

IMPROVING PUBLIC SECTOR PERFORMANCE

THROUGH INNOVATION AND
INTER-AGENCY COORDINATION



CASE STUDY FROM THE GLOBAL REPORT

Turning Around an Agency: The Manaus Finance Secretariat Introduces Results-Based Management



CASE STUDY 7

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Overview

In 2013, Manaus, the capital of Amazonas state in Brazil, was not managing its finances effectively and as a result, public services were lacking. Many secretariats, departments, and individuals lacked focus, a major impediment to improving financial management and service delivery. Understanding the need to improve worker performance in order to introduce much-needed reforms, the Secretariat of Finance introduced a new performance management strategy for all of its employees. Staff began working toward specific goals, and a new department within the secretariat closely monitored each individual's progress. The new focus on results helped the secretariat introduce new services for citizens and improve tax collection. As of 2018, the secretariat was beginning to work with other government departments to introduce similar performance management reforms.



MANAUS, BRAZIL

POPULATION (July 2017 est.)¹

207.7 million (Brazil)

2.130 million (Manaus)

GDP PER CAPITA (current US\$)

9,821.40² (Brazil, 2017 est.)

9,783.20³ (Manaus, 2015 est.)

INCOME GROUP³

Upper middle income

GOVERNMENT EFFECTIVENESS⁴

47.6%

¹IBGE, ²World Bank (2016), ³World Bank Staff Calculations, ⁴World Bank (2016), ⁵World Bank (2016)

Introduction

At the end of 2012, Manaus, the largest city in the Amazon rainforest region of Brazil, was in crisis. The municipal government was struggling to manage its finances, and had less than 20 million Brazilian reais cash on hand (about US\$9 million at the time), while owing more than 360 million reais (about US\$160 million) to suppliers. Similar to many municipalities in Brazil, Manaus had a weak tax collection system and relied heavily on transfers from the federal government (World Bank 2015b). Without strong revenue collection, the government did not have funds available to pay its suppliers, or to make the investments in health, education, and transport that its citizens demanded.

Part of the problem was poor management at the city's finance secretariat. The secretariat, responsible for revenue collection and the city's financial management, mostly relied on manual processes for all of its tasks, instead of adopting digital technologies that could improve efficiency. Poor staff motivation further contributed to the productivity problem. "The secretariat was very poorly managed," said Lourival Praia, who was the sub-secretary of budget and projects at the time. "There was no management plan, and workers had no targets to work towards. We desperately needed a new management model."

When newly elected mayor Arthur Virgílio took office at the beginning of 2013, he knew he had to turn the finance secretariat around. Manaus urgently needed to increase revenue, reduce unnecessary expenses, and start delivering better public services. Manaus was one of 12 cities selected to host the 2014 FIFA World Cup, and public services, particularly transport, had to be functioning efficiently before the tourists arrived.

Virgílio had a different management style than his predecessors. "The new mayor had a vision of the public sector as a big company," said Praia. "He wanted to treat public services as he would a business. The government had to earn revenue, and then invest that revenue in public services... It was very important to have a leader that believed in meritocracy and wanted to treat the public sector like a business."

The mayor appointed Ulisses Tapajós, a well-known retired businessman, as his incoming secretary

of finance. "All over Brazil, politicians often give positions like [secretariats] to their supporters," said Laura Zoratto, senior economist at the World Bank. "But this mayor brought in Tapajós based on his technical abilities... he had just retired from the private sector and wanted to make the city better."

Response

Tapajós had an ambitious vision for the city. He wanted to make Manaus one of the best places to live in Brazil and among the top five best-managed capital cities in the country. Reforming the finance secretariat was the first step toward achieving those goals. After improving financial management and increasing revenue, the city could begin investing more in services for its citizens.

Changing a culture within the secretariat

When Tapajós arrived at the secretariat, he quickly realized he had to change the culture of the institution and get civil servants motivated. Without committed, high performing staff, all the big reforms he had in mind would likely fail. With the mayor's backing, Tapajós brought in a team of business consultants to help instill a new results-focused culture within the secretariat. The consultants trained managers within the secretariat on how to build trust, credibility, and respect from their staff, and led workshops to build pride and camaraderie among civil servants. Next, the consultants trained every staff member in PDCA (Plan, Do, Check, Act) methodology, a popular management tool used to ensure follow-through on goals and for continuous improvement of business processes.

In July 2013, Tapajós created a new department within the finance secretariat to institutionalize the new PDCA methodology. The sub-secretary for management was charged with implementing results-based management institution-wide and working with other sub-secretaries on process improvement. The new sub-secretary had to train staff on how to develop indicators, targets, and action plans, and motivate staff to achieve them.



Some staff at the secretariat were reluctant to accept change, but came on board when they saw the direction the new secretary was leading the organization. “Initially, the workers did not want to change,” Praia said. “But after participating in the trainings, workers started to become more comfortable with the idea.”

At the same time the trainings were taking place, the secretariat began reforming its own information technology (IT) systems, and those of the entire government. “Tapajós asked to be in charge of Manaus’ IT, knowing that IT is a crucial element to modernize and streamline processes,” said Zoratto. “The Secretary of Finance became the Secretary of Finance and IT.”

The mayor set the secretariat an ambitious goal: to increase its revenue by 10% each year. If the secretariat achieved the goal, the mayor said, every employee would get an extra month’s salary at the end of the year. After spending 2013 training staff and improving IT infrastructure, the secretariat was ready to get to work in 2014 to make internal processes more efficient, provide better services to taxpayers, and increase tax collection.

Setting goals

Based on the institutional goal of increasing revenue for the city by 10%, the secretariat began setting targets for each of its different departments. Tapajós and his management team looked at every department and every process within each department to find ways to increase revenue.

At the time, there was huge room for improvement in tax collection. The state collected two main taxes, a property tax and a tax on services, and together they accounted for less than 25% of state revenue. Property tax collection was particularly poor: there was an estimated 550,000 properties in Manaus, but only 150,000 were included in the property cadaster and only about half of those actually paid tax (World Bank 2015b).

Increasing property registration and improving collection of taxes from already-registered properties were just two of dozens of goals created by the secretariat. Another major goal included introducing an electronic procurement system. To enact that

reform, the secretariat sought advice from the state government of Amazonas, which had overhauled its procurement systems just a couple of years earlier (Zoratto 2016). Creating partnerships and learning from others’ experience was another strategy adopted by the secretariat to accelerate the pace of reforms. “Tapajós reached out to other governments that were already achieving what he wanted to achieve,” said Zoratto. “Learning about procurement from the state government was just one example of that.”

In 2014, the finance secretariat began negotiating a US\$150 million development policy loan with the World Bank to help finance its reforms. Zoratto said the secretariat used the agreement to strengthen its commitment to achieve Tapajós’s goals. “Tapajós accelerated and locked-in reforms by including overambitious targets as indicators of their DPO (development policy operation) with the World Bank,” she said. “It served as an external enforcement to implement difficult reforms, such as procurement.”

Following the goal setting model taught by the consultants the previous year, all employees at the finance secretariat set two main goals for 2014 in collaboration with their managers. The goals were quantifiable, and broken down into monthly targets. The goals were added to the secretariat’s new performance evaluation system, which the sub-secretary for management had created to monitor progress.

Each employee signed an agreement with their manager to achieve the yearly goals and monthly targets agreed upon. “The goals are negotiated between managers and their staff,” said Praia. “The goals cannot be imposed on staff. If the worker did not agree with the goal, they would not sign the form.”

To ensure full commitment to the agreement, the secretariat linked achievement of the goals to the employee’s salary. “The signed forms are legal documents that can be checked by the public auditor,” said Praia. “Part of the worker’s salary depends on achieving the goals. If they fail to meet targets, they are penalized.”

Working with their managers and the sub-secretary for management, each worker devised an action plan outlining how they would achieve their targets month

by month. Each plan followed a standard template devised by the sub-secretary that detailed what would be achieved, why it was important, how it would be achieved, who was responsible, and when it would be achieved by.

The new performance-based way of working fundamentally changed the day-to-day culture of the secretariat. “Now, civil servants do not arrive to work wondering what they are going to do today,” said Praia. “They have goals, they have a plan, and they know exactly what they are going to do.”

Monitoring progress and solving problems

To ensure follow-through on the goals, the sub-secretary set up a monitoring system to follow each individual’s progress. Managers uploaded documentation on achievements in real time to the performance evaluation system and set aside time every Monday from 3.00 pm to 5.00 pm to check progress, identify obstacles, and solve problems.

If any employee encountered a roadblock, they could work with their managers to analyze the problem and find a solution. In some cases, difficult situations called for collaboration between different sub-secretaries, or intervention from Tapajós or other senior management. For example, increasing property tax payments required the secretariat to improve communication with property owners across the city. Different units within the secretariat collaborated to create radio advertisements and a broad social media campaign.

While collaboration between different sub-secretaries had been disjointed in the past, joint trainings and an emphasis on teamwork from top management broke silos within and between secretariats. “Usually coordination is very difficult, with staff sending memos and following official procedures,” said Zoratto. “In this case, the workers were constantly coordinating with each other by exchanging messages on WhatsApp [a popular smartphone messaging application].”

Each worker had to strive to meet their targets, or they would see their pay docked at the end of the month. “To receive 100% of their monthly salary, each civil

servant has to meet at least 75% of their goal [for that month],” said Praia. “If they do not meet 75% of their goal, they do not get paid their full salary.”

Targets were designed to be ambitious but achievable, and some workers struggled initially. “In the first instance, the worker feels mad when they lose their salary,” said Praia. “But the intention is not to take people’s salary, the intention is to get people working hard.” Each employee agreed to the targets set, and had no recourse if they did not achieve them other than to work harder the next month to ensure their salary was not docked again.

Reflections

Five years after introducing results-based management reforms at the Secretariat of Finance in Manaus, there were clear indications the changes had been effective.

In 2017, Manaus was ranked first of all Brazilian state capitals and 33rd of all Brazilian municipalities in the FIRJAN Fiscal Management Index. The index, created by the Federation of Industries in Rio de Janeiro State (FIRJAN, an organization that promotes business competitiveness), evaluated more than 5,000 municipalities across Brazil according to their capacity to manage revenue and expenditures. In 2013, Manaus had been ranked 1,200th out of the cities evaluated.

The municipality revised and upgraded its property tax cadaster, reduced tax noncompliance, overhauled its procurement systems, and partnered with other governments to learn and adopt best practices in several areas, including upgrading urban transport and monitoring bus concessions. Another reform created a marketplace, designed as a tourist attraction, to give physical workspace to street vendors and incorporate them into the formal economy.

The finance secretariat also developed more citizen-centric services using its enhanced IT capacity, such as an online information portal. The portal provided assistance to citizens, businesses, and the self-employed, and allowed individuals and companies to submit tax payments online.¹⁶ Other IT reforms replaced outdated paper-based processes and allowed

for faster and cheaper electronic communication between citizens and the secretariat, and between the secretariat and other parts of the Manaus government.

Despite Brazil's dismal economic performance during the same period, Manaus increased revenue between 2014 and 2018. The increased revenue stabilized the city's finances and enabled the government to invest more in services for citizens, including building new roads, upgrading bridges, and improving schools. For example, the education secretariat rolled out a new management model in primary schools that provided monetary incentives for school directors to achieve specific targets, and in 2016 Manaus was ranked 11th out of all state capitals according to Brazil's Basic School Development Index (an improvement from their 2014 ranking of 18th) (Amazonas Atual 2016).

Workers within the finance secretariat were far more motivated than they had been before the management reforms took place. "In Brazil, there is an entrenched culture within the civil service to not work hard," said Praia. "The goals became the stimulus to change that."

The management reforms required strong support from the secretary of the institution, Ulisses Tapajós, and the city mayor, Arthur Virgílio. With strong and motivated managers, the system would be highly replicable in any government organization. Virgílio was trying to use the finance secretariat's experience to improve productivity across the Manaus government. "We are now trying to replicate the system in all the other secretariats in Manaus," said Praia, who took over from Tapajós when he resigned due to health problems in 2017. "We started working with the education secretariat in mid-2017, and we are planning to start working with the health secretariat this year. After we have set up the system in those two big secretariats we will start working with the smaller secretariats."

Manaus's success proved that results-based management reforms could be implemented even when facing the toughest financial situations. "There is a perception that governments cannot do results-based management when in a difficult fiscal situation," said Zoratto. "But you don't need money to pay extra salaries to create a new culture. You can start by creating work plans for people, having weekly

meetings, motivating people, and creating a purpose for their work."

The finance secretariat's focus on changing the culture within its own agency, as well as in other government offices, made it a unique example within Brazil. "Results-based management has been implemented in other sub-national governments in Brazil, for example in the state of Minas Gerais," said Zoratto. "But the Manaus case is innovative because it was low-cost, gradual, and focused on changing culture, with bonuses that were contingent on revenue increases added at a later stage." At the same time, only time will tell whether this approach is sustainable. It operates mostly on positive incentives, with limited options to dismiss non-performing staff. Yet as the reform takes root, there are possibilities for tweaking its design and addressing these shortcomings.

Although the finance secretariat did not reach its goal of increasing revenue collection by 10% each year in the first four years of the management reforms, staff expressed confidence that they would reach their target in 2018, and finally receive the bonus of an extra month's salary. "In 2016, we reached 87.61% of the target, while in 2017 we reached 99.27% of the target," said Praia. "Of course, the economic crisis of 2014–2017 negatively affected tax collection. However, because of our management model, we were less impacted by the crisis than the state and the rest of the capital cities."

Success Drivers

Manaus's experience in reforming its finance secretariat reflects **four** of the five key dimensions for successful public sector innovation.

Political leadership from the mayor and the head of the finance secretariat was the key driver behind the reforms. The new mayor took office with a business-minded management style and decided to appoint a strong manager to head the finance secretariat, instead of a political supporter. The head of the finance secretariat knew he needed a motivated workforce to achieve the ambitious reforms he envisioned, and led by example, instilling a culture of high performance throughout the secretariat. The mayor is now attempting to build on that success by having the secretariat lead reforms in different departments across the city's government.

Building **institutional capacity** was an important precursor to enacting any reforms in the finance secretariat. A team of business consultants trained staff on how to set goals using the secretariat's new results-focused methodology, and motivated them to achieve those goals. To ensure commitment to the new way of working, the head of the secretariat created a new department dedicated to training and motivating staff to set and achieve ambitious goals that would drive stronger performance across the institution.

Incentives facilitated performance improvement on multiple levels. First, the mayor set an ambitious goal for the secretariat and promised each employee a bonus if it was achieved. Within the secretariat, employees had to set two goals for each year and signed commitments to meet monthly targets towards achieving those goals. The secretariat tracked progress and checked in with all employees weekly to ensure no one was falling behind. In turn, political incentives were created by the secretariat by including its targets as indicators for the city's development policy operation with the World Bank. Although there was a financial incentive for the institution to achieve its goals, the Manaus experience suggests that it was not a critical feature, and that instilling a results-focused culture through work plans, trainings, and follow-up can be equally powerful to improve civil service performance.

Updating **technology** played an important role in the reforms. Replacing manual processes with digital ones was more efficient both for staff working in the finance secretariat and Manaus citizens interacting with the secretariat. The head of the secretariat placed new technologies at the center of all the secretariat's reforms, and also took over the city's IT department to facilitate the modernization and streamlining of processes across the city government.

