contributions and benefits for each RGPS member, using a new method to calculate retirement salary based on actuarial criteria, known as the "pension factor";¹ (ii) stimulate broader coverage by the system; (iii) lay the general foundations for unifying the public-sector schemes (RPPs) and the private-sector scheme (RGPS) over the long term, thus helping gradually to eliminate the disparity that exists between the federal public-sector scheme and the schemes of the sub-national governments (e.g. 27 state schemes and 2,200 different municipal schemes for a total of 5,507 municipalities); and (iii) promote the development of complementary schemes (RCs) for public-sector schemes (RPPs) and the private-sector scheme (RGPS).
- 1.8 In addition to establishing a link between contributions and benefits in the RGPS by applying the pension factor, the reform introduced a maximum benefit of up to US\$596 (R\$1,430), and a rule setting a minimum of 15 years of contribution, which opens up the possibility that the scheme may improve its inflows over the long-run. At the same time, the creation of individual accounts enables individuals to be informed of their cumulative retirement benefits continually throughout their working life, which will help create a climate of greater confidence in the system.
- 1.9 With regard to the coverage of RGPS, the reform introduced the following significant measures: (i) abolition of the "base salary" scale, which lowered protections for members as their contributions were based on the minimum wage rather than on their reported overall income level, and it contributes to heightening members' expectations concerning their benefits while attracting additional voluntary registrations from other workers who have not participated previously in the system; (ii) reduction of the contribution rate from 20% to 11% for self-employed workers, which will help attract additional registrations from such workers, ultimately increasing revenue levels; and (iii) expanding maternity benefits to include all self-employed working women, which may attract a significant number of women who do not currently participate in the system, particularly those who have recently entered the labor market.
- 1.10 One of the basic reforms relating to RPPs occurred at the municipal level with the establishment of two groups of municipalities. Municipalities with fewer than one thousand civil servants are required to participate in the RGPS scheme, while

¹ The pension factor is a formula that combines the rates of contribution with actuarial factors such as age, life expectancy, and years of contribution, and that adjusts the average of 80% of the highest salaries received, over a period of time defined by the law starting in July 1994 until the time of retirement.

municipalities with more than one thousand civil servants may have their own public-sector pension schemes. Moreover, the law establishes that only municipalities with a population greater than 450,000 inhabitants may have their own schemes. Some 200 municipalities are estimated to meet these requirements.

- 1.11 Finally, with regard to the long-term unification of the public-sector schemes (RPPs) under the regulations of the private-sector scheme (RGPS), Amendment 20 and a set of additional regulations have managed to introduce the concepts and changes explained in Table I-2. The National Congress is also considering various bills proposing new regulations to promote the unification and supervision of the RCs, including: (i) general rules for the complementary pension scheme; (ii) regulation of public-sector contributions for organizing pension funds; and (iii) regulation of complementary pension schemes for civil servants.

Table I-2: Mandate and principal measures to promote unification of the RPPs and the RGPS

The mandate for reform states that the RPPs must be contribution-based, and that the level of contributions must ensure their financial and actuarial balance. To that end, the RPPs must take the following measures into account, among others: (i) there will be only one pension source per civil-service position, and only if that position is classified as an active position; (ii) a minimum retirement age is introduced (men: 60 years, women: 55 years); (iii) a regulation is introduced concerning the minimum contribution period applicable for the RGPS (men: 35 years, women: 30 years), replacing the proportional retirement rule based on length of service; (iv) some of the special schemes for civil servants are eliminated (e.g. university teaching), introducing minimum contribution periods quite similar to those for the RGPS; (v) private-sector contracting regulations are applied, while also requiring new civil servants to remain in public service for a minimum period of 10 years, 5 years of which must be spent in the same post before they become eligible for retirement; (vi) the creation of Complementary Pension Funds (FPC) for the RPPs is allowed; these are voluntary and open to all civil servants, and a maximum benefit may be set (R\$1,430) as in the RGPS, as an incentive to encourage civil servants with high incomes to participate in these funds; (vii) public-sector assets may be privatized to finance the transition costs associated with the RPP reforms, thus contributing to their financial balance; and (viii) the current RGPS rule of keeping a proportion of 2 to 1 in employer-employee contributions will be applied.

4. Recent developments and trends

- 1.12 Among the recent changes in the overall system, two aspects in particular have had a significant impact on the system's financial stability. The first relates to excessively general rules and benefits for the systems' two schemes. For example, the retirement rule based on length of service provided a strong incentive to take early retirement, so that the typical retirement age was 39 for women, and 44 for men, with the additional aggravating factor that, in both schemes, retirement salaries were usually equal to the last salary earned prior to retirement. Consequently, replacement rates were greater than 100%, reflecting inequity in the system in favor of those with higher income levels. The second aspect involves various factors that led to stagnation in RGPS inflows, such as the structural trend in the labor market toward increased informal-sector work and outsourcing, high rates of contribution to the system (31%-34.5% of salary), and particularly the recessive economic climate of the past ten years, which together had an impact on

the decrease in the pension system's coverage of the overall population of employed persons in Brazil from 43% in 1993 to 40% in 1999.²

- 1.13 The combination of these factors, along with the generous assistance to rural workers introduced by the 1988 constitutional reform, accounts for the emergence of an RGPS deficit in the latter half of the 1990s. The deficit position of the RPPs was the result of even more generous benefits and retirement rules than in the RGPS, particularly those applicable to civil servants of the federal government, for whom the usual retirement totaled 120% to 150% of the last salary earned. A simple indicator of these differences is clear from a comparison of the proportion of employer to employee contributions between the two schemes. This comparison shows that while the proportion was 2 to 1 in the private sector, it was 7 to 1 in the public sector.
- 1.14 In summary, the increasing deficit position of the system is being brought about basically by the federal and state RPPs, as Table I-3 shows for the 1995-2000 period. In 1999, the deficit in the social security system was 4.8% of gross domestic product (GDP), equivalent to approximately half of all public-sector financing requirements. Partial information available for 2000 shows that the system's deficit has not changed significantly from the previous year, and was nearly equal to all public-sector financing requirements.

Table I-3: Changes in revenues, expenditures, and deficits in the General Pension Scheme and the Pension Scheme for Public-Sector Employees as a percentage of GDP – 1995-2000

	1995	1996	1997	1998	1999	2000
I – GENERAL SCHEME – INSS	(0.1)	(0.0)	(0.4)	(0.8)	(1.0)	(0.9)
Contributions (liquid revenues)	5.0	5.2	5.1	5.1	5.1	5.1
Pension Benefits	5.1	5.2	5.4	5.9	6.1	6.0
II – PUBLIC-SECTOR EMPLOYEE PENSIONS	(3.1)	(3.5)	(3.5)	(3.8)	(3.8)	(4.2)
Contributions	0.8	0.8	0.8	0.7	0.8	0.6
Expenditure w/ individuals out of the labor force and retirees	3.9	4.3	4.3	4.5	4.6	4.8
<i>Federal government</i>	<i>(2.0)</i>	<i>(1.8)</i>	<i>(1.8)</i>	<i>(2.0)</i>	<i>(2.1)</i>	<i>(2.0)</i>
Contributions	0.4	0.3	0.3	0.3	0.3	0.3
Expenditure w/ individuals out of the labor force and retirees	2.4	2.1	2.1	2.3	2.4	2.3
<i>States</i>	<i>(0.9)</i>	<i>(1.4)</i>	<i>(1.4)</i>	<i>(1.5)</i>	<i>(1.4)</i>	<i>(1.9)</i>
Contributions	0.4	0.5	0.4	0.4	0.5	0.3
Expenditure w/ individuals out of the labor force and retirees	1.3	1.9	1.8	1.9	1.9	2.2
<i>Municipalities *</i>	<i>(0.2)</i>	<i>(0.3)</i>	<i>(0.3)</i>	<i>(0.3)</i>	<i>(0.3)</i>	<i>(0.3)</i>
Contributions	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure w/ individuals out of the labor force and retirees	0.2	0.3	0.3	0.3	0.3	0.3
TOTAL	(3.2)	(3.5)	(3.9)	(4.6)	(4.8)	(5.1)
Contributions	5.8	6.0	5.8	5.8	5.9	5.7
Benefits	9.0	9.5	9.7	10.4	10.7	10.8

Source: MPAS, MF/SRF, MF/STN, MOG/Boletín Estadístico de Personal and INSS.

*Estimated

² Unlike other countries, the demographic factor of population aging has not played a significant role in the system's stability. However, this will be a critical factor over the next two decades, since the proportion of the population over age 60 in relation to the active population will increase from 12.5% to 20.3% in the period from 2000 to 2020.

5. Fiscal impact of the reform

- 1.15 In terms of the long-term fiscal impact of the reform, simulations indicate that assuming a moderate scenario of real economic growth at 3.5% of GDP annually, the RGPS deficit in 2020 would equal 1.03% of GDP, rather than 3.26% of GDP as would be the case without the reform. A partial simulation of the RPPs for federal civil servants only, the main hypothesis of which is that government contributions will match the 2-to-1 ratio with respect to member contributions as is the case with the RGPS, indicates that in 2020 the deficit of the RPPs would decrease to 1.33% of GDP, rather than 2.50% of GDP as would be the case without the reform. In summary, the combined fiscal impact of the two schemes would be equivalent to fiscal savings of 3.40% of GDP in 2020.
- 1.16 This scenario could improve if RGPS coverage also improves, and if the RPPs actually implement the expenditure limits mandated by the Fiscal Responsibility Act. The act requires that municipal governments not spend more than 60% of their total current revenues in payment of salaries, including payments of retirement benefits and pensions.
- 1.17 In conclusion, given the country's present demographics, the prospects for stabilizing the system by means of the reform are realistic. Nevertheless, the authorities are aware that in the future they will have to explore the possibility of introducing additional changes for both schemes, such as setting a minimum retirement age and reducing contribution rates to the RGPS, and further stimulating the development of complementary schemes. However, successful modernization of management of the overall pension system is a necessary condition in the short- and medium-term for these future changes.

B. Institutional framework

1. Management of the pension system

- 1.18 MPAS is responsible for managing the pension system at the federal level. To carry out its key functions, in its basic structure MPAS has three entities³ with characteristics and responsibilities that are distinct yet integrated and coordinated:

³ The MPAS structure also includes the Social Welfare Office (SEAS), a central entity responsible for implementing, consolidating, and promoting social welfare policies.

Table I-4: Basic Pension Entities of MPAS

Entity	Functional Level	Basic Responsibilities
SPS – <i>Secretaría de Previsión Social</i>	Central regulatory entity for private (RGPS) and public (RPP) pensions systems	<ul style="list-style-type: none"> To conduct studies and submit proposals for improving the policies and legal structure of the pension system (RGPS and RPP) To guide and supervise pension systems adopted by state and municipal governments (RPP)
SPC – <i>Secretaría de Previsión Complementaria</i>	Central regulatory entity for the complementary pension system	<ul style="list-style-type: none"> To conduct studies and submit proposals for improving the legal structure of the complementary pension system
INSS – <i>Instituto Nacional de Seguridad Social</i>	National – independent – operational entity for implementing RGPS policies and regulations, with over 1,000 decentralized units	<ul style="list-style-type: none"> To control, collect, and oversee private-sector contributions to the pension system, and to recognize and control benefits provided by the RGPS.

- 1.19 In terms of management and implementation of RPP policies and regulations, responsibilities are distributed in a decentralized manner among the three levels of government:

Table I-5: Distribution of Responsibilities (RPP)

Entity	Level	Basic responsibilities
<i>Ministry of Planning, Budget, and Management</i>	Federal, operational	To implement RPP policy and regulations for federal civil servants
<i>State Government Offices</i>	State, regulatory, and operational	To define the states' regulatory base, consistent with federal laws, and to manage and operate their own systems
<i>Municipal Government Offices</i>	Municipal, regulatory, and operational	To define the municipal regulatory base, consistent with federal laws, and to manage and operate their own systems

- 1.20 Over the past 10 years, MPAS has undergone continual shifts in their basic responsibilities. From 1990 to 1992, MPAS was responsible for administration of labor and social security; from 1993 to 1994, it was responsible for pensions only; and as of 1995, when it took on its present configuration, MPAS has also been responsible for social welfare.

2. Basic characteristics of the institutions

- 1.21 The SPS was established in 1998. The SPS directly assists the Minister of MPAS, and is responsible for the following aspects of the pension system: (i) to conduct studies and support the formulation of policies and guidelines; (ii) in coordination with the entities involved, to prepare and promote updates and reviews of cost/benefit plans; (iii) to guide, assist, regulate, and supervise activities relating to benefits and revenue inflows; (iv) to help streamline and simplify regulatory and institutional codes; and (v) to orient, supervise, and evaluate activities relating to the RGPS and the states' and municipalities' RPPs. The SPS employs a staff of 73, 34 of whom are at the professional level.

- 1.22 The purpose of the INSS, which was created in 1990, is: (i) to enhance the collection, oversight, and coverage of pension contributions; (iii) to manage the resources of the Pension and Social Welfare Fund;⁴ and (iii) to grant and maintain pension benefits. The INSS is responsible for granting, maintaining, and paying out some 20 million benefits, for a total disbursement in 2000 of over US\$32 billion. It controls approximately 3 million businesses with some 21 million employees, and some 6 million individual contributors, with total revenues in 2000 of US\$28 billion.
- 1.23 The INSS presently has approximately 40,000 civil servants, more than 50% of whom are classified as administrative officers. The Institute has a career track for tax auditors involving some 3,800 officers. The institution maintains a presence throughout Brazil, in order to carry out its work. In addition to its main decision-making bodies (Executive Board, General Counsel's Office, General Auditor's Office, and others) located in Brasilia, the structure includes: 10 supervisory offices that focus on institutional dissemination; 100 executive management offices that report directly to the Executive Board, and that focus on decentralizing services provided to the public, and 1,225 pension agencies responsible for conducting the institution's operations. The 2001 INSS budget is approximately US\$ 2.7 billion.
- 1.24 DATAPREV, a public enterprise linked to the MPAS, is responsible for the computerization of all entities in Brazil's pension system. Its responsibilities include: (i) processing the country's benefit payments using pension resources; (ii) processing contributions from individual contributors and businesses; and maintaining and updating the National Register of Social Benefits Information (CNIS), which contains information on workers, employees, individual contributors, employers, employment, and pay.

3. Problems and challenges of the institutions

- 1.25 The Constitutional Pension Reform and the Fiscal Responsibility Act, adopted in 1998 and 2000 respectively, strengthen and expand the responsibilities of MPAS at the federal level, and of the corresponding state and municipal entities at the sub-national level, mainly with respect to fiscal management principles: (i) planning and forecasting of revenue and expenditure; (ii) offsetting revenue and expenditure; (iii) transparency; (iv) setting up mechanisms to limit public expenditure; (v) risk prevention and correction of distortions that could affect the equilibrium of public accounts; and (vi) the contribution-based nature of the pension scheme, with financial and actuarial equilibrium.
- 1.26 Taking these principles into account, the federal government and MPAS noted that the main federal entities involved in this process—the INSS and the SPS—and the

⁴ With the introduction of the pension concept in Brazil's legal framework, the Federal Constitution of 1988 granted indexed sources of financing to the pension and social welfare budget, which is separate from the fiscal budget, including employer and employee payroll contributions. These contributions are the responsibility of MPAS, through the INSS. The Ministry of Finance is responsible for the other sources of financing.

state and municipal governments face significant institutional problems in terms of managing and operating the pension schemes efficiently.

- 1.27 The INSS has difficulties with: (i) low managerial and technical qualification to conduct its affairs using a results-based management approach; (ii) low levels of effectiveness in terms of controls of contributors, and collection and monitoring of contributions; (iii) poor recognition of rights to and control of benefits; (iv) unstable physical and technological conditions in the network that provides services to the public; (v) obsolete information systems and little or no integration, which can be corrected only through a total redesign of the system; and (vi) lack of a suitable organizational structure to manage information technology resources and to set priorities.
- 1.28 A more detailed analysis of these difficulties reveals problems in nearly all the basic processes and their respective systems within the INSS, such as: (i) *Register*: no single source of information integrating the various operational processes and their respective systems; (ii) *Declarations and payments*: no current account system; (iii) *Revenue inflows*: no systems integration, resulting in a fragmented view of contributors and problems in identifying and fighting fraud and evasion; (iv) *Benefits*: shortcomings in the benefits system encourage fraud (approximately 40% of all disability benefits granted, which account for some 15% of overall pension expenditure, are estimated to involve fraud); and (v) *Administrative and legal dispute resolution*: structures are inadequate to carry out their tasks, management information systems are lacking, and there is no access to the various information systems.
- 1.29 With regard to providing services to the public, over 80% of member service locations are in unstable physical condition, with inadequate and obsolete technology resources and poorly trained staff, which results in very low quality of service to the public. Additionally, the widely scattered geographical distribution of the agencies, without the support of a data communication network, makes it difficult or impossible to track and assess the results that MPAS achieves.
- 1.30 The SPS exhibits shortcomings in carrying out its new functions, in terms of: (i) poor managerial and technical qualifications, particularly with regard to preparation of actuarial calculations and supervising state and municipal pension systems; (ii) lack of monitoring and control systems and technologies; and (iii) minimal capacity to make investments to assist municipalities to design and manage their own pension systems.
- 1.31 Specifically, the problems facing the municipalities in terms of adapting their own pensions schemes indicate that the SPS will need to assist them in addressing these problems, which are: (i) *Regulatory framework*: the municipal governments have not adapted their organic laws to the new regulations of the Federal Constitution and the general legislation already passed, and there is a lack of regulations concerning complementary pension schemes for municipal civil servants; (ii) *Actuarial evaluation*: lack of actuarial studies to maintain the financial equilibrium of the municipalities' RPPs, as established in the constitutional reform;

(iii) *Organization and management*: the SPS and the municipal governments are insufficiently prepared to execute the tasks assigned to them, particularly with regard to actuarial, financial, and accounting issues; (iv) *Information and technology*: inadequate database and lack of integrated information systems to support the formulation of pension-related policies; and (v) *Asset management*: identification of sources of funding and a high percentage of liquid current revenue tied up in staff pay make it difficult to set up and capitalize pension asset funds.

4. Institutional development process of the INSS

- 1.32 In response to the constitutional reform of 1998, the process of modernizing the INSS began that same year, through actions to improve services to the public that were undertaken to make the system more efficient, fight fraud and provide better services to citizens. The **Service Improvement Program (PMA)** aims to reform all 1,225 pension agencies throughout the country, to modernize work processes, and computerize basic processes.⁵
- 1.33 Reform of the INSS structure was begun in 1999, with a view to changing its management model. The changes include: (i) implementation of the Executive Board; (ii) decentralization of decision making, with a 40% reduction in central administration overhead charges and transformation of centralized units from an executive orientation to a management focus; (iii) establishment of a comptroller's office focusing on the quality of services to the public; (iv) creation of a General Counsel's Office, with eight management areas to enforce collections from major debtors; and (v) placing the General Auditor's Office in charge of intelligence gathering on the operations of INSS staff involved with releasing resources and collecting revenues.
- 1.34 However, the progress made in terms of defining a new organizational structure was not initially based on a strategic and operational plan, nor was a human resources plan that includes far-reaching training of managers and service providers followed for the new managerial administration model.

5. Technical assistance from international organizations

- 1.35 In 1999, the **Support Program for State Pension System Reform (PARSEP)** was approved in the amount of US\$ 10 million, financed by the World Bank. The aim of this program, which is linked to the SPS, is to develop the institutional capacity of the entities that formulate pension-related policy for civil servants of the federal and state governments, so that the policy contributes to the financial and actuarial

⁵ The PMA achieved the following results as of mid June 2001: (i) establishment of 60 integrated service agencies and training of over 5,000 service providers; (ii) establishment of 3 telephone service centers—*PREVfone*; (iii) establishment of self-service kiosks - *PREVfácil*; (iv) establishment of 53 Advanced Mobile Service Units—*PREVMóvel*, including 51 vans that cover more than 200 municipalities, and 2 boats that reach populations along river banks in 26 municipalities in the northern area of the country, where some 600,000 persons live; and (v) granting citizen access to register information concerning individual contribution accounts, available at the CNIS, *PREVCidadão*.

viability of the pension systems. The program is presently in its final phase of execution.

- 1.36 The World Bank is also providing assistance to the MPAS within the framework of the **Pension System Modernization Project (PROAST)**, in the amount of US\$5.5 million, which includes preparation of the following components: (i) long-term strategic plan to align INSS management; (ii) the INSS Information Technology Master Plan (PDTI); (iii) MPAS institutional communication plan; and (iv) assessment of the quality of the CNIS database. These technical assistance components are at an advanced stage, with a disbursement level of 70%. Final approval of the plans is expected in the second half of 2001.
- 1.37 An IMF mission to follow up on previous assistance constituted another technical assistance operation benefiting MPAS, emphasizing the design and administrative aspects of the pension system reform now underway. The plans in development and the technical assistance operation are being evaluated, and will serve as basic elements of and support for the ongoing process of institutional modernization and strengthening.
- 1.38 Given the magnitude of the problems that INSS and SPS will have in implementing the changes that are mandated under this reform (see paragraphs 1.25-1.31), it has been determined that the progress made and the technical assistance provided to consolidate modernization of the pension system have been insufficient. However, the results of the World Bank's technical assistance operations laid the foundations for identifying and developing the proposed institutional strengthening program. The institutional capacity of the municipalities must be developed in order to complement the specific efforts relating to the states' RPPs (PARSEP). To that end, MPAS has request the Bank's support to promote the structural modernization of the INSS and the SPS.

C. The Bank's strategy and experience

- 1.39 The Bank's strategy established in the Country Paper approved in June 2000 focuses on four basic areas: (i) promoting and expanding modernization of the State; (ii) supporting efforts to improve competitiveness and market access for national production; (iii) reducing social inequalities and poverty; and (iv) addressing environmental and natural resources management issues.
- 1.40 The proposed program is consistent with the Bank's strategy and its activities will be coordinated with other projects in execution (see Table I-6, which also presents the Bank's experience in using the Institutional Development Support Methodology (MDI) developed by RE1/SC1).

Table I-6: Projects in execution in the context of government reform

Number	Description	Use of MDI
888/OC-BR	Modernization of the Capability of the Federal Revenue Secretariat	Yes
963/OC-ME	Reform of the System of Contractual Savings	No
980/OC-BR	National Fiscal Administration Program for the Brazilian States	Yes
1194/OC-BR	Program to Support the Brazilian Municipalities/Tax Administration	Yes
1042/OC-BR	Modernization of the Executive Branch of the Federal Government	No
1287/OC-AR	Modernizing the Córdoba Provincial Government	Yes
UR-0139	Montevideo Management Modernization Program	Yes
TC-99-12-01-7	Strengthening Financial and Budgetary Management of the Federal District Council	Yes

- 1.41 With regard to pension systems, the Bank has experience in supporting the implementation of programs of this kind at the national level, including: the Social Security Reform Program in Uruguay (921/OC-UR), the Social Security Reform Program in Venezuela (1097/OC-VE), and the Support Program for the Instituto Salvadoreño del Seguro Social (1265/OC-ES). At the sub-national level, the Bank has experience in implementing pension reforms in provincial pension funds in Argentina, through the Provincial Pension Fund Reform Program (961/OC-AR). Support for integrating the funds was successfully implemented in the context of the current fiscal pact.
- 1.42 In Brazil, the Bank has experience in supervising private pension funds through the technical cooperation operation for Strengthening the Secretariat of Complementary Pension Schemes (MIF/AT-171) approved in 1998. Implementation of that project was part of the design of the World Bank's sector program. The sector program included a technical assistance component that, in addition to carrying out tasks in the public sector that were similar to those included in the technical cooperation operation, also touched on some of the tasks addressed in the proposed program.

II. THE PROGRAM

A. Objectives

- 2.1 The program's general objective is to support modernization of the management of Brazil's pension system, within the context of the reform of the system approved by the National Congress on 15 December 1998. The program's specific objectives are:
- a. Modernization of the National Social Security Institute (INSS), which serves private-sector workers, in order to achieve greater efficiency, effectiveness, and transparency in the management and administration of the General Pension Scheme (RGPS), which serves member workers in the private sector; and
 - b. Strengthening the Pension Secretariat (SPS) to expand its technical assistance capacity at sub-national levels of government, specifically among municipalities, in order to assist them in formulating proposals for reform and in modernizing the management and administration of their Public-Sector Pension Schemes (RPP) for civil servants.
- 2.2 To achieve these objectives, the program includes two independent subprograms: 1. Modernization of the Administration of the General Pension Scheme (RGPS), and 2. Development of Public-Sector Pension Schemes (RPP).

B. Program strategy

- 2.3 MPAS initially requested Bank financing in the amount of US\$188 million. Owing to the innovative and complex nature of the program, the government authorized financing in two phases. The Bank agreed with the Brazilian authorities that the proposed program would require more than one project cycle, which is the reason for the multiphase modality. The grounds for this decision relate to the following features of the operation: (i) the program has clearly identified long-term objectives; (ii) a sequence of two successive loans will support the program, with specific objectives and indicators concerning the results attained for the first phase within the overall framework of general development objectives; (iii) there is a financial plan and general description of the investments required, which will be reviewed and adjusted during execution of the first phase; (iv) the program will support the development and strengthening of the management of institutions responsible for administering the pension system, centrally and in a number of pilot municipalities; and (v) the program includes the establishment of a well structured system of monitoring and evaluation, including means of verification of project status and defined indicators (triggers) for the second phase.
- 2.4 Additionally, the nature of the institutional modernization process at the INSS supports the need for a multiphase program, in that it: (i) requires a thorough transformation of procedures and routines, and of RGPS managerial and administrative practices; and (ii) involves a large number of information systems of various levels of importance and priority, to be modernized and integrated.

Consequently, the modernization of RGPS administration subprogram will be executed in two phases, the first over three years, and the second over two years. The municipal RPP development subprogram will be executed in its entirety during the first phase.

- 2.5 The multiphase strategy will allow for creation of a basis for the sustainable institutional development of the INSS, with activities during the first phase focusing on the three basic elements of institutional capacity: (i) **human resources**—training, particularly for service providers dealing directly with citizens, and providing services through electronic *self-service* processes; (ii) **methods and instruments**—developing and implementing methodologies to support work processes, mainly for analysis of market potential, forecasting revenues, and conducting collection and monitoring activities; and (iii) **information technology**—building a computer network, unifying databases, redesigning processes, developing systems, and implementing operational modules to ensure integration and control of revenue inflows, benefits, and dispute resolution, as well as logistics, which are fundamental for improving the services provided and for efficiency in resource utilization by decentralized units. When these actions are taken, the main pension functions will be strengthened, so that by the end of the third year, results will be achieved in terms of increased customer satisfaction, expansion of coverage and revenue inflows, and flexibility in recognition of pension benefits paid out and contributions paid in.
- 2.6 Annex I presents the program's strategic targets overall and for the first phase, as well as the triggers for the second phase (see Table II-1).

Table II-1: Triggers for the second phase

Coverage: Having 6.5 million individual contributors registered.
Benefits: Average time for granting of benefits through normal procedures reduced to 12 days.
Service to the public: Attain a customer satisfaction index of 65%, according to reference criteria in the MPAS communication plan.
Revenue Inflows: Increase in revenue inflows equal to 80% of GDP growth; and solvency of 50% of administratively allotted credits and 84% of the declared credits.
Institutional trigger: Database available and 900 units connected through the network; 100% of performance indicators defined; and 20,000 training sessions held.

- 2.7 Once a satisfactory evaluation has been received concerning the first phase, through execution and performance indicators, and once the triggers have been met, a second phase will be considered that aims to consolidate the modernization of the INSS overall. This second phase will focus mainly on: (i) consolidating strategic planning and the results-based management model, through evaluation and monitoring of the institutional actions and indicators implemented; (ii) comprehensive development of human resources by expanding training activities and ensuring that 100% of service providers and managers participate in the corporate education program; (iii) an increase in the number of electronic service locations and completion of the process of improving the physical premises of the central and decentralized units; and (iv) expansion and consolidation of the

technology resources used. The results obtained during the first phase will also serve as lessons learned for the second phase, if and when it is implemented.

- 2.8 The following tables present the correlation between the problems outlined in chapter I, the strategies for their resolution, and the components of the respective subprograms included in the program.

Table II-2: Correlation between Problems, Strategies, and INSS Project Components

Analysis of Problems	Strategies	Components
<u>Revenue:</u> <ul style="list-style-type: none"> • Small number of individual contributors • Ineffective control of contributors, revenue inflows, and monitoring of contributions • Fragmented view of contributors 	<ul style="list-style-type: none"> • Increase coverage (self-employed contributor base) • Fight evasion 	<ul style="list-style-type: none"> • Process integration
<u>Pension benefits:</u> <ul style="list-style-type: none"> • No link between contributions and benefits • Poor recognition of the right to and control of benefits • Benefits granted over long periods 	<ul style="list-style-type: none"> • Integration of contributor and beneficiary information (single account) • Fight fraud 	<ul style="list-style-type: none"> • Process integration • Service to the public
<u>Service to the Public:</u> <ul style="list-style-type: none"> • Unstable physical and technological conditions in the public service network • Staff poorly trained for their tasks • Lack of tracking and evaluation of results achieved by MPAS 	<ul style="list-style-type: none"> • Focus on the client • Human resources policy focusing on customer service 	<ul style="list-style-type: none"> • Strengthening management • Human resources • Service to the public
<u>Institutional Capacity:</u> <ul style="list-style-type: none"> • Low managerial and technical qualification • Lack of results-oriented management • No human resources policy • Lack of reliable information of decision making • Inadequate control of physical and financial resources and services 	<ul style="list-style-type: none"> • Results-based management model • PDTI – Information Technology Master Plan 	<ul style="list-style-type: none"> • Strengthening management • Process integration • Human resources

Table II-3: Correlation between Problems, Strategies, and SPS Project Components

Analysis of Problems	Strategies	Components
<u>Regulatory Framework:</u> <ul style="list-style-type: none"> • Municipal organic laws not adapted to the new regulations of the Federal Constitution and general legislation already passed • No regulation of complementary pension funds for municipal civil servants 	<ul style="list-style-type: none"> • Reform of the municipal legal framework 	
<u>Actuarial evaluation:</u> <ul style="list-style-type: none"> • Poor technical qualification to prepare actuarial calculations • Lack of actuarial studies to maintain the financial equilibrium of the municipal RPPs 	<ul style="list-style-type: none"> • Training plan • Institutionalization of the use of financial and actuarial projections 	<ul style="list-style-type: none"> • Strengthening the SPS • Support for the reform and management of municipal pension schemes <p>(These two components cover all activities for comprehensive implementation of the outlined strategies, in the form of pilot projects)</p>
<u>Organization and management:</u> <ul style="list-style-type: none"> • Poor managerial and technical qualification to supervise state and municipal pension systems • Municipal governments insufficiently prepared to manage municipal pension schemes 	<ul style="list-style-type: none"> • Training plan • New pension management model 	
<u>Information and technology:</u> <ul style="list-style-type: none"> • Inadequate registry databases • Lack of integrated information systems to formulate pension policies • Lack of monitoring and control systems and technologies 	<ul style="list-style-type: none"> • Process and systems integration 	
<u>Asset management:</u> <ul style="list-style-type: none"> • Lack of sources of funding to set up and capitalize asset pension funds • High percentage of liquid current revenue tied up in staff pay 	<ul style="list-style-type: none"> • New financing model for managing pension funds 	

C. Program dimensions

- 2.9 The program's subprograms, components, and activities are the product of joint efforts by the various agents in the MPAS/SPS/INSS, coordinated by the executive secretariat of MPAS through a unit set up for this purpose. The institutional development support methodology (MDI) developed by RE1/SC1 was used in preparing this program, along with the methodology specified in the logical framework.
- 2.10 Proportioning of the resources to finance the two subprograms, with their respective components and activities, was worked out with support from the MDI Information System (SIMDI), also developed by RE1/SC1. SIMDI allows identified resources for each activity to be broken down by investment category and the level of resources selected based on specific criteria in order to determine costs in a more accurate and uniform manner.
- 2.11 Determination of the program's dimensions was based on the following investment categories: (i) consulting: hiring individual consultants or consulting firms at the national and international level; (ii) training: contracting for courses, seminars, or

other forms of training, and conducting national or international technical visits; (iii) computer equipment: procurement and installation of hardware, computer networks, basic software, and applications systems; (iv) support and communications equipment: procurement of vehicles, communications instruments, and other assets; and (v) infrastructure: construction, renovation, and adaptation of physical premises.

- 2.12 The program's overall dimensions were set and structured for implementation in two phases with the support of SIMDI.

D. Structure of the first phase of the program

- 2.13 In keeping with the priorities set by MPAS, the first phase of the program focuses on executing the following two subprograms.

1. Modernization of RGPS Administration (US\$93.6 million)

- 2.14 This subprogram aims to strengthen the INSS through the following components and activities:

- a. **Strengthening management (US\$31.1 million):** Development and implementation of a new, efficient, and transparent model of administrative management. The key element of this component is the implementation of the INSS strategic plan that lays the foundations for a modern pension system. This new model will include results indicators that are consistent with the main objectives to be achieved by the plan. The component includes financing for the following resources, by area:

Area	Resources
Institutional organization	Consulting in organizational restructuring, computer hardware for <i>self-service</i> locations, support and communications equipment, and infrastructure for 96 service locations.
Revenue and collections	Consulting and training in revenue inflow methodology and the redesign of processes, work stations, and support and communications equipment.
Auditing and control	Consulting and training in techniques, procedures, and methodology of internal and corrective auditing, work stations, and support and communications equipment.
Pension benefits	Consulting in the redesign of procedures and recognition of rights, training in maintaining benefit payments, work stations and notebooks, and support and communications equipment.
Administrative dispute resolution	Consulting in the redesign of procedures, training in legislation, accounting, administrative and legal dispute resolution, and trial judgments.
Legal dispute resolution	Consulting in the redesign of processes and legal procedures, training in legal enforcement, notebooks for support.
Supervision	Consulting in the redesign of supervision processes and methodology, training in supervision procedures and methodology.
Legislation	Consulting and training in legislation and regulations.

Area	Resources
Logistics	Consulting in the redesign of procedures, training in pension accounting and in the process of managing documentation, transport, and material consumption.
Planning and societal participation	Consulting in management indicator models and training in tracking and evaluation methodologies.

- b. **Process integration (US\$57.8 million):** Development and implementation of a methodology and control mechanisms to support the integrated execution of activities relating to revenue inflows, controls, administrative and legal dispute resolution, and recognition of benefits. The basic element of this component is the implementation of the Information Technology Master Plan (PDIT) which includes: (i) a restructuring of the relationship between and responsibilities of MPAS/INSS/SPS and DATAPREV; (ii) prioritization of tasks to strengthen the institution technologically; (iii) setting regulations for administrative decentralization of the local service centers as provided in the new INSS structure; and (iv) change in the view of the beneficiary/client, which will involve integrating the revenue inflow and benefits systems, adopting a single identification code for insured persons. This component also includes the creation of an information technology management unit, which will be responsible for setting priorities and supervising the development and integration of all processes within the INSS. In this component, the program will finance:

Area	Resources
IT and hardware management	Training in information technology for members of the technology management unit, training in computer basics for INSS service providers, procurement and installation of a corporate data network integrating all INSS units, and procurement of laptops to support control activities.
Register and declarations	Consulting and training services for data models, data administration, database administration, and in systems for updating registers to modernize the National Register of Social Benefits Information (CNIS), and consulting to build the MPAS corporate database.
Information systems	Consulting to develop and implement the integrated pension information system: management system for performance indicators of the INSS units; control systems (expenditure, real assets, materials, transport activities, protocol, and internal communications); logistics management system; human resources management system; benefits management system; service system (medical expertise and professional rehabilitation); legal affairs management system; revenue administration system; audit computerization system; pension debit and credit accounting register; support system for monitoring operations; control system for administrative dispute resolution processes; and resources for training in the use of the new systems.

- c. **Human resources (US\$2.2 million):** Development and implementation of support mechanisms to strengthen human resources management. The key element of this component is the development and implementation of a human resources management plan that will include: (i) a review of personnel policies, including mobility, availability, hiring, promotion, and job and career descriptions; (ii) a quantitative and qualitative analysis of the organization chart; (iii) tracking and control of basic personnel administration activities; (iv) modernization of performance evaluation systems; (v) design and implementation of ongoing technical training programs and managerial development; and (vi) computerization of the employee register, creating mechanisms for updates and controls. In this component, the program will finance:

Area	Resources
Human Resources	Consulting in the redesign of processes, human resources management, and corporate education. Training in human resources management procedures, education programs, programs to improve customer service, and evaluation methodologies for corporate education programs.

- d. **Service to the public (US\$2.4 million):** Development and implementation of procedures and systems that promote better service to the public. This component includes: (i) systematization of procedures for providing services to the public in the various areas of the institution; (ii) implementing and improving *self-service* systems (Internet, call centers, etc.); and (iii) strengthening the benefits system, improving services to insured persons by training employees and implementing mechanisms to improve the customer service process. Implementation of a single identification code for each insured individual, as discussed in the second component, will be one of the most important factors in supporting this process. It is expected that all information concerning contributions and benefits will be available, and will serve as a basis for checking and cross-referencing information. The program will also support the development of a claims system that will provide a basis for authorities to monitor the level of customer satisfaction among the insured individuals, so that decisions may then be made to adjust the process. In this component, the program will finance:

Area	Resources
Service to citizens	Consulting services in reviewing and evaluating processes, and in self-service operations, and training in specialized services to citizens.
Data capture and dissemination	Consulting services for development of the integration institutional information system.

2. Development of Public-Sector Pension Schemes – RPP (US\$5.8 million):

- 2.15 The aim of this subprogram is to strengthen the capacity of the SPS to plan, provide technical assistance to, and supervise the RPPs, particularly at the municipal level. The subprogram will also support the development of seven pilot projects to create alternative models of legal frameworks and municipal pension management, to serve as examples to be used going forward by a set of 200 Brazilian municipalities. The subprogram includes the following two components:
- a. **Strengthening of the SPS:** This component seeks to strengthen the technical capacity of the SPS in its three basic functions: (i) supervising management of the RPPs for civil servants in municipal governments, and providing relevant technical training; (ii) supervising the development of registration and information systems integrating the databases of municipal RPPs; and (iii) preparing technical, legal, and institutional studies to support the reform and improvement of municipal RPP management, including specifically the preparation of financial and actuarial projections for them. To strengthen the SPS, the program will finance a training plan for technical officials of the secretariat, and specialized consulting in: (i) best practices in organizational reform and pension management models; and (ii) development of the legal framework for those models. The program will also finance the technical assistance and computer equipment needed to: (i) integrate the registry and information systems of the municipal RPPs, with special emphasis on information systems and consultation with members and the public in general; and (ii) strengthening supervision of the management of these RPPs.
 - b. **Support for the reform and management of municipal pension schemes:** This component will finance technical, legal, and institutional studies as well as the activities needed to prepare seven pilot projects for municipal pension system reform. These projects will adapt the seven RPPs to a pension system that is consistent with the constitutional mandate to establish financial and actuarial equilibrium in the RPPs. The regulations and procedures of the Operating Regulations will be followed in executing this component.
- 2.16 With regard to the second component, the SPS will formulate the municipal pilot projects in conjunction with the selected municipalities. The starting point will be the preparation of municipal pension databases and the integration of those databases into the pension information system. After that, long-term actuarial and

financial projections will be made for each municipal RPP. Based on these projections, various reform scenarios will be created, to identify the best viable alternative in each instance. Based on these alternatives, the reform projects themselves will consist of developing proposed legal frameworks and pension management models to be discussed at the municipal level with the segments of the public and society that are affected.

- 2.17 The main criteria agreed upon for selection of the seven municipalities were: (i) size: from 450,000 to 1,000,000 inhabitants (type C); from 1,000,001 to 5,000,000 inhabitants (type B); and more than 5,000,001 inhabitants (type A); (ii) regional diversity, to avoid political bias while maintaining a diversity of cases that is sufficiently representative of typical situations that will be encountered; and (iii) regularity with the INSS: municipalities must be current with their INSS accounts for all municipal civil servants registered with the secretariat. The municipalities selected in this way were: Campo Grande, Contagem, and Feira de Santana for type C; Belém and Curitiba for type B; and São Paulo for type A. (The seventh municipality has not yet been selected.)

3. Program coordination and administration (US\$ 3.2 million)

- 2.18 Resources are provided for program coordination and administration, including setting up the coordination and execution units: the program coordinating unit (PCU), the local executing unit of the INSS (UEL/INSS), and the local executing unit of the SPS (UEL/SPS). Technical assistance, training, physical structures, management systems, hardware and materials (details are presented in Table II-3) will be provided.

Table II-3: Description of investments in the coordinating and executing units

Setting up the units	<p><u>Expanded physical structure of the units</u></p> <p>1. Computer hardware: 1 server; 12 work stations; 1 datashow; and 2 notebooks</p> <p>2. Supporting equipment: office materials; copier; furniture</p> <p><u>Physical financial management system</u></p> <p>1. Consulting in system development</p> <p>2. Training in system use</p>
Program management	<p><u>Technical assistance to program management</u></p> <p>1. Consulting in multidisciplinary issues</p> <p><u>Technical cooperation between MPAS and UNDP</u></p> <p>1. Consulting in project document preparation and project implementation</p> <p><u>Preparation of project documentation</u></p> <p>1. Consulting in MDI</p> <p>2. Training in preparation of seminars and workshops</p> <p><u>Training the project team</u></p> <p>1. Training in instruments for project evaluation and monitoring</p> <p><u>Program dissemination</u></p> <p>1. Training: seminars and workshops</p> <p><u>Work plan</u></p> <p>1. Consulting in planning</p> <p><u>Procurement plan</u></p> <p>1. Consulting in planning</p> <p><u>Accounting plan</u></p> <p>1. Consulting in control processes and account presentation</p> <p><u>Contracting plan</u></p> <p>1. Consulting in supervision</p>

E. Cost and financing

- 2.19 The total cost of the two phases of the program is estimated at approximately US\$188 million. The total amount for the first phase is estimated at US\$114 million, of which US\$57 million comes from bank financing through Ordinary Capital (OC), and the remaining US\$57 million are the counterpart contribution of the Government of Brazil.

Table II-4: Terms and conditions of financing

Currency:	US\$
Interest rate:	Variable
Credit fee:	0.75%
Inspection and supervision:	1.0%
Amortization period:	20 years
Disbursement period:	3 years
Grace period:	3 years

Table II-5: CONSOLIDATED BUDGET FOR THE FIRST PHASE OF THE PROGRAM
(thousands of US\$)

	IDB	Government	Total	%
Management and administration:	348	2,889	3,237	3
UCP	247	2,250	2,497	
UEL-INSS	-	572	572	
UEL-SPS	101	67	168	
Modernization of the RGPS:	49,951	43,630	93,581	82
- Strengthening management	20,864	10,196	31,060	
- Process integration	25,016	32,843	57,859	
- Human resources	1,735	491	2,226	
- Service to the public	2,336	100	2,436	
Development of the RPPs:	3,498	2,332	5,830	5
- Strengthening the SPS	624	416	1,040	
- Support for reform and management of municipal pension schemes	2,874	1,916	4,790	
Sub-Total	53,797	48,851	102,648	90
Financial cost:	570	640	1,210	10
a. Credit fee	-	640	640	
b. Inspection and supervision (1%)	570	-	570	
Interest	-	5,900	5,900	
Contingencies	2,633	1,609	4,242	100.00
Total	57,000	57,000	114,000	

Table II-6: BUDGET BY INVESTMENT CATEGORY
(thousands of US\$)

	Consulting	Training	Computer Equipment	Support Equipment	Infra-structure	Total
Management and administration:	2,639	466	52	80	-	3,237
UCP	2,190	214	43	50	-	2,497
UEL-INSS	282	252	9	30	-	573
UEL-SPS	167	-	-	-	-	167
Modernization of the RGPS:	22,713	25,731	36,019	4,081	5,037	93,581
- Strengthening management	9,593	7,879	4,470	4,081	5,037	31,060
- Process integration	11,410	14,899	31,549	-	-	57,858
- Human resources	540	1,687	-	-	-	2,227
- Service to the public	1,170	1,266	-	-	-	2,436
Development of the RPPs:	3,008	1,425	730	667	-	5,830
- Strengthening the SPS	466	283	281	10	-	1,040
- Support for reform and management of municipal pension schemes	2,542	1,142	449	657	-	4,790
Total	28,360	27,622	36,801	4,828	5,037	102,648
%	27	27.5	36	4.5	5	100

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower is the Federative Republic of Brazil, and the program's executing agency is the Ministry of Pensions and Social Welfare (MPAS), through its Executive Secretariat.

B. Program execution and administration scheme

1. Program coordinating units

- 3.2 The executive secretariat of MPAS will be responsible to the Bank for the program, maintaining direct relations and setting the course of action for the operation. To that end, a program coordinating unit (PCU) has been established within the structure of the executive secretariat. For effective execution of the two subprograms, local executing units (UEL) will also be set up at INSS and SPS. The responsibilities and structures of the coordinating and executing units are described in Table III-1.

Table III-1: Coordinating and Executing Units

Program Coordinating Unit (PCU)	
<p>Creation and relationships: the PCU was created by ministerial resolution, and is under the direct supervision of the executive secretariat of MPAS</p> <p>Responsibilities: to carry out the program's administrative, financial, and technical functions as required for the planning, coordination, control, and evaluation of the subprograms and their components and activities.</p> <p>Structure:</p> <ul style="list-style-type: none"> • 1 general coordinator • 1 technical coordinator • 1 administrative coordinator • 1 financial coordinator • group of experts, and administrative support (civil servants or employees contracted to work full-time exclusively with the program) 	
INSS Local Executing Unit (UEL-INSS)	SPS Local Executing unit (UEL-SPS)
<p>Creation and relationships: to be created by ministerial resolution; will be under the direct supervision of the Office of the Chairman of the National Social Security Institute (INSS)</p> <p>Responsibilities: technical, operational, administrative, and financial coordination of the RGPS subprogram</p> <p>Structure:</p> <ul style="list-style-type: none"> • 1 general sub-coordinator • 1 administrative/financial sub-coordinator • 7 standing technical committees of the subprogram, relating to: management, human resources, logistics, information technology, benefits, revenue collection, and dispute resolution) 	<p>Creation and relationships: to be created by ministerial resolution; will be under the direct supervision of the Pension Secretariat (SPS)</p> <p>Responsibilities: technical, operational, administrative, and financial coordination of the RPP subprogram</p> <p>Structure:</p> <ul style="list-style-type: none"> • 1 general sub-coordinator (supervising four standing technical committees: management and human resources, technology, actuarial issues, and legislation) • 1 administrative/financial sub-coordinator

- 3.3 As a condition precedent to the first disbursement of the program, MPAS is to submit evidence, to the Bank's satisfaction, of the appointment of appropriate staff for the PCU. It is also to present evidence of the establishment of the UELs and appointment of their staff. As a minimum, the PCU should have the staff indicated in Table III-1.

2. Execution scheme by component

- 3.4 The program's components will be executed with coordination among the PCU, the UELs, and the relevant technical committees. In addition to providing general coordination for the program, the PCU is responsible for direct execution of the human resources and public services components, and for joint execution with the UEL-INSS of the strengthening management and process integration components. The UEL-SPS is responsible for direct execution of the strengthening the SPS component, and for the support for reform and management of municipal pension scheme component.
- 3.5 A legal instrument establishing the rights and obligations of MPAS and INSS will formalize the INSS as a sub-executing agency responsible for conducting bidding and procurement for RGPS subprogram equipment. **As a condition precedent to the first disbursement for the RGPS modernization subprogram, the executing agency will submit evidence to the Bank that the legal instrument regarding MPAS and INSS has entered into force.**
- 3.6 An information technology management unit will be established for the process integration component. The unit will be responsible for setting priorities and supervising the implementation and integration of all processes within the INSS. **As a condition precedent to the first disbursement for the RGPS modernization subprogram, the executing agency will submit evidence to the Bank that the information technology management unit has been established.**
- 3.7 An agreement will be reached between DATAPREV and INSS establishing DATAPREV's obligation to make its installations available to house the equipment purchased by INSS within the scope of the program. DATAPREV will also undertake to authorize access to its installations and to have the equipment operated by personnel designated by the INSS. **As a condition precedent to the first disbursement for the RGPS modernization subprogram, the executing agency will submit evidence to the Bank that the agreement between INSS and DATAPREV has entered into force.**
- 3.8 For the RPP subprogram, the support for the reform and management of municipal pension schemes component will be conducted jointly with seven pre-selected municipalities which will sign legal instruments with MPAS for implementation of the municipal projects. Execution of this component will be governed by Operating Regulations to include the regulations and procedures for implementing the subcomponents and the obligations and functions of the executing agency and other participating organizations. The Operating Regulations will also establish the eligibility criteria for activities to be financed under this component. **The entry into**

force of the Operating Regulations is a condition precedent to the first disbursement for the RPP development subprogram, as will be the Bank's acceptance of the draft legal instrument for municipal project execution, to be signed by MPAS and the municipalities.

C. Execution period and disbursement schedule

- 3.9 The first phase of the program will be carried out over 3 years, with the followed projected disbursement schedule:

Table III-2: DISBURSEMENT SCHEDULE - US\$ in thousands

Source	Year 1	Year 2	Year 3	Total
IDB	19,932	19,595	17,473	57,000
Counterpart	22,934	19,131	14,935	57,000
Total	42,866	38,726	32,408	114,000
% of total	37.6%	34.0%	28.4%	100.0%

D. Revolving fund

- 3.10 Financing resources will be disbursed through a revolving fund of up to 5% of the amount of the Bank's loan. A special bank account will be established to manage the resources of the revolving fund.

E. Accounting

- 3.11 The PCU will be responsible for: (i) keeping adequate financial and accounting records specific to the program that will allow the management of program resources to be identified separately from other resources administered by INSS and SPS; (ii) preparation of the consolidated financial statements for the program; (iii) submission to the Bank of requests for disbursement and supporting documentation for eligible expenditures; (iv) transferring financing resources to the co-executing agencies in accordance with the mechanism agreed upon in the operational manual; (v) preparation and submission to the Bank of semiannual reports on the revolving fund, within a 60-day period following the close of each half; and (vi) preparation of other financial reports required by the Bank.
- 3.12 The UELs are responsible for: (i) keeping adequate, specific, and separate accounting and financial records for the program; (ii) submitting accounts to the PCU concerning the use of resources from Bank financing and the local counterpart contribution; and (iii) preparation and submission of financial information required by the PCU.
- 3.13 The PCU and the UELs are responsible for keeping duly filed and referenced documentation concerning contracting and payments made using program resources. This documentation will be available for examination and inspection by auditors of the Federal Auditing Office and Bank staff, if so requested by the Bank.

- 3.14 The Financial Control of External Resources (COFRE) system developed by the PCU and DATAPREV will be used for financial and accounting control of the sources and uses of program resources. **The existence and functioning of a specific accounting and finance administration system and internal control system for the program acceptable to the Bank is a condition precedent to the first disbursement of the program.**
- 3.15 Given the nature of program execution and with a view to streamlining operational implementation, the ex post method will be used to verify supporting documentation for contracting and expenditures related to disbursement requests along with the information required concerning details of expenditures. The PCU and the UELs will keep the relevant original supporting documentation in their files (receipts, invoices, contracts, etc.).

F. Auditing

- 3.16 The PCU will submit the consolidated and audited financial statements of the program to the Bank within 120 days of the end of the fiscal year and throughout the program execution period. Within 60 days following the end of each half, the PCU will also submit a specific auditor's report to the Bank concerning the review of supporting documentation for disbursements requested from the Bank. The Federal Secretariat of the Comptroller at the Ministry of Economy will be responsible for the annual audit of the program and the semiannual audit of disbursement of resources from the Bank's financing and the local counterpart contribution, in accordance with the terms of reference previous agreed upon with the Bank. The Bank will review disbursements on an ex post basis.

G. Procurement of goods and services

- 3.17 Procurement of goods and contracting for construction and services will be handled in accordance with the Bank's procedures. The threshold amounts above which international competitive bidding is required are US\$5 million for construction contracts, US\$350,000 for procurement of goods and related services, and US\$200,000 for consulting services. A detailed procurement table is presented in Annex III.
- 3.18 After a six-month period of program execution and when it has been established that the processes for procurement of goods and contracting for related services are in compliance with the policies, practices, and procedures of the Bank, under the terms specified in Annexes B and C of the loan contract, the Bank may consider a request from the executing agency, with supporting documentation, for the adoption of an ex post review of such procurement and contracting. In these circumstances, the ex post review will be undertaken on a sampling basis for individual consulting contracts valued at less than US\$50,000, for consulting firms for amounts less than US\$100,000, and for equipment or works for amounts less than the equivalent of US\$350,000. If inconsistencies with Bank policies are discovered during the ex post review of the documentation and procedures used in selecting and contracting for consulting services and procurement procedures, these activities will not be

financed using program resources. Should this situation arise, the approach may be discontinued, returning to the previous reviews or establishing ex post reviews for other amounts.

- 3.19 The basic responsibility for procurement procedures rests with the executing agency, which will transfer these functions to the relevant units for program operations.

H. Recognition of expenditures

- 3.20 The executing agency has requested that the Bank recognize expenditures charged to the local counterpart contribution of the program for up to the equivalent of US\$10 million for the startup of program execution, specifically for the strengthening management and process integration components. These expenditures will be recognized from 12 June 2000 (date of the Government of Brazil's request to the Bank for program financing) until the date the program is approved, a period not to exceed 18 months. Since these expenditures are consistent with the activities defined within the program, the project team recommends that they be recognized, once it has been verified that the expenditures comply with requirements substantially similar to those established in the loan contract.

I. Monitoring and evaluation

- 3.21 It has been agreed that the MDI used during the preparation and design phase will also be used for program monitoring and evaluation. The MDI is an instrument that REI/SC1 uses to support borrowers at the various phases of development for institutional strengthening projects. It includes three specific methodologies: project preparation methodology (MEP), project supervision methodology (MSP), and outcome evaluation methodology (MER). A support manual for using these methodologies, SIMDI—the MDI information system, and a set of technical recommendations regarding institutional development and specific areas of public administration are used.
- 3.22 Indicators for outcomes, schedule compliance, and resource utilization have been defined in the context of the MDI. The executing agency and the Bank will use these instruments and the logical framework for program monitoring and evaluation.
- 3.23 The respective UELs will supervise RGPS and RPP project execution, in coordination with the PCU. The PCU and UEL-INSS will use technical resources of experts with the organization responsible for monitoring and oversight to monitor infrastructure construction work. Construction work will be supervised on site, based on three criteria: quality, time, and resource utilization. The executing agency will ensure that construction work complies with environmental protection procedures in accordance with local building codes and national regulations.
- 3.24 The UEL-SPS will supervise the support for the reform and management of municipal pension schemes component through: (i) technical supervision visits to

verify that planned activities are being carried out; and (ii) holding semiannual seminars to exchange experiences and disseminate lessons learned.

- 3.25 Every six months, the Bank will evaluate compliance with program goals. In addition to performing one or more evaluations regarding execution of specific activities and projects, the Bank and the executing agency will reach an agreement on the timing and form of these evaluations.
- 3.26 The executing agency will submit the following reports to the Bank for purposes of program monitoring:
- a. **Initial report.** This report, which is a condition precedent to the first disbursement, will include a detailed work plan for the first year that presents at least the following information: (i) a detailed work schedule for the subprograms and their components; (ii) a plan for hiring the consulting services; (iii) a training plan; and (iv) a list of the staff to be assigned exclusively to the program by the participating agencies.
 - b. **Semiannual reports.** 60 days after the end of each half during program execution, semiannual progress reports containing the following information will be submitted to the Bank: (i) the target attainment status; (ii) a detailed work schedule for the following 6 months, including the main goals and objectives; (iii) the main problems uncovered by the PCU that may place subprogram implementation at risk; and (iv) an evaluation of the activities, outcomes, and targets for the components and for the program as a whole.
 - c. **Special report:** Within the 24 hours following the entry into force of the contract, the executing agency is to present to the Bank a report containing an analysis of the program's impact on the public deficit.
 - d. **Final report:** Prior to the last disbursement, the executing agency will submit a final report for the program, containing at least the following information: (i) an analysis of the outcomes achieved by the program; (ii) the main obstacles faced during execution; and (iii) the conclusions and recommendations that may be taken into account in preparing future operations with characteristics similar to those of this program.
- 3.27 When at least 50% of the program's loan resources have been disbursed and at least an additional 25% of the resources have been committed, an evaluation of compliance with the conditions (triggers) set for beginning the second phase of the program will be performed.

IV. VIABILITY, BENEFITS, AND RISKS

A. Institutional viability

- 4.1 The government has made reforming the pension system a policy priority. Institutional viability is supported by the commitment to respond to the demand for better services to beneficiaries and to lower the fiscal deficit caused by distortions in the current system.
- 4.2 At the program execution level, there is clear interest and commitment on the part of MPAS. This commitment is confirmed by the fact that, during the program design and preparation stages, a significant number of experts from the institutions involved participated in the various team meetings, workshops, and technical meetings, and a high level of consensus was achieved. This strengthened the institution which, despite its relative inexperience in managing programs of this type and scale, ensures its capacity to serve as the executing agency.
- 4.3 Moreover, the use of the MDI methodology during program preparation made it possible early on to form the technical teams responsible for the design and subsequent implementation of program components. In keeping with the recommendations and guidelines established within the MDI, various technical teams were created, composed of directors, secretaries, and specialists in the various areas of MPAS and INSS. These teams, under the coordination of the executive secretariat of MPAS, were responsible for defining the subprograms and their components, and for defining the activities and the resources needed to implement them.
- 4.4 With regard to the Municipal RPP subprogram, SPS also selected MDI as the methodology for conducting the municipal pilot projects. This will provide for a high degree of coordination and support by MPAS for the various municipalities during the project preparation phase.

B. Social and environmental impact

- 4.5 The Committee on Environment and Social Impact (CESI) approved Profile II of this operation on 23 February 2001. CESI recommended verifying that MPAS ensures that reconstruction and renovation work on service locations complies with environmental protection procedures pursuant to local building codes and national regulations, to guarantee the safety and agreement of the community. CESI also requested that a description be included of how the information available in the systems may be used to monitor the situation of coverage and benefits paid in various categories by gender. The possibility of using the information for this purpose will be based on the MPAS Pension Report (monthly report), which includes permanent information and ongoing surveys on three categories of beneficiaries: self-employed persons (domestic workers, others self-employed), and employees of businesses. This information system will generate adequate

information in order to monitor the situation of coverage and benefits paid in various categories by gender.

C. Benefits

- 4.6 The main benefits of the subprogram will derive from implementation of new integrated information systems and new management and administration models for the pension system. These new systems will ensure greater quality, transparency, and control in managing beneficiaries' information. This, in turn, will significantly improve the services provided to beneficiaries.
- 4.7 With regard to the RGPS subprogram, modernization of the agencies and service mechanisms, including mobile service locations, self-service sites, and Internet-based services, will directly benefit more than 25 million system members and 3 million private-sector companies.
- 4.8 Improved control and system security will also help improve efficiency and effectiveness in management of the benefits paid out by INSS, which now amount to more than US\$30 billion annually. A substantial decrease in errors and fraud, and better quality of service, will provide for savings on the order of 10 to 20% of benefits paid.
- 4.9 Transparency in INSS management will also lend greater credibility to the pension system in the eyes of the public, which is expected to lead to an increase in system coverage.
- 4.10 The Municipal RPP subprogram will directly benefit seven of Brazil's major municipalities during development of its reforms and defining new management models for the municipal public-sector pension scheme. The experience gained in these municipalities, and the conducting of studies and preparation of alternative models, will indirectly benefit the 200 largest municipalities in Brazil, which must implement their own pension schemes for the public sector.
- 4.11 Finally, the increased credibility among citizens for the government's actions in this area will help support additional reforms in the medium and long terms that are still pending in this and other areas of public activity. Implementation of the program will also help improve the Brazilian pension system, and in the long term will have a positive impact on the fiscal adjustment process.

D. Risks

- 4.12 For the RGPS subprogram, the main risk identified in terms of attaining the program's objective is creating consensus on priorities for institutional changes within the INSS. The MPAS, which is aware of this risk, has established the INSS Executive Board and the Technology Committee, and prepared strategic management and information technology plans. These initiatives have allowed consensus to be created on key issues, which was a fundamental factor in program preparation. Additionally, the use of MDI was effective in helping form

interdisciplinary work teams, and helped achieve the institutional consensus needed for the development phase. It will provide basic support for the program implementation process.

- 4.13 Another risk identified relates to the classic problem of resistance among civil servants to institutional changes during organizational restructuring processes. To minimize this risk, over the past two years MPAS has been implementing an institutional change strategy that consists of naming 100 civil servants as executive managers responsible for coordinating the entire process of institutional change within INSS. MDI incorporates techniques that help minimize civil servants' level of resistance to institutional change. Thus, at the program level, executive managers were involved in planning, and will be responsible for coordination operations.
- 4.14 With regard to the Municipal RPP subprogram, the main risk relates to creating consensus at the municipal level to define the reforms for their own schemes. The strengthening of the SPS included within the program aims to resolve this problem by disseminating studies and alternative models of pension management, and holding discussion workshops with the various parties involved. As in the INSS subprogram, use of the techniques recommended in the MDI will help achieve consensus at an early stage.

PROGRAM TARGETS (BR-0327)
SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
(FIRST PHASE)

I - INSS/RGPS PROJECT

STRATEGIC TARGETS	FIRST PHASE TARGETS	TRIGGERS FOR SECOND PHASE
<p>Coverage</p> <p>- To increase the number of individual contributors (self-employed workers) from 5.8 million to 10 million by 2004.</p>	<p>Coverage</p> <p>- To increase the number of individual contributors from 5.8 million to 7 million by 2004.</p>	<p>Coverage</p> <p>- To have 6.5 million individual contributors registered.</p>
<p>Benefits</p> <p>- To reduce the average time for granting benefits using ordinary procedures from 16 days to 5 days by 2006.</p>	<p>Benefits</p> <p>- To reduce the average time for granting benefits using ordinary procedures from 16 days to 10 days by 2004.</p>	<p>Benefits</p> <p>- Average time for granting benefits using ordinary procedures reduced to 12 days by 2006.</p>
<p>Service to the public</p> <p>- To achieve a customer satisfaction index of 80% according to the reference criteria of the MPAS communication plan by 2006.</p>	<p>Service to the public</p> <p>- To achieve a customer satisfaction index of 70% according to the reference criteria of the MPAS communication plan by 2004.</p>	<p>Service to the public</p> <p>- To achieve a customer satisfaction index of 65%, according to the reference criteria of the MPAS communication plan.</p>
<p>Revenues</p> <p>- To guarantee annual revenue growth equal to 85% of annual growth in GDP by 2006</p> <p>- To guarantee the financial solvency of 80% of administratively allotted credits and 91% of the declared credits by 2006</p>	<p>Revenues</p> <p>- To guarantee annual revenue growth equal to 82% of annual growth in GDP by 2004.</p> <p>- To guarantee the financial solvency of 60% of administratively allotted credits and 86% of the declared credits by 2004.</p>	<p>Revenues</p> <p>- Annual revenue growth equal to 80% of annual growth in GDP.</p> <p>- Solvency of 50% of administratively allotted credits and 84% of the declared credits by 2006.</p>
<p>Institutional target</p> <p>- 100% of the INSS database and institutional network implemented by 2004.</p> <p>- 100% of units using results-based management model, implemented by 2004.</p> <p>- 70% of managers and civil servants trained by 2006.</p>	<p>Institutional target</p> <p>- 100% of the INSS database and institutional network implemented by 2004.</p> <p>- 100% of units using results-based management model, implemented by 2004.</p> <p>- 70% of managers and civil servants trained by 2004.</p>	<p>Institutional target</p> <p>- Database available and 900 units connected to the network.</p> <p>- 100% of performance indicators defined by 2006.</p> <p>- 20,000 training sessions held.</p>

PROGRAM TARGETS (BR-0327)
SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
(FIRST PHASE)

II - SPS/RPP PROJECT (FIRST AND ONLY PHASE)

STRENGTHENING THE SPS COMPONENT	SUPPORT FOR REFORM AND MANAGEMENT OF MUNICIPAL PENSION SCHEMES COMPONENT
	Register
Municipalities in the sample have updated pension databases linked to SIPREV by 2004.	100% of municipal service providers have registry data updated in 36 months. 100% of the database updated and linked through SIPREV in 36 months.
	Actuarial equilibrium
Municipalities in the sample have an actuarial evaluation performed by 2004.	100% of the municipal plans for charges and salaries have undergone an actuarial evaluation in 30 months.
	Legal Framework
Municipalities in the sample have a draft bill (RPP) prepared and discussed with the sectors of society involved, by 2004.	3 municipal discussion forums concerning the draft pension reform bill held in 36 months.
	Institutional Framework
	Management Model
Municipalities in the sample have a proposed pension management model prepared and discussed with the sectors of society involved, by 2004.	3 municipal forums to discuss the proposed new pension management model held in 36 months.
	Integration and dissemination
Municipal integration seminars held by 2004.	2 municipal pension forums held in 24 months.
	Training and equipment
Computer hardware units installed and networked at SPS by 2004.	80 units installed in the sample municipalities, in 36 months.
SPS units have implemented and evaluated strategic planning by 2004.	150 employees responsible for pension management in the sample municipalities received training, in 36 months.
SPS managers and civil servants trained by 2004.	

**SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
(FIRST PHASE)
SUMMARY LOGICAL FRAMEWORK**

Objectives	Modernization of RGPS Administration Subprogram	Development of Public-Sector Pension Schemes Subprogram
the institutional transformation of Brazil's pension system to make it more transparent, efficient, and improve the delivery of pension services to the beneficiaries.		
Modernization of the pension system (including the RGPS and RPPS) by implementing a management model that is actuarially balanced, built on efficient processes, and capable of expanding social security coverage.	Goal Improve the legal, operational, administrative, and, technological control and support mechanisms for collection, inspection, administrative and legal dispute settlement, and acknowledge of entitlement to benefits to ensure ongoing enhancement of client services.	Goal Strengthen the Ministry of Pensions and Social Security by way of the Pension Secretariat (SPS), to provide methodological support to the municipalities in the process of pension reform.
Improvement of the administration of the General Social Security Scheme (RGPS) and the management of the Public-Sector Pension Schemes	Purpose Strengthen the National Social Security Institute (INSS) in the areas of management, process integration, human resources, and client services.	Purpose Strengthen the technical capacity of the SPS and support the reform and management of municipal RPPS.
	Components <ol style="list-style-type: none"> 1. Strengthening of institutional management of INSS 2. Process integration 3. Human resources 4. Client services 	Components <ol style="list-style-type: none"> 1. Strengthening of SPS 2. Support for reform and management of municipal RPPs

SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
MODERNIZATION OF RGPS ADMINISTRATION SUBPROGRAM

Objectives	Indicators	Means of Verification	Assumptions
<p>legal, operational, and, technological control mechanisms for collection, administrative and legal management, and acknowledge of benefits to ensure ongoing of client services.</p>	<p>Strengthened INSS that is delivering efficient, effective services to Brazilian citizens.</p>	<p>Consultation on quality of service delivery</p> <p>Internal and external dissemination of best outcomes achieved as a result of the project</p> <p>Progress reports</p>	<ul style="list-style-type: none"> • Political factors • Level of employee commitment to the project and to the process of change under way in the agency, e.g., strategic plan, PDTI, etc. • Employees' resistance to change flowing from the project • Availability of counterpart • Delays in the procurement • Effective coordination and communication by the ministry and the pre-INSS with regard to project
<p>INSS in the areas of process integration, human resources, and client services</p>	<p>Strategic Targets</p> <p>Coverage</p> <ul style="list-style-type: none"> • Increase number of individual contributors from 5.8 million to 7 million by 2004 <p>Benefits</p> <ul style="list-style-type: none"> • Shorten average time of benefit delivery, under normal procedures, from 16 to 10 days by 2004 <p>Service to the public</p> <ul style="list-style-type: none"> • Reduce by 80% the number of complaints about INSS service delivery by 2004 <p>Revenues</p> <ul style="list-style-type: none"> • Reduce tax evasion by 25% (from current rate of 18%) by 2004 	<p>Consultation on quality of service delivery under the MPAS Communication Plan</p> <p>Internal and external dissemination of best outcomes achieved as a result of the project</p> <p>Progress reports</p>	

SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
MODERNIZATION OF RGPS ADMINISTRATION SUBPROGRAM

Objectives	Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none"> • Increase by 100% the annual revenue from credits that have been established but not registered by 2004 • Increase by 100% the annual revenue for credits in the area of legal dispute settlement by 2004 <p>Institutional</p> <ul style="list-style-type: none"> • Set up a corporate database for pensions, by December 2003 (integration CNIS, bases for collections, benefits, procurement, etc.) • Fully implement the INSS strategic plan by 2003 • Provide technical and managerial training to 70% of the agency's staff by 2004 • Implement the INSS corporate network by 2004: 600 units connected by 2002, 900 units by 2003, and 1,225 units by 2004 • Restructure career streams, position descriptions, salaries, and the organizational structure on the basis of demand from reengineered processes, by 2004 		

**SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
DEVELOPMENT OF PUBLIC-SECTOR SCHEMES SUBPROGRAM**

Objectives	Indicators	Means of Verification	Assumptions
<p>The Ministry of Pensions and Social Security, by way of the Pension Secretariat (SPS), to provide technical support to the states and municipalities in the area of pension reform.</p>	<p>Strengthened SPS that is delivering efficient, effective services to the states and municipalities under the pension reform.</p> <p>7 municipalities strengthened and in a position to reform their own pension systems and enact new legislation</p>	<p>Missions to follow up on work and outcomes</p> <p>Progress reports</p> <p>Seminars to disseminate progress made (best practices)</p>	<ul style="list-style-type: none"> • Political factors (support of Congress by enacting legislation) • High level of commitment of SPS employees • Resistance to change by SPS employees • Support and interest of clients of the municipalities) • Availability of counterpart funds • Delays in the procurement process • Effective coordination and communication by the Ministry of Pensions and Social Welfare, the municipalities, state governments, and other government agencies
<p>The Pension Secretariat (SPS) to implement municipal pension reform</p>	<p>Strategic Targets</p> <p>SPS strengthening</p> <ul style="list-style-type: none"> • 7 pilot projects in municipalities with RPPs, executed, monitored, and evaluated by 2004 • 45 SPS employees in charge of municipalities to receive technical and managerial training to supervise state and municipal pension systems, by 2004 • Strategic planning in 8 functional areas of SPS implemented and evaluated by 2004 	<p>All municipalities with strengthened infrastructure/7 municipalities</p> <p>All SPS units restructured/8 units</p>	

**SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT
DEVELOPMENT OF PUBLIC-SECTOR SCHEMES SUBPROGRAM**

Objectives	Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none"> • Modernize SPS information technology by purchasing all the hardware and software called for in the project, by 2004 • Complete updating of pension database covering all pilot municipalities • Provide technical assistance to 90 municipalities with RPPs by 2004 • Conduct 4 national-level seminars to disseminate information on pension reform by 2004 • Publish 7 books on pension reform by 2004 <p>Support for reform and management of municipal pension reform</p> <ul style="list-style-type: none"> • Complete an actuarial evaluation of all pilot municipalities by 2004 • Hold 14 seminars with agency employees and the community in the 7 pilot municipalities by 2004 • Provide training to 150 agency employees in charge of managing pensions in municipalities with RPPs, giving priority to pilot municipalities, by 2004 • Update and integrate pension database of the 7 sample municipalities, by 2004 		

TABLE OF PROCUREMENTS (BR-0327)
SUPPORT FOR MODERNIZATION OF PENSION SYSTEM MANAGEMENT

DESCRIPTION	ICB or other method (indicate)	Pre-qualification Yes/No	Publication			
			GPN	SPN		
			Previous Yes/No	Half/Year	Int.	Pu
of consulting services to implement a performance tracking model for INSS units US\$198,720.00	LCB	Yes	Yes	2nd/2001		
of companies to adapt the physical infrastructure of INSS service and management the new pension model 03 US\$5,449,500.00	ICB	Yes	Yes	2nd/2001	X	
of furnishings and other support equipment to adapt INSS service and management 03 US\$4,279,300.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to redesign the HR process and the quantitative and qualitative service providers in the INSS US\$504,950.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to prepare a corporate education plan US\$349,468.00	ICB	Yes	Yes	1st/2002	X	
of consulting services to implement corporate education programs and projects US\$144,852.00	LCB	Yes	Yes	2nd/2002		
of consulting services to prepare the procedures manual in the INSS logistics area US\$282,750.00	ICB	Yes	Yes	2nd/2002	X	
of consulting services to revise and integrate legislative measures US\$204,000.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to revise and systematize subscriber services procedures US\$1,328,000.00	ICB	Yes	Yes	1st/2003	X	

DESCRIPTION	ICB or other method (indicate)	Pre-qualification Yes/No	Publication			
			GPN	SPN		
			Previous	Half/Year	Pub	
			Yes/No		Int.	Ext.
of computer equipment (<i>Prev-Fácil</i> terminals) US\$2,000,000.00	ICB	Yes	Yes	2nd/2002	X	
of vehicles outfitted for providing consumer services (<i>Prev-Móvel</i>) US\$561,000.00	ICB	Yes	Yes	1st/2003	X	
of consulting services to redesign logistics processes US\$413,264.00	ICB	Yes	Yes	1st/2003	X	
of consulting services to redesign accounting procedures US\$225,000.00	ICB	Yes	Yes	2nd/2001	X	
of network hardware US\$5,270,850.00	ICB	Yes	Yes	2nd/2001	X	
of large-scale computer equipment US\$12,000,000.00	ICB	Yes	Yes	2nd/2002	X	
of consulting services to define and implement the INSS IT management model US\$4,547,760.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to prepare the management system for pension services US\$770,581.00	ICB	Yes	Yes	1st/2003	X	
of consulting services to prepare the benefits system US\$7,482,000.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to prepare the HR management system US\$304,950.00	ICB	Yes	Yes	1st/2002	X	
of consulting services to prepare the revenue inflow system US\$4,765,600.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to prepare the performance indicator management system for US\$156,780.00	LCB	Yes	Yes	2nd/2002	X	

DESCRIPTION	ICB or other method (indicate)	Pre-qualification Yes/No	Publication			
			GPN	SPN		
			Previous Yes/No	Half/Year	Int.	Pul
of consulting services to prepare the pension credit and debit accounting system US\$361,000.00	ICB	Yes	Yes	2nd/2002	X	
of consulting services to integrate and automate institutional data US\$550,300.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to redesign benefits and revenue inflow processes US\$12,959,750.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to modernize the National Register of Social Benefits Information US\$476,986.00	ICB	Yes	Yes	2nd/2001	X	
of consulting services to create, define, and implement the pension database US\$643,000.00	ICB	Yes	Yes	1st/2002	X	
of consulting services to redesign CRPS procedures US\$116,754.00	LCB	Yes	Yes	2nd/2001	X	
of consulting services to redesign procedures of the Office of Legal Affairs US\$3,182,830.00	ICB	Yes	Yes	2nd/2001	X	
of notebooks US\$4,137,500.00	ICB	Yes	Yes	2nd/2002	X	
VALUE OF PROCUREMENTS: US\$73,667,445.00						

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PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR TO THE FEDERATIVE REPUBLIC OF BRAZIL Program to Support the Modernization of the Pension System Management (PROPREV) – Phase I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Federative Republic of Brazil, as Borrower, for the purpose of granting it a loan to cooperate in the execution of the first phase of a Program to Support the Modernization of the Pension System Management. Such financing will be for the amount of up to fifty seven million dollars of the United States of America (US\$57,000,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.