Board of Executive Directors

Short Procedure

Expires on 15 December 2017

PR-4560
8 December 2017
Original: Spanish
Public
Simultaneous Disclosure

To:	The Executive Directors
From:	The Secretary
Subject:	Brazil. Proposal for an individual loan for the “Fiscal Management Modernization Project for the State of Pará – PROFISCO II-PA”

Inquiries to: María Cristina Mac Dowell (telephone Country Office in Brazil 5561-3317-4238) or Patricia Bakaj (telephone Country Office in Brazil 5561-3317-4258)

Remarks: This is the third individual operation financed with resources from the Conditional Credit Line for Investment Projects (CCLIP) for the “Fiscal Management Modernization Program in Brazil – PROFISCO II” (document PR-4546), approved pursuant Resolution DE-113/17.

The Executive Directors are requested to inform the Secretary, in writing, no later than **15 December 2017**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Reference: GN-1838-1(7/94), DR-398-17(1/15), CS-3953-3(6/17), GN-2246-1(7/03), DE-58/03, GN-2246-4(12/06), DE-10/07, GN-2246-7(11/07), DE-164/07, GN-2246-9(9/16), DE-86/16, GN-2564-3(12/11), DE-225/11, PR-4546(11/17), DE-113/17, DE-114/17, PR-4559(12/17)

BRASIL

PROJECT TO MODERNIZE FISCAL MANAGEMENT IN THE STATE OF PARÁ - PROFISCO II-PA

(BR-L1499)

THIRD INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) BR-X1039 FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL - PROFISCO II

LOAN PROPOSAL

INFORMATIONAL NOTE TO THE BOARD OF EXECUTIVE DIRECTORS

In accordance with the Implementation Guidelines of the Access to Information Policy (document GN-1831-36), Management informs the Board of Executive Directors by means of this informational note that, during negotiation of the Loan Contract, the Borrowing Country expressed to have identified information that they consider as confidential in the Loan Proposal.

As a result, and in accordance with the disclosure exception “country-specific information” established in the Access to Information Policy, document GN-1831-28[1], the Bank will not publish the Optional Electronic Links (OEE) 4 and 6 of the Loan Proposal:

By virtue of the foregoing the project team will prepare a public version of the Loan Proposal that will exclude the confidential information requested by the Borrower Country and set forth in the respective minutes of the Loan Contract negotiation.

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[1] Access to Information Policy, document GN-1831-28, paragraph 4.1(i): “Country-specific information.The Bank will not disclose information that is contained within country-specific documents produced by the Bank if it has been identified in writing by countries as confidential or potentially damaging to its relations with the Bank”.

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF PARÁ
PROFISCO II – PA

(BR-L1499)

THIRD INDIVIDUAL LOAN OPERATION UNDER THE
CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)
FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Cristina MacDowell (FMM/CBR), Project Team Leader; Patricia Bakaj (FMM/CBR), Alternate Project Team Leader; Ana Dezolt (FMM/CBR); Santiago Schneider and Karina Briones (FMP/CBR); Guillermo Eschoyez (LEG/SGO); Haroldo Vieira (CSC/CBR); Lorena Kevish (IFD/FMM); and Flavio Galvão, Marcio Cracel, and Ricardo Gazel (consultants).

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2. Monitoring and evaluation plan
3. Procurement plan

Optional

1. Project economic analysis
2. Itemized budget
3. Problems, solutions, and policy matrix
4. Diagnostic assessment and fiscal management report
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ABBREVIATIONS

AGE	Auditoria-Geral do Estado [State Auditor General]
AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CEL	Comissão Especial de Licitação [Special Bidding Committee]
COFIEX	Comissão de Financiamento Externo [External Financing Commission, Ministry of Planning]
COGEF	Comissão de Gestão Fazendária [Fiscal Management Commission]
CONFAZ	Conselho Nacional de Política Fazendária [National Finance Policy Council]
CONJUR	Consultoría Jurídica da Secretaria de Fazenda do Estado do Pará [SEFA Legal Department]
ECD	Escrituração contábil digital [digital bookkeeping]
EFD	Escrituração fiscal digital [digital tax accounting]
ENAP	Escola Nacional de Administração Pública [National School of Public Administration]
ESAF	Escola de Administração Fazendária [School of Finance Administration]
FAPESPA	Fundação de Amparo a Pesquisa do Estado do Pará [State of Pará Research Support Foundation]
IAP	Implementation acceleration plan
IEF	Instituto de Estudios Fiscales [Institute of Fiscal Studies]
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [goods and services sales tax]
ICTs	Information and communication technologies
IPEA	Instituto de Pesquisa Econômica Aplicada [Institute of Applied Economic Research]
IPVA	Imposto sobre a propriedade de veículos automotores [motor vehicle ownership tax]
MD-GEFIS	Avaliação da Maturidade e Desempenho da Gestão Fiscal [Fiscal Management Maturity and Performance Assessment]
NBCASP	Normas Brasileiras de Contabilidade Aplicadas ao Setor Público [Brazilian Public Sector Accounting Standards]
NCI	Net current income
NFC-e	Nota fiscal de consumidor eletrônica [electronic sales invoice]
NF-e	Nota fiscal eletrônica [electronic tax invoice]
NPV	Net present value
PAF	Programa de Ajuste Fiscal [Fiscal Adjustment Program]
PCR	Project completion report
PCU	Project coordination unit
PGE	Procuradoria Geral do Estado [Office of the State Attorney General]
PMR	Program monitoring report
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for the Brazilian States]
PRODEPA	Empresa de Tecnologia da Informação e Comunicação do Estado do Pará [State of Pará Information and Communication Technology Enterprise]

PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Finance Administrations in Brazil]
SEAD	Secretaria de Estado da Administração [State Administration Secretariat]
SEFA	Secretaria de Estado da Fazenda [State Finance Secretariat]
SEPLAN	Secretaria de Estado de Planejamento [State Planning Secretariat]
SIAFEM	Sistema Integrado de Administração Financeira de Estados e Municípios [Integrated State and Municipal Financial Management System]
SIAT	Sistema Integrado de Administração Tributária [Integrated Tax Management System]
SIGOV	Sistema Integrado de Governança do Estado do Pará [State of Pará Integrated Governance System]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
STN	Secretaria do Tesouro Nacional [National Treasury Department]
TCE	Tribunal de Contas do Estado [State Audit Office]
UCI	Unidade de Controle Interno [Internal Oversight Unit]

PROJECT SUMMARY

BRAZIL
FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF PARÁ
PROFISCO II – PA
(BR-L1499)

THIRD INDIVIDUAL LOAN OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II (BR-X1039)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: State of Pará</td><th colspan="2">Flexible Financing Facility[a]</th></tr>
<tr><td>Amortization period:</td><td>25 years</td></tr>
<tr><td colspan="3">Guarantor: Federative Republic of Brazil</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing agency: State of Pará, acting through its State Finance Secretariat (SEFA)</td><td>Grace period:</td><td>5.5 years[b]</td></tr>
<tr><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><th>Source</th><th>Amount (US$)</th><th>%</th><td>Credit fee:</td><td>[c]</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>35.1 million</td><td>90%</td><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td>Local:</td><td>3.9 million</td><td>10%</td><td>Weighted average life (WAL):</td><td>15.25 years</td></tr>
<tr><td>Total:</td><td>39 million</td><td>100%</td><td>Currency of approval:</td><td>U.S. dollars</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objectives/description: The project objective is to contribute to the state’s fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. This project is the third individual loan operation under the PROFISCO II CCLIP (BR-X1039).</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) The borrower will adhere to the program Operating Regulations previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit (PCU) has been established, and its members appointed (see paragraph 3.4). For the special contractual conditions of a fiduciary nature, see Annex III, paragraph 4.1.
Special contractual execution conditions: Prior to the start of execution of activities with outputs deliverable directly to the Office of the State Attorney General (PGE) of Pará, the State Planning Secretariat (SEPLAN), the State Administration Secretariat (SEAD), or the State Auditor General (AGE), SEFA will sign a cooperation agreement with these agencies, establishing the roles and responsibilities of the parties during execution (see paragraph 3.5).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="5">Strategic Alignment</th></tr>
<tr><td>Challenges:[d]</td><td>SI ☐</td><td>PI ☑</td><td colspan="2">EI ☐</td></tr>
<tr><td>Crosscutting themes:[e]</td><td>GD ☐</td><td>CC ☐</td><td colspan="2">IC ☑</td></tr>
</table>

(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted, provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank’s lending charges, in accordance with the relevant policies.

(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problem, and rationale

1.1 This project is the third individual loan operation under the conditional credit line for investment projects PROFISCO II CCLIP (BR-X1039), which the Government of Brazil has requested from the Bank[1] to lock in the gains made under PROFISCO I CCLIP (BR-X1005) and continue with modernization of the fiscal management of the Brazilian states.

1.2 **Economic and fiscal features of Brazil.** Brazil is facing significant challenges in keeping its economy on a sustainable growth path. Its GDP contracted 3.8% in 2015, and 3.6% in 2016.[2] Recovery will be slow, with projected growth of just 0.2% for 2017 (see Table 1), and 2% in 2018.[3]

Table 1. Changes in Brazil's fiscal position, consolidated public sector, 2013-2017 (percentage of GDP)

	2013	2014	2015	2016	2017 projected
Revenue	34.5	32.6	31.2	32.7	31.6
Expenditure	37.4	38.6	41.4	41.6	40.7
Capital expenditure	2.2	2.3	1.8	1.7	1.6
Primary balance	1.7	-0.6	-1.9	-2.5	-2.3
Gross debt	60.2	62.3	72.5	78.3	81.2
Real GDP growth	3	0.5	-3.8	-3.6	0.2

* Source: World Economic and Financial Surveys.

1.3 The decline in economic activity caused the consolidated public sector revenue to fall significantly, representing a loss of resources of around two percentage points of national GDP between 2013 and 2016. Despite the downward trend in tax revenue intake, public expenditure climbed steadily over this period from 37.4% of national GDP in 2013 to 41.6% in 2016. Consequently, the primary balance has deteriorated in recent years, in comparison with previous periods, from an average primary surplus of 3.4% of national GDP in 2002-2008, to 1.3% in 2009-2015. In 2016, the primary deficit reached 2.5% of national GDP,[4] and the country is not expected to run a structural primary surplus again until 2019.[5] Public debt also rose by almost one third over three years from 60% of national GDP in 2013 to 78.6% in 2016, and is projected to reach 4.3% in 2021.[6]

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1 Office of the Minister of Finance. The project has a favorable recommendation from the External Financing Commission (COFIEX), No. 08/0121.

2 IBGE, 2017; IMF, 2017.

3 Banco Central do Brasil [Central Bank of Brazil], 2017.

4 Macroeconomic volatility forced the authorities to revise the primary balance targets in fiscal 2016 and 2017. IFI, 2017.

5 IMF, 2017.

6 IFI, 2017.

1.4 The recessionary setting had adversely impacted the fiscal performance of the Brazilian states. Tax revenue intake shrank from 7.6% of national GDP in 2008 to 6.9% in 2015. The goods and services sales tax (ICMS), which is the states' main source of tax revenue, declined by an average 6% in real terms from 6.7% of national GDP in 2013 to 6.5% in 2015. The positive outcomes of implementation of PROFISCO I, described in paragraph 1.20, helped prevent an even sharper drop. Moreover, federal government transfers lessened over this same period from 2.9% of national GDP to 2.5%.[7]

1.5 As state revenues weakened, current expenditure climbed steadily, driven by rising personnel costs, which went from 10.2% of national GDP in 2011 to 10.9% in 2015.[8] The primary balance began to deteriorate in 2012, recording primary deficits in three of the last four years. In 2015, 15 of the 27 states ran primary deficits.[9]

1.6 **Fiscal setting of the state.**[10] Although Pará's fiscal performance was one of the best among the states, the economic crisis hitting the country had a severe impact on its economy, giving rise to fiscal sustainability risks. Real growth of national GDP fell from 4.1% in 2014 to 0.2% in 2015, and declined 0.03% in 2016,[11] affecting ICMS revenues, which account for almost 82% of the state's tax revenues. ICMS revenues fell off sharply from real annual growth of 9.5% in 2006-2014 to mean annual real declines of 2.9% in 2015 and 2.6% in 2016.

1.7 The impact of the economic crisis on federal tax revenue intake and changes in the federal government's fiscal policy also affected the volume of resources shared out to state governments. The volume of resources transferred to the state went from average annual real growth of 7.2% in 2006-2014 to an annual reduction of 0.3% in the period 2015-2016.

1.8 Although the state's current expenditures have grown more slowly over the past two years as a result of measures to contain them (mean annual 0.2% from 2015 to 2016 versus 10.6% in 2006-2014), they still outpaced current income (annual -0.3% in 2015-2016). Personnel costs came to 52.9% of net current income (NCI) in 2015, above the alert threshold of the Fiscal Responsibility Law (54%). Fiscal adjustment measures have brought personnel costs down to 51.4% of NCI in 2016. Public investment has declined 50% in the last two years to just 0.7% of Para's state GDP in 2016. This anemic investment gradually diminished the state's ability to provide quality goods in the quantity demanded by its citizens. See Pará's fiscal performance.

1.9 The state's primary balance stood around 0.03% of Pará's state GDP in 2013-2016, showing a primary deficit in 2014 (-0.05% of state GDP). The state has a low level of indebtedness: net consolidated debt represented 9% of NCI in 2016 (See Pará's fiscal performance), below the 70% average reported by the states and the 200% cap on NCI.

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7 National Treasury Department (STN), 2016.

8 Rossi, 2016.

9 STN, 2016.

10 STN.

11 FAPESPA, 2017.

1.10 **Rationale.** Previous fiscal management modernization efforts, particularly PROFISCO I Pará (loan 2078/OC-BR),[12] minimized the impact of the economic crisis, contributing mainly to increased tax revenue.[13] The main actions were: (i) implementation of the Digital Public Accounting System (SPED),[14] [15] (ii) implementation of the electronic tax invoice (NF-e)[16] and electronic sales invoice (NFC-e);[17] (iii) implementation of a tool to support compliance actions;[18] (iv) use of electronic fiscal data in inspections of goods in transport;[19] and (v) rollout of taxpayer self-service terminals.[20] These actions were backed by major investments in new digital economy technologies, where Brazil is a pioneer in the use of electronic account receipts and electronic tax invoices. This operation will leverage these new technologies, mainly to handle the huge volume of information they generate intelligently.

1.11 Despite the progress made, the country's macroeconomic difficulties and the state's vulnerability highlight the urgency of implementing new fiscal management modernization initiatives in Pará, in order to balance the state's public accounts and consolidate its medium and long term fiscal sustainability. New complementary approaches are required to bolster Pará's fiscal performance. PROFISCO I Pará placed particular emphasis on improving tax administration and promoting the fiscal integration of the state with other levels of government through implementation of the Digital Public Accounting System (SPED). For its part, this project will pursue these lines of modernization further, and also promote: (i) strengthening the administration of public spending; (ii) utilization of SPED and digital technologies to improve electronic auditing, inspection, and public procurement; and (iii) simplifying tax compliance to boost the state's competitiveness.

1.12 The effectiveness and efficiency of public institutions is limited by the restrictions faced by their constituent public employees, access to information technology, availability of financial resources, and the legal framework (Arenas de Mesa, 2016, Finan et al., 2017). In this regard, Pará needs to address remaining weaknesses that limit its fiscal performance. In terms of human resources,[21] the State Finance Secretariat (SEFA) has a workforce of 1,462 but does not have a database or evaluation methodologies to support staff management. Moreover, the level of SEFA public officials' qualifications is generally low, with just 64% having higher level qualifications. There is also a limited range of training and skills development

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12 PCR 2078/OC-BR.

13 These increased by approximately US$1.5 billion in real terms from 2009-2016.

14 Digital system sending companies' accounting and tax books and documents to the three levels of government in an integrated way. Authorization to issue tax documents, which could take up to 30 days.

15 Mitone et al., 2014.

16 Obligatory for all active ICMS taxpayers.

17 In 2013, when the citizen's invoice was implemented, retail ICMS grew by 10.3% while total ICMS revenue growth was 8.8%.

18 Use of the electronic tax document in tax auditing allowed credits constituted to be increased by approximately US$45 million in 2014.

19 Real-terms increment of 39.3% in ICMS revenues through fiscal actions in December 2014 compared with the same month in 2013, and reduction in the average inspection time from 13 hours to 35 minutes.

20 Increase of 43% in online taxpayer services between 2008-2015 (from 49 to 87 services).

21 MD-GEFIS.

permitting SEFA officials to reach higher levels of qualification. SEFA devotes just 0.33% of its total budget to staff training and skills development programs. In terms of incentives, there are no meritocratic criteria for filling commissioned posts.

1.13 As regards technological infrastructure constraints,[22] SEFA's stock of technology, comprising approximately 1,327 workstations, is out-of-date, bearing in mind that almost half of all workstations have been in use for over four years and have limited processing power. The Integrated Tax Management System (SIAT), the main system in the tax area, does not include the required functionality, it runs on obsolete technology, and was written in a second-generation language, resulting in serious constraints on maintenance and upgrades.[23] SIAT is also difficult to integrate with other systems supplying fiscal management data (the courts, board of trade, State Audit Office – TCE, State Traffic Department – DETRAN) and does not make it possible to work efficiently over long-distance networks, causing problems in tax auditors' working routines and attending to citizens. The Integrated State and Municipal Financial Management System (SIAFEM) runs on an out-of-date platform in a first-generation language, making it extremely difficult to implement Brazilian Public Sector Accounting Standards (NBCASP). Lastly, SEFA has reached 72% of its servers' maximum storage and processing limit. Thus, technological developments, changing security threats, and the growing volume of data in recent years have created the need for an update. What is more, PROFISCO I's investments in SPED, NF-e and NFC-e between 2010 and 2015 represent investment opportunities to complement and update these systems.

1.14 Lastly, in relation to the legal framework, tax legislation is spread across at least four laws (ICMS, IPVA, ITCMD and levies),[24] which could be consolidated into a single text. The current situation adds complexity to tax administration, and makes the task of auditors, accountants, and taxpayers more difficult. There are four tax returns (GIAST, DIEF, DIAP, and Sintegra), which duplicate information and could also be consolidated into a single return.

1.15 There are also other important challenges to ensuring Pará's fiscal sustainability that were identified during the application of the Fiscal Management Maturity and Performance Assessment (MD-GEFIS).[25] The specific problems and their causes are outlined below.[26]

1.16 The **fiscal management** of the corporate processes relating to the governance of SEFA, its strategic management, personnel, technology, procurement, transparency, and fiscal citizenship, present a low level of maturity.[27] The underlying causes of this specific problem are:

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22 MD-GEFIS.

23 Approximately 50% of demands for system modifications and bug-fixes relate to SIAT. MD-GEFIS.

24 MD-GEFIS.

25 This methodology was developed by the IDB, the Fiscal Management Commission (COGEF), and the National Finance Policy Council (CONFAZ) to evaluate the level of maturity of states' fiscal management processes.

26 MD-GEFIS application matrix.

27 MD-GEFIS: Four dimensions reached an incipient level of maturity, one intermediate and one advanced.

a. Low level of strategic linkage between SEFA and its directorates and other state agencies[28] as a result of: (i) a lack of integration of state strategic planning and management procedures; (ii) an organizational structure that is not fit for purpose;[29] (iii) inadequate internal audit, disciplinary, and corrective procedures;[30] and (iv) the absence of an appropriate regulatory framework for information and communication technology (ICT) governance.[31]

b. Limited orientation towards results-based planning and management,[32] as a result of: (i) planning and operational procedures are not harmonized;[33] (ii) inadequate support is given to management targets; (iii) instruments for process management and programs are deficient;[34] and (iv) procedures for the preparation, monitoring, and evaluation of projects are inadequate.

c. Inefficient utilization of the workforce,[35] as a result of: (i) shortcomings in the management procedures for human resources development, competence mapping and evaluation of managers and officials; (ii) the low level of automation of personnel management procedures; and (iii) a training plan that is not competencies-based.

d. High risk of IT systems non-availability,[36] as a result of: (i) inadequate ICT planning;[37] (ii) an out-of-date strategy for information security; (iii) inappropriate contingency tools and procedures in the case of faults or disasters[38] and low performance of data communication links with tax units;[39] and (iv) inadequate hardware to meet the new demands of the state's fiscal modernization.[40]

e. Low utilization of economies in public procurement,[41] as a result of (i) weaknesses in procurement planning[42] and the low degree of automation of procurement management procedures; and (ii) weaknesses in asset management procedures.

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28 The main state agencies (Casa Civil, Planning and Administration Secretariats, Auditor General, Information Technology Enterprise, and state prosecutor's office) do not have an integrated management tool with SEFA.

29 The organizational structure in force dates back to 2005. MD-GEFIS.

30 Instruments based on risk management are not used to perform audits. MD-GEFIS.

31 MD-GEFIS.

32 Results-based management instruments are not used. MD-GEFIS.

33 The strategic objectives are only defined for the first level of SEFA. MD-GEFIS.

34 MD-GEFIS.

35 No assignment or training of staff was based on an evaluation of competencies in the last five years. MD-GEFIS.

36 In 2015, the tax authorities' systems were unavailable for 30 hours. MD-GEFIS.

37 Nonexistence of Information Technology Master Plan (PDTI) and Information Technology Strategic Plan (PETI). MD-GEFIS.

38 In the event of a disaster affecting the SEFA technology center, the corporate system recovery time is three months. MD-GEFIS.

39 40% of the links to tax authorities' units do not address systems access needs. MD-GEFIS.

40 If the amount of data stored continues to grow at current rates, storage will run out in 2018.

41 75 days to conduct an electronic auction. MD-GEFIS.

42 Inadequate standardization of support instruments (terms of reference, technical specifications, and contracts).

f. Somewhat ineffective communication with the public about tax matters,[43] as a result of: (i) the out-of-date state transparency portal; (ii) limited use of the latest technologies for communicating with the public; and (iii) insufficient tax-related information being made available to the public.

g. Limited efficiency of asset management[44] as a result of the inventory of state property and its management system being out of date.

1.17 The **tax administration's revenue intake** performance falls short of its potential[45] and the complexity of tax compliance has a negative impact on the business environment and saps the state's competitiveness.[46] The underlying causes of this specific problem are:

a. Difficulty completing the tax administration's main procedures and obligations, because: (i) the tax administration computer system is out of date; and (ii) the fiscal administration process is not automated.[47]

b. Shortcomings in the management of the taxpayer register,[48] as a result of: (i) limited integration of SPED data with other state returns; (ii) existence of multiple records of companies with government agencies;[49] and (iii) difficulty paying taxes on foreign trade.

c. Tax policy support instruments are out of date,[50] as a result of: (i) legislation that is scattered across various legislative instruments that are difficult to consult and interpret;[51] and (ii) weaknesses in the tax benefit management instruments, making the process of granting new benefits and evaluating the results and relevance of those that exist difficult.

d. Difficulty obtaining a comprehensive overview of taxpayers, complicating inspections and audits,[52] given that the tax information is out of date and spread across several government agencies.

e. Limited effectiveness of inspections and fiscal intelligence,[53] as a result of: (i) insufficient information to conduct large-scale preventive inspections and criteria with which to construct an effective fiscal net (moreover, information is

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43 Transparency index and tax citizenship (COGEF and IDB). In 2013, the State of Pará was rated at level D. The levels are A to D, with A being the highest. MD-GEFIS.

44 30 SEFA properties are at risk. MD-GEFIS.

45 The tax gap in the case of ICMS was 27.8% of potential receipts in 2014. Economic assessment. Tax evasion is estimated to represent 7.6% of GDP in Brazil. SINPROFAZ, 2016.

46 Pará was in 21st place out of 27 states plus DF in the 2016 Competitiveness Ranking, with a score of 38.7 versus an average of 50.3 for the other states. In Brazil, 2,038 hours/year are spent on tax compliance, compared with a regional average of 564 hours. No specific data is available for Pará. World Bank, 2017.

47 The average time required to process tax litigation is 970 days. MD-GEFIS.

48 The taxpayer must interact with at least three government agencies to register a company (Junta Comercial, Alcaidía and Receita Federal). MD-GEFIS.

49 Inconsistencies in the company data held by the various government agencies.

50 In 2016, tax benefits represented 9.8% of tax revenues (R$1,198,656,323).

51 There is no automated system for searching for tax legislation. MD-GEFIS.

52 Duplication of information across several government agencies. MD-GEFIS.

53 Recovery of just 5% of credits constituted in tax assessment notices per month. MD-GEFIS.

cross-checked manually); and (ii) inadequate procedures to deal with recurrent debtors, and fiscal intelligence methods and tools that are out of date.

f. Low efficiency and high cost of recovery of taxes owed,[54] as a result of: (i) procedures for the recovery of taxes owed at the trial and appellate levels and at the Office of the State Attorney General (PGE) are ineffective or not integrated; (ii) lack of planning and a results-based strategy for recovering credit; (iii) lack of automation and integration of trial and appellate processes and the PGE; and (iv) information from SEFA and the PGE for controlling registration and collection of outstanding debt is not integrated.

g. Difficulty of taxpayers complying with their tax obligations rapidly and efficiently,[55] as a result of: (i) inadequate number of services available online.[56] Additionally, web-based applications are somewhat unfriendly and do not allow access via mobile devices; and (ii) there is a lack of adequate procedures, appropriate premises, and tools for managing the quality of service and taxpayers' satisfaction when users attend in person.

h. Inefficient collections[57] and difficulty monitoring collections as a result of: (i) the taxpayer's current account being out of date; (ii) insufficient information to manage administrative collection; and (iii) insufficient information for the management of procedures and methodology to assess the performance of collection.

1.18 **Financial administration** lacks effective instruments with which to generate reliable and timely budgetary financial, and asset information for decision-making and optimization of the use of public resources.[58] The underlying causes of this specific problem are:

a. Difficulty formulating, executing, and accounting for state public resources efficiently and effectively,[59] given that SIAFEM has the following shortcomings: (i) it is a first-generation system, developed in the 1990s on an out-of-date platform. Its data also resides in an obsolete database that is difficult to maintain and expand; (ii) it lacks the necessary functionality to integrate procedures relating to the multiyear execution plan, the Budgetary Provision Act, and Annual Budget Act; (iii) the functionalities relating to budget, financial, asset, and accounting execution are out of date; (iv) there is no functionality relating to investment program management; (v) it is not integrated with the debt management system, which also presents various functional

[54] The average time for prosecuting cases in the administrative sphere is two years at first instance and eight months at second instance. MD-GEFIS.

[55] Almost 46% of services are web-based, with an average of 10,000 users being attended in person each month. MD-GEFIS.

[56] Of the 161 existing taxpayer services, 86 require presence in person. MD-GEFIS.

[57] Nonexistence of an administrative collections authority. MD-GEFIS.

[58] In 2016 the discrepancy between the planned and executed budget was almost 8% while the international standards defined in the PEFA recommend a maximum of 5%. Between 2011 and 2016 an average of 15.8% of the value of the original budget was changed. MD-GEFIS.

[59] Financial resource application, bank reconciliation, and transfer income control processes are carried out manually. MD-GEFIS.

weaknesses; and (vi) it lacks functionality to perform bank reconciliation, which is carried out manually.

b. Difficulty in financial planning, as a result of insufficient supporting information on the expenditure and revenue projection.[60]

c. Impossibility of quantifying the cost of public services, making it difficult to make management decisions,[61] as a result of: (i) information on the costs of public services that is scattered across various secretariats; and (ii) low institutional capacity as regards public costs.

1.19 **The Bank's experience in the country.** The Bank has supported several operations to improve fiscal management in Brazil, particularly at the state level, under the National Fiscal Administration Program for the Brazilian States (PNAFE) (loan 980/OC-BR) and the PROFISCO I CCLIP (loan BR-X1005). It also supported the Fiscal Modernization Project in the State of São Paulo, the Program to Support Fiscal Management Modernization and Transparency in the State of Bahia[62] and fiscal stability consolidation projects in the states of Amazonas, Alagoas, Bahia, Pernambuco, and Rio Grande do Sul.[63] At other levels of government, the Bank supported the Federal Revenue Service Fiscal Modernization Program[64] and the Fiscal Management Program for Brazilian Municipalities (PNAFM I, II, and III).[65]

1.20 According to the interim evaluation of the PROFISCO I CCLIP,[66] ICMS tax revenue intake as a share of GDP rose more in states with a PROFISCO project where execution was further along than in those where the level of execution was low. Between 2009 and 2013, this difference in intake averaged 6%. A final evaluation of PROFISCO I – PA indicated that project performance had been satisfactory.

1.21 According to the project completion report (PCR) for PROFISCO I – PA,[67] the project was rated as probable on the development objective (DO), satisfactory on implementation progress (IP), and probable on sustainability (SO). The project achieved 78% of its impact targets and planned outcomes (7 out of 9 targets), and met nearly 100% of planned output targets (17 targets, 3 of which were partially met). All project resources were disbursed in the period 2009-2015. In terms of innovation actions implemented, the SPED, with emphasis on the NF-e, was undoubtedly the cornerstone of efficient taxpayer selection and improving the accuracy of compliance actions. In view of the good outcomes achieved from a considerable investment in technology, the current project will continue supporting the state's expansion and improvement of these solutions.

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60 Revenue and expenditure projections are made in Excel. MD-GEFIS.

61 The cost of services performed by the state are unknown. MD-GEFIS.

62 Loan 1727/OC-BR.

63 Policy-based loans 2081/OC-BR, 2841/OC-BR, 2850/OC-BR, 3039/OC-BR, 3061/OC-BR, 3138/OC-BR, and 3139/OC-BR.

64 SRF, 1996.

65 Loans 1194/OC-BR (concluded in 2012), 2248/OC-BR (concluded in 2017), and 3391/OC-BR (approved, pending contract signature).

66 BR-X1005: Interim evaluation, 2014.

67 PCR 2078/OC-BR.

1.22 **Lessons learned from operations in the country.** The main lessons learned from previous programs, including operations under PROFISCO I – PA (loan 2078/OC-BR) include:

a. The need to address the issue of fiscal management through comprehensive actions and the lack of a tool with which to identify these innovative solutions, considering best practices that can support the design of fiscal modernization operations. To address this lesson, MD-GEFIS was developed. Based on this evaluation it is possible to identify the areas that need strengthening activities. The results of its application will be used as the baseline for project monitoring and evaluation.

b. In terms of the achievement of the outcomes, it was identified that the SPED, including the NF-e and Digital Tax Accounting (EFD), and Digital Bookkeeping (ECD), were the products making the biggest contribution to increasing the efficiency of the states' tax audits.[68] This operation will make a major investment in SPED's development and seek to maximize its potential by expanding the use of the information it generates to automate tax auditing,[69] simplifying tax obligations, and improving public procurement,[70] etc. by leveraging new digital economy technologies.

c. Executing operations necessitates instruments to compensate for the delays observed. For this purpose, in the case of PROFISCO I CCLIP, the Bank developed a monitoring tool called the Implementation Acceleration Plan (IAP), which will be used to support this project in conjunction with the Bank's formal instruments. The IAP uses the Progress monitoring report (PMR) to identify all the outputs subject to execution delays and the parties responsible for them. It prepares mitigating measures and supports progress on these indicators until execution is progressing normally.

d. Specifically, PROFISCO I – PA was extended by 24 months and the need was recognized to extend the backing from SEFA senior-management and the state government by including the project on the management committee for the State of Pará Integrated Governance System (SIGOV); setting up of a Special Bidding Committee (CEL); contracting of individual consultants to support project execution; training in support and technical areas on Bank procurement policies; participation of the SEFA team in technical meetings (COGEF network) and visits to states to foster exchange of experiences.[71]

1.23 **The Bank's experience in other countries of the region.** Recent Bank experience with tax administration reform in Ecuador (3325/OC-EC), El Salvador (3852/OC-ES), Guatemala (3786/OC-GU), Honduras (3541/BL-HO), Jamaica (2658/OC-JA), and Peru (3214/OC-PE); modernization of financial management systems in Guatemala (2050/OC-GU and 2766/OC-GU), Guyana (1550/SF-GY and 1551/SF-GY), Honduras (2032/BL-HO), and Nicaragua (2422/BL-NI); and

68 McKinsey & Company, 2014: NF-e and SPED increased tax evaders' risk of being identified and has helped reduce informal employment in Brazil over the past ten years (from 55% to 40%).

69 The use of SPED, associated with artificial intelligence, will expand the possibility of identifying tax fraud. See Araujo, 2013.

70 CONSAD, 2016.

71 PCR 2078/OC-BR.

management of public investment in Argentina (3835/OC-AR), Bolivia (3534/BL-BO), Chile (1281/OC-CH), Ecuador (2585/OC-EC), Mexico (2550/OC-ME), Paraguay (3628/OC-PR), Panama (2568/OC-PN), and Peru (2703/OC-PE) has been reflected in this operation, and some of the lessons learned are described below, along with the empirical evidence contained in the specialist literature.

1.24 **Empirical evidence.** The empirical evidence shows the need to establish strong fiscal institutions to enable an environment promoting fiscal sustainability to take hold.[72] Banerjee et al. (2017) find reductions in public program execution costs when the government is supported by an electronic platform for the distribution of benefits. Dhaliwal and Hanna (2014) find that automated programs for monitoring processes associated with personnel in attendance can improve the efficiency with which public resources are used and improve the quality of public services. Arenas de Mesa (2016) summarizes the evidence showing that management, coupled with transparency and fiscal responsibility, contributes to strengthening the fiscal institutional structure, one of the four dimensions of the public finances that contribute to fiscal sustainability.

1.25 In terms of tax, recent evaluations show that tax-collection performance is highly dependent on institutional strengthening in tax administration and its organizational structure, processes, and supporting tools: (i) improving access and quality of the information available, which has the potential to reduce opportunities for tax evasion;[73] (ii) implementing compliance models supported by intensive use of information;[74] (iii) simplifying procedures to facilitate tax compliance;[75] and (iv) defining strategies to ensure the suitability and motivation of human resources.[76] Several Latin American tax administrations have strengthened these elements, particularly Brazil and Uruguay.[77] As regards strengthening financial management, the available evidence indicates that automation does not produce the expected outcomes unless institutional processes are improved.[78] [79]

1.26 **The Bank's country strategy.** The project is aligned with the Bank's country strategy with Brazil 2016-2018 (document GN-2850) in relation to improving the business climate and enhancing efficiency in the management of public resources.

1.27 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2010-2010 (document AB-3008), and strategically aligned with the development challenge of productivity and innovation, through reducing tax

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72 Poterba, James M., and Jürgen von Hagen. *Fiscal Institutions and Fiscal Performance*. University of Chicago Press, 1999. Alesina, A., et al. "Budget institutions and fiscal performance in Latin America." Journal of Development Economics 59.2 (1999): 253-273

73 Tax evasion rates are up to eight times higher where the tax administration lacks automated tools to check taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et.al., 2011).

74 In Spain, availability of information acts as a complement to the inspection of firms (Almunia and López Rodriguez, 2016).

75 It can yield increases in payment rates of up to four percentage points (Hallsworth et al., 2014).

76 Incentive schemes for key staff at tax administrations can lead to additional tax revenue intake, yielding rates of return of between 35% and 51% (Khan et al., 2016).

77 PCR 1783/OC-UR.

78 PCR 1550/SF-GY and 1551/SF-GY.

79 Pimenta and Pessoa, 2015.

collection costs, and with the crosscutting area of institutional capacity and rule of law, through the strengthening of tax systems[80] and public resource management and planning systems.[81] The project contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6) via the indicators for: (i) percent of GDP collected in taxes;[82] and (ii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery, through strengthening of the SAT and SIAFEM. Lastly, it is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) and consistent with the sector frameworks documents on Decentralization and Subnational Governments (document GN-2813-3), and Fiscal Policy and Management (document GN-2831-3) under the dimensions of: (i) improving the efficiency and quality of expenditure and service delivery; (ii) improving own revenue collection; and (iii) working with greater transparency and accountability.

B. Objectives, components, and cost

1.28 The project objective is to contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management.

1.29 Enhancing the performance of public finance, increasing tax revenue intake, increasing the efficiency of public expenditure, and strengthening the fiscal sustainability of the State of Pará will benefit its citizens through better service delivery. This operation will finance the following components:

1.30 **Component I. Fiscal management and transparency (US$17,248,000).** This component seeks to improve management instruments and modernize the technological infrastructure and the relationship between the tax authorities and taxpayers. It will finance the following activities:

a. **Strengthening of public finance governance** through: (i) implementation of a governance network integrating the strategic management of SEFA with other state agencies; (ii) a new SEFA organizational structure; (iii) new internal control and disciplinary procedures based on risk analysis; and (iv) development of rules and guidelines for ICT governance.

b. **Implementation of strategic management of public finance** through: (i) new results-oriented planning and management procedures; (ii) redesign of the main strategic processes for management of public finance; (iii) creation of offices for processes and programs; and (iv) procedures for programming, preparation, execution, and evaluation of public investment projects.

c. **Implementation of competency-based staff management** through: (i) new knowledge-management procedures based on organizational competencies; (ii) improvement of the computerized human resource management system; and (iii) competency-based human resources development plan.

d. **Strengthening of ICT governance** through: (i) institutional policy for information security; (ii) strategic planning of ICTs; (iii) installation of a secure

[80] Indicators for outputs 2.1 to 2.8 of the Results Matrix.

[81] Indicators for outputs 3.1 to 3.3 of the Results Matrix.

[82] Indicators for outputs 2.1 to 2.8 of the Results Matrix.

data center with backup tools and procedures; and (iv) updating of hardware and software for IT infrastructure.

e. **Strengthening of purchasing and materials management** through: (i) new automated procurement procedures; and (ii) new automated asset management procedures.

f. **Improvement of transparency and fiscal citizenship** through: (i) restructuring of the state transparency portal for better interaction with the public; (ii) improvement of fiscal education and citizen invoicing programs; and (iii) strengthening of the main channels of communication.[83]

g. **Modernization of SEFA units** through new automated asset management procedures, including asset inventory, and including infrastructure improvements for finance units.[84]

1.31 **Component II. Tax administration and litigation (US$12,285,000).** This component seeks to grow internally generated revenues and simplify tax compliance. It will finance the following activities:

a. **Strengthening of tax management systems** through: (i) a new computerized tax administration system, including modules for the taxpayer registry, collection, compliance, litigation, and tax credits; and (ii) electronic process for tax litigation, integrating SEFA and PGE.

b. **Simplification of tax obligations** through: (i) implementation of the National Network for the Simplification of Business Registration and Incorporation; (ii) simplification of taxpayers' obligations in the SPED; and (iii) integration of integrated tax administration system with the Foreign Trade Portal.

c. **Strengthening of tax policy instruments** through: (i) review of state tax legislation and development of a support tool for its consultation; and (ii) review and adjustment of management procedures for granting tax credits.

d. **Improvement of control over tax obligations** through: (i) improvement of the tax obligation compliance monitoring and control system; and (ii) implementation of the technology platform integrating the government agencies handling tax information.

e. **Implementation of new progressive compliance procedures** through: (i) strengthening and automation of preventive inspection, including the tax net and taxpayer's electronic domicile; and (ii) deterrent inspection system, including border inspections, and methods for combating structured frauds, and persistent debtors.

f. **Improvement and integration of tax litigation procedures** through: (i) process redesign at litigation agencies; (ii) new, results-based management procedures for tax litigation; and (iii) implementation of a tax litigation management system integrating administrative processes at the trial and appellate levels and the PGE.

g. **Improvement of taxpayer relations services** through: (i) improvement and expansion of the services delivered via the Web, including update of the

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[83] This also enables communication between SEFAZ and the private sector.

[84] The proposed physical reconditioning small-scale and limited to the remodeling of existing facilities.

taxpayer portal and creation of electronic media channels; and (ii) reformulation of the procedures for face-to-face taxpayer assistance, including standardization of taxpayer service units and the quality-of-service management system.

h. **Strengthening of revenue and collections management** through: (i) redesign of revenue and collections procedures, including the current account; (ii) new automated control procedures for taxes owed; and (iii) creation of a center for advanced economic and fiscal studies and research, including methodologies for calculating the fiscal deficit.

1.32 **Component III. Financial administration and public expenditure (US$7,402,000).** This component seeks to increase the efficiency of financial planning and execution. It will finance the following activities:

a. **Modernization of state financial administration** through the implementation of the new Integrated State and Municipal Financial Management System (SIAFEM) with the following functionality: (i) new database; (ii) planning and budgeting modules; (iii) budget execution / financial / assets / accounting module; (iv) budgetary amendments module; (v) program management module; (vi) public debt management module; and (vii) integration with other corporate systems.

b. **Improvement of financial planning** through new computerized procedures for projecting state revenues and expenditures.

c. **Implementation of new public cost management procedures** through: (i) methodologies for estimating public costs; and (ii) automated system integrated with the state's corporate systems generating information for estimating the cost of public services.

1.33 For all the components, the project will finance consulting services (individual consultants and firms) for the sum of US$11.8 million; other nonconsulting services for the sum of US$11 million; goods for the sum of US$9.7 million; training for the sum of US$2.2 million; and office space remodeling works for the sum of US$1.7 million.

C. Key results indicators

1.34 The expected impacts are: (i) a decrease in the ratio of the state's primary fiscal deficit to GDP; (ii) an increase in the ratio of the state's tax revenue intake to GDP; and (iii) a decrease in the ratio of the state's net current debt to GDP. The expected outcomes are: (i) an increase in the ratio of strategic planning goals met to total planned goals;[85] (ii) a decrease in the ratio of administrative cost of tax collection to total revenue intake; and (iii) a narrowing of the gap between the budget as planned and as executed.[86]

1.35 **Economic evaluation.** An economic analysis of the project was conducted based on the results of higher tax revenue intake, lower cost to the taxpayer, and lower SEFA operating costs. Using a discount rate of 12%, at end-2027 the project will

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[85] SEFA corporate goals.

[86] Verified by a comparison between the values in the approved budged and budget execution as recorded in the state's balance sheet.

generate a net present value (NPV) of US$49.5 million with an internal rate of return (IRR) of 56.1%. A sensitivity analysis was performed, assuming a possible exchange rate devaluation, reduction in benefits, and combination of the two.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Compliance with the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** This project is the third individual loan operation under the PROFISCO II CCLIP (BR-X1039). The project complies with the eligibility criteria envisaged in the policy applicable to CCLIPs (document GN-2246-9) and its guidelines (document GN-2246-11) for individual loan operations, given that: (i) it belongs to the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) it is included in the 2017 programming for Brazil;[87] (iii) the state will implement the operation through SEFA, which was the executing agency for the first individual operation under the PROFISCO I CCLIP (loan 2078/OC-BR), concluded in April 2016 with 100% of the resources disbursed; (iv) the findings of the institutional analysis show that SEFA's capabilities have not deteriorated, and the same project execution and monitoring tools may be used for this new operation as for the previous project. The project coordination unit (PCU) staff will also be the same. As mentioned in paragraph 1.21, according to the project completion report (PCR) for loan 2078/OC-BR, the project was rated as probable on the development objective (DO), satisfactory on implementation progress (IP), and probable on sustainability (SO). The project execution unit complied with the contractual requirements and Bank's policies, and its accounts were audited and meet the required quality standards.

2.2 This operation was designed as an investment loan for specific projects with an estimated total cost of US$39 million, to be financed by an investment loan of up to US$35.1 million from the Bank's Ordinary Capital (OC) resources, and a local counterpart contribution of US$3.9 million. The distribution of resources by source of financing and categories is given in the table below:

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[87] The operation was included in the aide-mémoire on the update to the 2017 programming with Brazil, signed with SEAIN/MP on 13 November 2017.

Table 2. Total budget (US$)

Categories	IDB	Local	Total	%
A. Project management	**1,732,000**	-	**1,732,000**	**4.4**
1. Monitoring and evaluation	1,497,000	-	1,497,000	3.8
2. Auditing	235,000	-	235,000	0.6
B. Direct costs	**33,035,000**	**3,900,000**	**36,935,000**	**94.7**
Component I. Fiscal management and transparency	13,348,000	3,900,000	17,248,000	44.2
Component II. Tax administration and litigation	12,285,000	-	12,285,000	31.5
Component III. Financial administration and public expenditure	7,402,000	-	7,402,000	19.0
C. Contingencies	**333,000**	-	**333,000**	**0.9**
Total	**35,100,000**	**3,900,000**	**39,000,000**	**100**
%	**90%**	**10%**	**100%**	

2.3 **Disbursement schedule.** Disbursements will be made over a five-year period, as follows:

Table 3. Disbursement schedule (US$000s)

Sources	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	5.140	7.660	10.820	8.500	2.970	35.100
Country	0.195	0.195	1.365	1.365	0.780	3.900
Total	5.335	7.850	12.185	9.870	3.760	39.000
%	14%	20%	31%	25%	10%	100%

B. Environmental and social safeguard risks

2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703) and the results of the safeguards policy filter, the project is classified as Category "C." The project will support the strengthening of taxation and financial processes, so no socioenvironmental risks are envisaged.

C. Fiduciary risks

2.5 The following risks were identified and rated as medium: (i) execution delays bearing in mind the need for the State of Pará Integrated Governance System (SIGOV) to approve products, as established in Decree 1347/2015, as well as the increase in the project amount to be executed under the same structure as PROFISCO I; (ii) insufficient staff of the procurement and contracts, legal, and internal audit units to meet project demand; and (iii) shortcomings in contract management and supervision due to the absence of a support tool and technical staff to validate deliverables.

2.6 These risks will be mitigated by: (i) regulations governing the project in the SIGOV system, by decree, and definition of flows and procedures for procurement processing; (ii) creation of the Special Bidding Committee (CEL) solely for the project and contracting of individual consultants to support project execution; and (iii) procurement and implementation of contract management tools and technical training, and legal definition of the role and responsibilities of contract managers and supervisors.

D. Other project risks

2.7 A risk management workshop was conducted, following the Bank's methodology, and determined that the operation carries medium risk. The risks are:

a. **Fiscal sustainability.** The risk that the expected outcomes of the project are not achieved is rated as medium, due to the fact that economic crisis currently affecting the country may interfere in the state's economic/fiscal performance, jeopardizing its fiscal sustainability. It is important to note that the state's fiscal position is relatively stable, with a fiscal surplus of 0.082% of GDP. The country's crisis was at its worst in 2015-2017. However, economic growth is projected from 2018 onward. The state also adopted a series of preventive measures to ensure a balanced budget. The most important are: (i) expanding the effective tax base; and (ii) controlling public expenditure.

b. **Development.** The following risks are rated as medium: (i) some outputs may not be implemented as planned, as their implementation depends on integration with various technical areas and/or other state agencies. This risk will be mitigated by an instrument for cooperation between the project beneficiary entities to establish the roles and responsibilities of the parties during execution (see paragraph 3.5); and (ii) contract management procedures with service providers may not be implemented efficiently due to the absence of support tools and technical staff for their validation. This risk will be mitigated by defining the roles and responsibilities of the PROFISCO II – Pará beneficiary agencies; IT area support; implementation of the contract management support tool; and technical training.

c. **Public management and governance.** The following risks are rated as high: (i) delays or interruptions in the implementation of project outputs, due to new priorities set as a result of changes in management of the project beneficiary agencies following elections in November 2018. This risk will be mitigated through regulations governing of the project in the SIGOV system, so that it is considered a state priority, and implementation of the IAP, to speed up the main project procurements in 2018. This will also help to offset the possible loss of time associated with the transition period between the current and incoming administrations; and (ii) failure to meet the project objectives due to a lack of structural and management capacity to implement the planned actions. This risk is largely mitigated by the alignment of the project components and products with SEFA's strategic plan. A technical coordinator will be appointed, and consultants engaged to support the preparation of the terms of reference and execution of the outputs.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the State of Pará, which will execute the operation through State Finance Secretariat (SEFA). The Federative Republic of Brazil will be the guarantor of the borrower's financial obligations related to the loan. A project coordination unit (PCU) will be established for project execution. The PCU will have a general coordinator, a technical coordinator, an administrative/financial coordinator, a technical assistant for planning and monitoring (with project management experience), and an operations technical assistant for project procurement and contracting processes. The PCU will coordinate the activities related to monitoring, evaluation, and auditing, in order to monitor that the project is executed properly, and its objectives met.

3.2 The main functions of the PCU will include: (i) planning and coordinating activity execution; (ii) preparing, implementing and updating the project's operational tools, including the program execution plan (PEP), annual work program (AWP), procurement plan, monitoring and evaluation plan (MEP), and six-monthly status report; (iii) supervising execution and submitting status reports; (iv) conducting the processes for the preparation of terms of reference, procurement of goods, and selection and contracting of services; (v) submitting supporting documentation and disbursement requests to the Bank; (vi) preparing the audited financial reports; and (vii) delivering the project evaluation.

3.3 The project is to be executed in compliance with the program Operating Regulations approved by the Bank for the PROFISCO II CCLIP, which establish: (i) eligibility criteria for projects and outputs; (ii) project execution roles, procedures, and rules; and (iii) operational and contractual relationships between the parties involved in the project. SEFA will cooperate with the PGE, CGE, Planning Secretariat (SEPLAN) and Administration Secretariat (SEAD) for the execution of the activities benefiting them.

3.4 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) The borrower will adhere to the program Operating Regulations previously approved by the Bank for all individual operations under the PROFISCO II CCLIP**. This condition is justified by the need to set rules governing aspects of operational, fiduciary, and institutional responsibility in order to launch and execute the project in an orderly way. The program Operating Regulations will be a dynamic document subject to periodic review and may be modified with the Bank's express approval; and **(ii) the project coordination unit (PCU) has been established, and its members appointed**. This condition is justified by the fact that the PCU must be formally established, to mitigate the risk of execution delays and conduct the project's operational and fiduciary processes exclusively and with the required experience.

3.5 **Special execution conditions.** Prior to the start of execution of activities with outputs deliverable directly to the Office of the State Attorney General (PGE) of Pará, the State Planning Secretariat (SEPLAN), the State Administration Secretariat (SEAD), or the State Auditor General (AGE), SEFA will sign a cooperation agreement with these agencies, establishing the roles and responsibilities of the parties during execution. This condition is crucial to ensure that the activities' beneficiary entities extend the necessary cooperation to SEFA, which will be responsible for executing them.

3.6 **Procurement.** Project procurement and contracting will comply with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consulting Services Financed by the IDB (document GN-2350-9), together with the provisions of the procurement plan. No advance procurement or retroactive financing is envisaged.

3.7 **Single-source selection.**[88] Pursuant to paragraph 3.10(d) of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), when only one firm is qualified or has experience of exceptional worth for the assignment, the following entities will be contracted by single-source selection: (i) training schools, data processing firms, and government-owned research centers (eligible under point 1.11(c) of the Policies), which have extensive experience and adequate infrastructure to train civil servants and provide technical assistance, mainly in the use of new information technologies;[89] and (ii) Inter-American Center of Tax Administrations (CIAT), an international agency, given its specialization in technical assistance to modernize tax administrations in the region.

3.8 **Audited financial statements.** The borrower will deliver audited financial statements to the Bank annually within the first 120 days following the close of each fiscal year. The audit may be performed by the State of Pará Audit Office (TCE/PA) or an eligible auditing firm. The auditor will be contracted by SEFA on terms of reference that will require PCU clearance and the Bank's no objection.

B. Summary of arrangements for monitoring results

3.9 **Monitoring.** Monitoring will be based on: (i) the PEP and AWP; (ii) the procurement plan; (iii) the Results Matrix; and (iv) the MEP. The PCU will prepare six-monthly reports on progress toward the outcome, output, and financial targets for the Bank's approval. The Bank will conduct inspection visits and ex post reviews as part of project monitoring.

3.10 **Evaluation.** The project will be evaluated against the annual targets and indicators for outcomes and outputs in the project Results Matrix. The monitoring and evaluation plan calls for a midterm and a final independent evaluation. The borrower will prepare and deliver a midterm evaluation report to the Bank 90 days after the date on which 50% of the loan proceeds have been disbursed, or 36 months of execution have elapsed, whichever occurs first. It will also deliver a final evaluation to the Bank, including an ex post economic evaluation, which will serve as an input for the PCR, 90 days after the date of the last disbursement of loan proceeds.

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[88] See Annex III, Chapter V.

[89] These entities are: (a) School of Finance Administration (ESAF); (b) National School of Public Administration (ENAP) of the Ministry of Planning, Budget, and Management; (c) state government schools: (d) state data processing firms; (e) Institute of Applied Economic Research (IPEA); and (f) Institute of Fiscal Studies (IEF).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Accountability institutions strengthened (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2850**	**i) Improve the business climate, and ii) Enhance efficiency in the management of public resources.**
Country Program Results Matrix		**The intervention is not included in the 2017 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	**8.8**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**2.8**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**8.5**	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**	
4.2 Identified and Quantified Benefits	**1.5**	
4.3 Identified and Quantified Costs	**1.5**	
4.4 Reasonable Assumptions	**0.0**	
4.5 Sensitivity Analysis	**1.5**	
5. Monitoring and Evaluation	**9.1**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.6**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison.**
Non-Fiduciary	**Yes**	**Strategic Planning National System, Statistics National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**The IDB team developed and applied a metdhology to assess the state of public finances and fiscal mangement processes, to design the project and to monitor future performance against the baseline.**
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	**Yes**	**The proposal is to use the synthetic control method as a way of inferring results on the causal impact of the program on ICMS collection.**

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The main goal of the operation is to contribute to the fiscal sustainability of the State of Para. To achieve this end, the project profile defines three specific areas on which the project will intervene. The first area is Fiscal Management and Transparency. The second area is tax administration and litigation. The third area is financial administration of public expenditure. Each of these areas define a component. The project is the third child of a series of operations under the Conditional Credit Line for Investment Projects (CCLIP) parent BX-L1502.

The project profile diagnoses a primary balance of 0.08 percent of the State GDP in 2016 (Secretariat of Finance, 2016). The diagnosis quantifies gaps in physical and human capital allocated to fiscal management. It also describes the relevant legal framework. The diagnosis includes a review of over 145 processes in the three main areas and eighteen subareas. The diagnosis relies on information provided by the Maturity and Performance of Fiscal Management (MD-GEFIS) tool.

The economic analysis provides a quantification of three types of benefits. First, it quantifies the additional revenue expected to result from the investment. Under a social perspective, additional tax revenue is usually assumed neutral. Second, it quantifies savings through technological tools which allow for efficiency gains to the state. Third, it quantifies savings to firms which reduce costs in fulfilling tax obligations. Thus, quantified benefits are a mix of added revenue to the State and social benefits. The costs include investment and maintenance. The analysis estimates a net present value for the operation of US$50 million.

The results matrix includes 18 product indicators, 3 results indicators, and 3 impact indicators. Most indicators rely on reports and verification by the Secretariat of Finance. The ex post evaluation consists of estimating the effects of the program on tax revenue. It aims to assess the impact through administrative data and a synthetic-controls methodology.

A total of two out of twelve risks are classified as high. The risks classified as high are the associated to changes in policy priorities and weak management.

RESULTS MATRIX

Project objective:	To contribute to fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management.

EXPECTED IMPACT

Indicators	Unit of measure	Base-line	Year Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT 1: Decrease in the ratio of the state's primary fiscal deficit to GDP											
Primary balance/GDP	% (R$/R$)	0.082	2016	0.09	0.1	0.08	0.15	0.18	0.18	Treasury Report, SEFA/PA	Reducing the primary fiscal deficit contributes directly to balancing the budget when associated with increased tax revenue intake and effective control of public expenditure.[1] **Formula:** Primary balance as a percentage of GDP. **Baseline:** 0.082.[2]
IMPACT 2: increase in the ratio of the state's tax revenue intake to GDP											
Tax revenue intake/ GDP	% R$/R$	8.5	2016	8.5	8.5	8.5	8.8	9.5	9.5	Report, Diretoria de Arrecadação e Informações Fazendárias [Tax Collection and Reporting Directorate] (DAIF)	A real increase in tax revenue intake contributes to balancing the budget by providing the tax authorities with additional resources, and when associated with more effective control of public expenditure, as promoted by Component III. **Formula:** Tax revenue at end-of-project/GDP in the corresponding year. **Baseline:** 8.5% Tax revenue intake (2014) = R$10.6 billion. GDP (2014) = R$124.6 billion.

1 IMF-A Macroeconomic Perspective on Resilience, 2016.

2 Pará Fiscal Restructuring and Adjustment Program (PAF) 2016-2018.

Indicators	Unit of measure	Base-line	Year Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT 3: Decrease in the ratio of the state's net current debt to GDP											
Net current debt / GDP	% R$/R$	2.7	2016	2.7	2.7	2.6	2.5	2.4	2.4	Treasury Report, SEFA/PA	Reducing the net current debt contributes directly to balancing the budget when associated with increased tax revenue intake and effective control of public expenditure.[1] **Formula:** Value of net current debt as a percentage of GDP **Baseline:** 2.7%.[3]

EXPECTED OUTCOMES[4]

Indicator	Unit of measure	Base-line	Year Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
OUTCOME 1: Increase in the ratio of strategic planning goals met to total planned goals											
Number of targets met / Total number of targets	% (Quantity/ quantity)	0	2016	0	0	0	40	60	60	Report by Coordenação de Assuntos Estratégicos [Strategic Affairs Coordination Office] (CAFE)	The increase in this ratio demonstrates an improvement in SEFA's institutional capacity, contributing to institutional performance. **Formula:** Number of targets met / Total planned targets. Refers to SEFA's strategic planning targets. **Baseline (2016):** 0% SEFA is not yet monitoring strategic planning targets. The project envisages strategic planning in year 1 (output 1.2).

3 PAF Pará 2016-2018.

4 The results are cumulative.

Indicator	Unit of measure	Base-line	Year Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
OUTCOME 2: Decrease in the ratio of administrative cost of tax collection to total revenue intake											
SEFA operating budget / Tax revenue intake	% (R$/R$)	3.6	2016	3.6	3.6	3.6	3.0	2.5	2.5	Report by DAIF.	A smaller value of this ratio demonstrates that economies of resources in tax management or an increase in tax revenue intake have been achieved. **Formula:** Budget execution of tax administration/tax revenue. **Baseline:** 3.6%. Cost of tax collection (2016) = R$436.7 million. Tax revenue intake (2016) = R$12.3 billion.
OUTCOME 3: Narrowing of the gap between the budget as planned and as executed											
Budget as planned / Budget as executed	% (R$/R$)	7.8	2016	7.8	7.8	7.0	6.0	5.0	5.0	Treasury Report, SEFA/PA	A decrease in this ratio demonstrates better fiscal planning and more efficient execution. **Formula:** 1 (Budget as planned / Budget as executed). **Baseline:** 7.8% divergence. Planned budget (as per Budget Act) = R$23.304 billion. Final budget = R$21.485 billion (planned + supplements - cancellations).

OUTPUTS[5]

Indicator	Unit of measure	Base-line	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Fiscal management and transparency											
1.1 Model[6] of public treasury governance implemented	Model	0	2016	0	0	0	1	0	1	Report on IT support system, submitted by CAFE.	Includes: consulting services, software, hardware, and training. See AWP for more information.
1.2 Strategic treasury management model implemented	Model	0	2016	0	0	0	0	1	1	Idem.	Idem.
1.3 Staff training	Staff trained	0	2016	0	0	300	500	500	1,300	Certificate of completed training submitted by the Personnel Management Area (DAD).	Idem.
1.4 Technology platform installed	Platform	0	2016	0	0	0	0	1	1	Independent consultant's report, submitted by the ICT Directorate.	Idem.
1.5 Procurement and materials management IT system implemented	Software[7]	0	2016	0	0	1	0	0	1	IT system report, submitted by the SEFA Procurement Management Area.	Idem.
1.6 Transparency and fiscal citizenship model implemented	Model	0	*2016*	*0*	*0*	*0*	*0*	*1*	*1*	Transparency Portal presented by the Transparency Area.	Includes: consulting services, software, hardware, and training. See AWP for more information.
1.7 Tax units reformed	Tax units	0	2016	0	5	6	6	9	26	Independent consultant's report, submitted by DAD.	Includes: consulting services, software, hardware, and training. See AWP for more information.

[5] The results are annual.

[6] Model includes: (i) procedures and business rules defining its functioning; (ii) application or IT system (software) supporting its operationalization; (iii) training in the execution of the procedures and operation of the software; and (iv) and, in many cases, the necessary expansion in processing capacity, with more servers, user PCs, storage devices (given the increase in data volumes), and improved communications for remote users.

[7] The application or IT system is the software implementing a series of rules to support the operationalization of the conceptual business model.

OUTPUTS[5]

Indicator	Unit of measure	Base-line	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 2: Tax administration and litigation											
2.1 IT systems and tax administration implemented	Software	0	2016	0	0	1	0	1	2	Payment control system report, submitted by DAIF.	Includes: consulting services, software, hardware, and training. See AWP for more information.
2.2 IT systems and tax obligations simplified	Software	0	2016	0	0	1	1	1	3	Tax return intake report, submitted by DAIF.	Idem.
2.3 Strategic tax management model implemented	Model	0	2016	0	0	0	1	0	1	Legislative consultation report, submitted by the Taxation Directorate (DTR).	Includes: consulting services, software, and hardware. See AWP for more information.
2.4 Ancillary tax obligation control model implemented	Model	0	2016	0	0	0	1	0	1	Tax obligation control IT system report, submitted by DAIF.	Idem.
2.5 Progressive inspection model implemented	Model	0	2016	0	0	0	0	1	1	Inspection IT system report, submitted by the Inspection Directorate (DFI).	Includes: consulting services, software, and hardware. See AWP for more information.
2.6 Tax litigation supervision model implemented	Model	0	2016	0	0	0	0	1	1	Tax litigation IT system report, submitted by the Tax Litigation area.	Idem.
2.7 Taxpayer services expanded	Services	0	2016	0	2	4	9	2	17	Taxpayer services system report, submitted by the Taxpayer Services area.	Includes: consulting services, software, hardware, and training. See AWP for more information.
2.8 Tax collection management model implemented	Model	0	2016	0	0	0	1	0	1	Report on the collections module of the IT system submitted by the Collection and Revenue area.	Idem.

OUTPUTS[5]

Indicator	Unit of measure	Base-line	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 3: Financial administration and public expenditure											
3.1 IT system and financial administration implemented	Function-ality	0	2016	1	1	1	1	3	7	Report on integrated system, submitted by State Treasury.	Idem.
3.2 Financial planning model implemented	Model	0	2016	0	0	0	1	0	1	Report on the planning module of the IT system submitted by the State Treasury.	Idem.
3.3 Public cost management IT system implemented	Software	0	2016	0	0	0	0	1	1	Report on cost management IT system, submitted by State Treasury.	Idem.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Brazil
Project number:	BR-L1499
Name:	Fiscal Management Modernization Project for the State of Pará (PROFISCO II – PA) Third individual operation under the PROFISCO II CCLIP
Executing agency:	State of Pará, acting through its State Finance Secretariat (SEFA)
Fiduciary team:	Karina Diaz, Andreia Gomes, Fabia de Assis, and Santiago Schneider (VPC/FMP)

I. EXECUTIVE SUMMARY

1.1 The institutional evaluation for the project's fiduciary management was based on: (i) the country's current fiduciary context; (ii) the findings of the assessment of principal fiduciary risks; (iii) the MD-GEFIS report; (iv) prior experience under PROFISCO I; and (v) working meetings with the Project Team and SEFA.

1.2 Brazil has robust country fiduciary systems that enable sound management of administrative, financial, oversight, and procurement processes, in accordance with the principles of transparency, economy, and efficiency. The executing agency's planning and organization, and execution and oversight systems are well developed and represent a medium level of risk.

1.3 SEFA has the legal capacity and experience to execute the project activities, considering that this is PROFISCO's second phase. The structure implemented and strengthened will be utilized, drawing on lessons learned from execution of the first phase.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

2.1 The borrower will be the State of Pará, which will execute the activities through its State Finance Secretariat (SEFA), which will be the agency responsible for the institutional and technical coordination of the project. The project coordination unit (PCU) will be established, to provide SEFA with the capacity to execute the project.

2.2 The project will benefit SEFA and the following agencies: AGE, PGE, SEPLAN, and SEAD. The information technology outputs must be approved by the State of Pará Information and Communication Technology Enterprise (PRODEPA), in accordance with Decree 1739/2017.

2.3 Procurement processes at SEFA are centralized in the Procurement and Contracts Management Unit (CGLC) under the Administration Directorate and are all subject to analysis by the SEFA Legal Department (CONJUR). There is currently no Special Bidding Committee (CEL) dedicated to procurement and contracting processes for firms with financing from international organizations.

2.4 The executing agency is subject to internal and external control. The AGE is responsible for internal control, and its activities are performed by internal control coordination units, the Finance Ombudsman or "Ouvidoria," and societal oversight and transparency coordination units. External control is exercised by the State of Pará Audit Office (TCE/PA), a strategic partner of the Bank in the work of auditing projects financed with Bank resources in the state.

III. Institutional Capacity Evaluation, Fiduciary Risk, and Mitigation Actions

3.1 The evaluation and validation of institutional capacity with PCU staff and the main stakeholders involved concluded that SEFA has medium institutional capacity with experience in the execution of operations with the Bank.

3.2 The following fiduciary risks were identified: (i) execution delays bearing in mind the need for the State of Pará Integrated Governance System (SIGOV) to approve products, as established in Decree 1347/2015, as well as the increase in the project amount to be executed under the same structure as PROFISCO I (loan 2078/OC-BR); (ii) insufficient staff of the procurement and contracts, legal, and internal audit units to meet project demand; and (iii) shortcomings in contract management and supervision due to the absence of a support tool and technical staff to validate deliverables.

3.3 These risks will be mitigated by: (i) regulations governing project BR-L1499 in the SIGOV system, by decree, and definition of flows and procedures for procurement processing; (ii) creation of the Special Bidding Committee (CEL) solely for the project and contracting of individual consultants to support project execution; and (iii) procurement and implementation of contract management tools and technical training, and legal definition of the role and responsibilities of contract managers and supervisors. In order to strengthen external control capacity, external audit resources will be allocated to reinforce TCE/PA activities.

IV. Considerations for the Special Provisions of the Contracts

4.1 **Special contractual conditions precedent to the first disbursement: The borrower will provide the Bank with evidence that a Special Bidding Committee (CEL) has been established solely for the project to support all procurement and contracting process.** This condition is regarded as essential to mitigate the risk of delays in program procurement and contracting.

V. Agreements and Requirements for Procurement Execution

5.1 The fiduciary agreements and requirements for procurement establish the provisions applicable to execution of all planned procurements for the project.

A. Procurement execution

5.2 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods, and nonconsulting services arising from the program and subject to international competitive bidding (ICB) will use the standard bidding documents (SBDs) issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using national competitive bidding documents agreed upon with the Bank. The project sector specialist will be responsible for reviewing the technical specifications for procurements during the preparation of selection processes.

5.3 **Selection and contracting of consulting services.** Consulting services contracts arising under the project will used the standard request for proposals (RFP) issued by the Bank. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. Consultants will be selected and contracted in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9).

5.4 **Use of country procurement systems.** The “Pregão eletrônico” electronic reverse auction country procurement (sub)system approved by the Bank will be used for the procurement of off-the-shelf goods up to an amount of US$5 million. Any system or subsystem subsequently approved will be applicable to the operation. The procurement plan and its updates will state that procurement will be executed using approved country systems.

5.5 **Advance procurement/retroactive financing.** No advance procurement or retroactive financing is envisaged.

B. Single-source selection

5.6 **Schools and government agencies.** Given the way finance secretariats in Brazil are structured, outside entities coordinate the development of knowledge, skills, and competencies of finance secretariat staff. These entities will make it possible to ensure the continuity of the investments under the loan contract in line with the SEFA training plan. Thus, the following government schools at the state and federal level will be contracted by single-source selection, pursuant to paragraphs 1.11(c) and 3.10 of document GN-2350-9: (a) School of Finance Administration (ESAF); and (b) National School of Public Administration (ENAP) of the Ministry of Planning, Budget, and Management. Likewise, the data processing firms responsible for IT development in the states, which are already involved in development of the SEFA IT systems, will also be contracted by single-source selection.

5.7 **Specialized international agencies.** In accordance with paragraphs 3.10 and 3.15 of document GN-2350-9, the Inter-American Center of Tax Administrations (CIAT), an international agency, will be contracted by single-source selection given its specialization in technical assistance to update and modernize tax administrations in the region, which it has already provided to other stafe finance secretariats in Brazil.

5.8 **Research and study institutes.** The Institute of Applied Economic Research (IPEA) and the Institute of Fiscal Studies (IEF) will be engaged under the terms of paragraph 3.10(d) of document GN-2350-9. The IPEA is regarded as the leading research institute in Brazil, internationally recognized for its output in terms of scientific data and studies. The IEF is an institution under the Spanish Ministry of Finance and Public Administration that conducts studies and research and provides advisory support. As part of that mission, IEF will promote training activities to help the finance secretariat staff benefitting from the project activities to improve the skills they use in their work.

Table 1. Thresholds for ICB and international short list

Method	ICB Works	ICB Goods and nonconsulting services	International short list for consulting services
Threshold	US$25 million	US$5 million	US$1 million

Table 2. Main procurement items

Activity	Procurement method	Estimated date of solicitation/invitation	Estimated amount (US$ million)
Consulting services			
New SIAF	QCBS	1st half 2018	6.4
Goods			
Secure data center	Pregão eletrônico	2nd half 2018	2.5
Technology stock	Pregão eletrônico	2018, 2019	1.4

C. Procurement supervision

5.9 Procurement will be subject to ex post supervision, except in the case of single-source selection and other cases where ex ante supervision is justified. When the country system is used for procurement, the country system will also be used for monitoring.

5.10 The supervision method must be identified for each selection process. Ex post reviews will be conducted on a twelve-monthly basis in accordance with the project supervision plan. The ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex post review.

Table 3. Threshold for ex post review

Works	Goods	Consulting services
NCB and shopping	NCB and price comparison	Less than US$1 million

D. Records and files

5.11 The PCU will be responsible for process documentation, and will retain the necessary documentation for supervision and auditing purposes.

VI. Financial Management

6.1 **Programming and budget.** The SEFA will be responsible for planning for the execution of the activities as set out in the PEP and AWP.

6.2 SEFA uses the following country management support tools in the planning and organization of project activities:[1] (i) the PEP, which establishes the public

[1] Planning and Budgeting Instruments.

administration guidelines, objectives, and targets; (ii) Budgetary Guidelines Law (LDO); and (iii) Annual Budget Law (LOA), which estimates and establishes the public administration's expenditures for the current year.

6.3 The PCU is to ensure that the budgetary resources for the project, Bank, and local contribution are budgeted annually, and earmarked for execution in accordance with the project schedule. Budgetary resources must be recorded in the year of execution in SIAF as an external source. The Annual Budget Law must include the funds necessary for implementation, including both the external loan and the local contribution.

6.4 **Accounting and information systems.** Public agencies in the State of Pará use SIAFEM as the (first generation) IT system supporting their financial management activities (budget, accounts, financial and asset management). SIAFEM is an integrated system, use of which is obligatory for the state and its municípios. To supplement, SEFA also uses the GESPRO project management system. This is an IT system for project contract management, financial management, and procurement.

6.5 **Disbursements and cash flow.** The project will use the national state treasury system. Expenditures will be subject to financial and budget implementation processes and must be duly recorded in SIAFEM.

6.6 As in PROFISCO I, Bank resources will be managed via an exclusive account enabling the proceeds from the Bank's loan to be independently identified and to perform bank reconciliation on them. This includes deposits and payments. The account will be opened in a commercial bank to be decided by SEFA.

6.7 Disbursements will be made in U.S. dollars in the form of form of advances. The exchange rate agreed with the executing agency for accounting for the IDB resources will be the internalization rate.

6.8 Advances will be based on a projection of financial resources of up to 120 days. For future advances it will be necessary to account for at least 80% of the previously advanced funds.

6.9 Expenditures considered ineligible by the Bank must be repaid from local contribution resources or other resources, as the Bank sees fit, depending on the nature of the ineligibility.

6.10 **Internal control and audit.** The AGE, as the central agency for internal control of the executive branch, will be responsible for internal control. The AGE's activities are performed by internal control coordination units, the Finance Ombudsman or "Ouvidoria," and societal oversight and transparency coordination units. The project's activities will be subject to its oversight.

6.11 **External control and reports.** The project's financial statements and eligibility of expenditures will be audited annually by TCE/PA, the agency eligible for conducting external audits on Bank loans, with extensive experience of IDB and World Bank audits, or by an eligible external audit firm.

6.12 As established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-6), the auditor must deliver a report on the reasonableness of the financial statements and the eligibility of the project's expenditures. The audited financial statements are to be delivered to the Bank no later than 120 days following the close of each SEFA fiscal year, pursuant to the procedures and terms of reference previously agreed upon with the Bank.

6.13 **Financial supervision plan.** This plan may be amended during execution, depending on how the levels of risk develop, or the need for additional oversight.

Table 4. Supervision plan

Nature and scope	Frequency	Party responsible	
		Bank	Executing agency
Ex post review of disbursements and procurement	Annual	Fiduciary team	PCU – External auditor – TCE/PA
Annual auditing	Annual	Fiduciary team	PCU – External auditor – TCE/PA
Review of disbursement requests	Periodic	Fiduciary team	
Supervision visit	Annual	Sector specialist and fiduciary team	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Brazil. Loan ____/OC-BR to the State of Pará. Project to Modernize Fiscal Management in the State of Pará – PROFISCO II - PA. Third Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 - Fiscal Management Modernization Program in Brazil - PROFISCO II

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 State of Pará, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Project to Modernize Fiscal Management in the State of Pará – PROFISCO II - PA, which constitutes the third individual operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 - Fiscal Management Modernization Program in Brazil - PROFISCO II, approved on __ ____________ 2017 by Resolution DE-___/17. Such financing will be in the amount of up to US$35,100,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2017)

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