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BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF AMAPÁ — PROFISCO II-AP

(BR-L1525)

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

(BR-X1039)

LOAN PROPOSAL

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ABBREVIATIONS

BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Bank for Economic and Social Development]
CCLIP	Conditional credit line for investment projects
EFD	Escrituração Fiscal Digital [digital tax accounting]
GDP	Gross domestic product
GETRAN	Sistema de Gestão de Trânsito [transit management system]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre a circulação de mercadorias e serviços [goods and services tax]
IMF	International Monetary Fund
IPVA	Imposto sobre a propriedade de veículos automotores [motor vehicle ownership tax]
ICT	Information and communications technology
IT	Information technology
ITCMD	Imposto sobre transmissão causa mortis e doação [inheritance tax]
LRF	Lei de Responsabilidade Fiscal [Fiscal Accountability Law]
MD-GEFIS	Metodologia para Avaliação da Maturidade e Desempenho da Gestão Fiscal [fiscal management maturity and performance assessment methodology]
NF-e	Nota fiscal eletrônica [electronic tax invoicing]
PCR	Project completion report
PCU	Project coordination unit
PGE	Procuradoria-Geral do Estado [State Attorney General's Office]
PMAE/AP	Program to Modernize the Administration of Revenue and Fiscal, Financial, and Asset Management of Amapá
PROFISCO	Fiscal Management Modernization Program in Brazil
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National network for simplification of registration and legalization of companies and businesses]
SATE	Sistema da Administração Tributário Estadual [integrated tax administration system]
SEAD	Administrative Department
SEFAZ/AP	Finance Department, Amapá
SEPLAN	Planning Department
SIGA	Sistema Integrado de Gestão Administrativa [integrated administrative management system]
SIGRH	Sistema único de gestão de recursos humanos [integrated human resources system]
SIPLAG	Sistema Integrado de Planejamento, Orçamento e Gestão [integrated planning, budget, and management system]
SPED	Sistema Público de Escrituração Digital [digital bookkeeping system]
STN	Secretaria do Tesouro Nacional [National Treasury Department]

PROJECT SUMMARY

BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF AMAPÁ — PROFISCO II-AP (BR-L1525)

NINTH INDIVIDUAL LOAN OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)

FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL — PROFISCO II (BR-X1039)

Financial terms and conditions				
Borrower:			**Flexible Financing Facility**[a]	
State of Amapá			**Amortization period:**	25 years
Guarantor:				
Federative Republic of Brazil			**Disbursement period:**	5 years
Executing agency:				
State of Amapá, through its Finance Department (SEFAZ/AP)			**Grace period:**	5.5 years[b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
IDB (Ordinary Capital):	30,000,000	91	**Credit fee:**	[c]
			Inspection and supervision fee:	[c]
Local:	3,000,000	9	**Weighted average life:**	15.25 years
Total:	33,000,000	100	**Currency of approval:**	U.S. dollars

Project at a glance
Project objective/description: The project's objective is to contribute to the fiscal sustainability of the State of Amapá through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management. This is the ninth individual loan operation under the PROFISCO II CCLIP (BR-X1039), approved by the Board of Executive Directors through Resolution DE-113/17.
Special contractual conditions precedent to the first disbursement: (i) the borrower adhered 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 has been established and its members appointed (paragraph 3.4). **Special contractual conditions for execution:** Prior to beginning execution of activities whose outputs are intended for the Planning Department (SEPLAN), the Administrative Department (SEAD), or the State Attorney General's Office (PGE), SEFAZ/AP will sign instruments of cooperation with each of those institutions to establish the roles and responsibilities of the parties during execution (paragraph 3.5).
Exceptions to Bank policies: None.

Strategic Alignment						
Challenges: [d]	SI	☐	PI	☑	EI	☐
Crosscutting themes: [e]	GD	☐	CC	☐	IC	☑

(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, interest rate, and commodity 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 applicable policies.

(d) SI (Social inclusion and equality); PI (Productivity and innovation); EI (Economic integration).

(e) GD (Gender equality and diversity); CC (Climate change and environmental sustainability); IC (Institutional capacity and rule of law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 This operation falls under the conditional credit line for investment projects (CCLIP) for the Fiscal Management Modernization Program in Brazil (PROFISCO II) (BR-X1039). The objective is to contribute to fiscal sustainability through: (i) modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management. The PROFISCO II CCLIP was approved by the Bank's Board of Executive Directors in December 2017 (document PR-4546). This operation will be executed as an investment loan over a period of five years.

1.2 The PROFISCO II CCLIP (BR-X1039) was approved in 2017 for US$900 million, to contribute to fiscal sustainability, through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management. Agencies of Brazil's 26 states, together with those of the Federal District and the Federative Republic of Brazil, that receive a favorable recommendation from the Ministry of Planning's External Financing Commission (COFIEX) for the preparation of an individual operation will be eligible as recipients.

1.3 The PROFISCO II CCLIP (BR-X1039) aims to increase revenue collection, improve the business climate, and boost the country's competitiveness. It was designed primarily to support: (i) complementation of the Digital Public Accounting System (SPED) in automating tax audits and in tax obligations, which will make it possible to phase out at least 12 monthly tax returns per taxpayer; (ii) improvement of public procurement, by using reference prices, cutting costs and processing times; and (iii) strengthening of the processes, methodologies, and technologies promoted under the PROFISCO I CCLIP.

1.4 An individual operation to participate in the PROFISCO I CCLIP (BR-X1005) was approved for the State of Amapá,[1] but the State did not receive authorization from the National Treasury Department (STN) to sign the loan contract, since it did not comply with one of the requirements of the Lei de Responsabilidade Fiscal [Fiscal Accountability Law] (LRF)[2] related to the cap on personnel spending by the legislative branch. The State now complies with all LRF requirements. Furthermore, through its Finance Department (SEFZ/AP), the State satisfactorily executed the Program to Modernize the Administration of Revenue and Fiscal, Financial, and Asset Management of Amapá (PMAE/AP) with the National Bank for Economic and Social Development (BNDES), the content of which was very similar to PROFISCO I.[3]

1.5 **In the last five years, Brazil has been facing major challenges in keeping its economic growth sustainable.** Its gross domestic product (GDP) shrank by 3.2% in 2015 and by 3.3% in 2016. In 2017-2018, GDP recovered slightly, growing by 1.1% in each year.[4] As a result, tax revenue lost approximately three percentage

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1 Loan 3119/OC-BR, approved by the Bank's Board of Executive Directors on 12/12/2013 (document PR-4124).

2 Complementary Law 101 of 4/5/2000. Compliance with the requirements of the LRF had been examined when the operation was approved; however, the situation subsequently rolled back.

3 Contract 09.20130.1 of 5/4/2013, concluded on 12/2018. PMAE/AP.

4 Brazilian Institute of Geography and Statistics (IBGE), 2018.

points of GDP between 2013-2017 (34.5% and 31.6%). Public expenditure increased from 37.4% of GDP in 2013 to 41.6% in 2017. The primary balance posted a deficit of 2.5% and 1.9% of GDP in 2016-2017. The debt rose from 60% of GDP in 2013 to 78.6% in 2016 and is expected to reach 96% by 2023.[5] The government is taking economic measures to promote fiscal sustainability. The legislature passed a pension system reform, which the senate is expected to approve shortly. Draft legislation was sent to the national congress on the fiscal balance program for subnational entities and on economic freedom, which cuts bureaucracy and improves the business climate. Different proposals to reform taxes, including creating a national value-added tax (VAT), are being debated in the national congress. Lastly, the government is accelerating the infrastructure privatization and concessions program.

1.6 **The crisis had an even greater impact on the state of Amapá's economy.** Amapá's GDP fell by 5.5% in 2015 and 4.2% in 2016,[6] recovering 0.8% in 2017 and 2.8% in 2018. The goods and services tax (ICMS), which is the main source of the State's tax revenue fell successively between 2014 and 2017 as a percentage of state GDP (6.43%, 5.67%, 4.95%, and 5.08%), with a slight recovery in 2018 to 5.46% of state GDP. In the same context, personnel expenditures grew during the period 2015-2018 (from 15.55% of state GDP to 18.57%). As a result, the State had primary deficits between 2013 and 2016 (0.87% of state GDP to 3.14%), with a recovery in 2017 and 2018 that was only made possible by cutting back public investments from 3.76% of state GDP to 1.14% between 2013-2018.[7] The State of Amapá is making additional adjustments for recovery, such as implementing a program to privatize public companies, establishing a committee to control the quality of public expenditure, and reducing personnel costs.[8]

1.7 **Rationale.** The state of Amapá has the third-smallest economy of Brazil's 26 states and Federal District.[9] Its main source of income is central government transfers,[10] which in the period 2014-2018 averaged about 21% of state GDP or 75% of total state revenues. This dependency means that fluctuations in the national economy heavily impacted the State's economic and fiscal outlook.

1.8 Although the State did not participate in PROFISCO I, its participation in the PMAE/AP made a large contribution to improving its tax administration and in integrating the state's tax authority with other levels of government by introducing the public digital bookkeeping system (SPED). With these efforts, Amapá was able to partly offset the impact of the crisis, mainly through the increase in its own tax intake and facilitation of tax compliance which, together with the fiscal adjustment measures, have helped to attain a balanced financial position according to the STN.[11] This project will pursue these lines of modernization further and also

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5 International Monetary Fund (IMF), 2018.

6 IBGE, State of Amapá GDP/2016.

7 Cutbacks in public investment are normally the most immediate adjustment factor governments use to balance their fiscal results. In Amapá, the reduction came from ceasing to use the line of credit available under the regional integrated human development program operated by the BNDES.

8 See Evolución Económica Fiscal de AP-2013-2018.

9 IBGE. GDP US$4.3 billion; per capita GDP US$5,200; population 830,000.

10 From the central government to the states (Article 159 of the Federal Constitution).

11 Boletim das Finanças Públicas dos Entes Subnacionais–dez/2018, STN, 2018.

promote: (i) strengthening the administration of public expenditure; (ii) making use of the SPED and digital technologies; and (iii) simplifying tax compliance for a better business climate.

1.9 The effectiveness and efficiency of public institutions is limited by the restrictions faced by their 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, the State needs to address remaining weaknesses that limit its fiscal performance. In the area of human resources, SEFAZ/AP has a payroll of close to 352[12] but has no evaluation methodologies or procedures for resizing the workforce that would enable it to quantify and obtain information on employee profiles and makeup, which means that personnel is not assigned in function of the institution's current and future needs and does not allow for better direction of skills-based training.

1.10 As for technological constraints, SEFAZ/AP's IT infrastructure is at the limit of its processing and storage capacity.[13] According to estimates, its computer, telecommunications, and security infrastructure will be insufficient by 2020. As a result of the recent introduction of electronic consumer billing, Amapá expects to issue more than 55 million invoices in 2020, with the number rising to over 100 million in 2027, which demands an increase in IT infrastructure capacity. Market availability of leading-edge technologies opens the door to sustainable, secure, and efficient expansion.

1.11 Lastly, with regard to the legal framework,[14] although the State's tax code has been consolidated into a single law, there are different regulatory instruments, decrees, instructions, and rulings that are out of date and not harmonized, which threatens legal certainty in the application of the tax code.

1.12 In this context, the State asked the Bank for support to mitigate the main problems and their causes that affect its fiscal balance, as described below.[15]

1.13 **In financial management and fiscal transparency,** SEFAZ/AP's corporate processes related to governance and strategic management, personnel and technology management, and communication with citizens are not sufficiently developed or integrated, hindering institutional performance. This is because:

a. Shortcomings exist in strategic management relating to: (i) the absence of a strategic vision and representative indicators to evaluate and take decisions on the State's fiscal management;[16] (ii) weaknesses in identifying the magnitude of risks, which stand in the way of attaining strategic and operating objectives;[17] (iii) all of SEFAZ/AP's administrative processes are manual;[18] (iv) difficulties encountered by internal control in identifying high-risk players

[12] Technical note. Human resources.

[13] Technical note. Information technology.

[14] Technical note. Tax policy.

[15] The diagnostic included an evaluation using the MD-GEFIS.

[16] Technical note. Strategic management. In 2018, SEFAZ/AP met just 20% of its planned strategic goals.

[17] Technical note. Strategic management. Only the risks of the LRF are evaluated.

[18] Technical note. Strategic management. Approximately 260 types of processes are performed manually in SEFAZ/AP.

and processes;[19] (v) difficulty by the inspector general's office (corregedoria) in evaluating the ethical conduct of employees;[20] and (vi) difficulty in consulting information on administrative and tax processes on account of the large number of documents on paper.[21]

b. Personnel management has shortcomings that jeopardize the quality of State services, because: (i) strategic information is insufficient to support decision-making and reorganize human resource policies and processes;[22] and (ii) the training offered by SEFAZ/AP is neither systematic nor based on the skills profiles of employees as they relate to their duties.[23]

c. The technology infrastructure that hosts different State management and information systems has major vulnerabilities, because: (i) information and communication technology (ICT) strategic and management tools are not properly defined and documented;[24] (ii) there are weaknesses in the tools for protecting information security and physical access; and (iii) the technology infrastructure does not have the capacity to handle the large volume of data that the new fiscal instruments demand, in particular the Nota Fiscal Eletrônica [electronic tax invoicing] (NF-e).[25]

d. Scant participation by society in the control of fiscal management because: (i) the financial information and economic and social indicators available to the public are insufficient and difficult to understand;[26] (ii) SEFAZ/AP's transparency portal does not integrate information from system databases in management areas and uses language that is too technical to be understood by ordinary citizens;[27] and (iii) the tax education program is not well known and does not include most of state's municípios.[28]

1.14 **In tax administration and litigation,** collections do not live up to their potential. This is due to:

a. Inefficiency in the tools to support tax management and policy because of: (i) difficulties in estimating the value added of the tax concessions given with

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[19] Technical note. Strategic management. No evaluation of internal control has ever been performed.

[20] Technical note. Strategic management. SEFAZ/AP's code of ethics is not applied in correction processes since it is out of date.

[21] Technical note. Strategic management. Close to 400,000 files are processed physically (on paper).

[22] Technical note. Human resources. No technology training tools are available to support human resources management or knowledge management.

[23] In 2018, of SEFAZ/AP's 352 employees, none received training on the basis of a skills assessment. Just 79 of 391 employees received training.

[24] Technical note. Information technology. There were 238 hours of downtime owing to attacks and problems with technological infrastructure.

[25] Technical note. Information technology. In all, 95% of storage and processing capacity is already in use. Redundant servers are regularly used for processing.

[26] Technical note. Tax transparency and education. Information on the transparency portal is updated manually.

[27] Technical note. Tax transparency and education. The SEFAZ/AP portal receives a rating of 5.99 points out of a maximum of 10, which is the lowest in the 27 states.

[28] Technical note. Tax transparency and education. Just one of the 16 municípios has a tax education program.

today's inadequate management tools;[29] (ii) difficulty in consolidating and keeping tax legislation up to date and in responding to internal and external consultations;[30] and (iii) difficulties in estimating the tax gap.[31]

b. Difficulty encountered by taxpayers in complying effectively and on time with tax procedures and obligations because: (i) despite the fact that the integrated tax administration system (SATE) is integrated into the national network for simplification of registration and legalization of companies and businesses (REDESIM) and the SPED, it is still not integrated with other necessary and important institutions;[32] (ii) poor efficiency in managing the inheritance tax (ITCMD), because most procedures are done manually; (iii) taxpayers registered in the ICMS alternative payer system[33] have to fill out 12 returns to comply with their obligations; (iv) taxpayers have a fragmented view of their import processes in SEFAZ/AP;[34] and (v) it is complicated for taxpayers and for SEFAZ/AP to solve problems related to compliance with the motor vehicle ownership tax (IPVA) because the management system is in the Transit Department, not in SEFAZ/AP.

c. Difficulty in effective monitoring of all taxpayers owing to: (i) lack of capacity to perform ex ante audits of a large amount of information (mainly electronic billing); ex post audits take a long time to perform;[35] and (ii) the system for managing goods in transit has no mechanisms for risk classification or appropriate control equipment. No scales are available to weigh freight units at the main inspection point.[36]

d. Inefficiency in managing litigation and active taxpayer debt owing to: (i) difficulty in exchanging information between courts of the first and second instance and with the State Attorney General's Office (PGE), mainly because most procedures are manual;[37] (ii) slowness in reaching a final decision (second instance) in administrative litigation owing to incompatibilities between procedural processes and the computerized information system; and (iii) the current system does not allow for reporting the results of consultations and does not calculate the interest on fines for taxes owed.[38]

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[29] Technical note. Tax policy. The State foregoes about 10% of potential collections.

[30] Technical note. Tax policy. One law (the tax code) and four regulations exist for taxes that are out of date.

[31] Technical note. Tax policy. The fiscal gap is estimated to be about 30% (see the impact evaluation).

[32] Technical note. Tax administration. With the fire department, health surveillance, and agricultural protection and control, environment, and the 16 municipalities.

[33] A tax undertaking whereby a taxpayer, through a legal mandate, replaces the original taxpayer who incurred the obligation and takes it over.

[34] Technical note. Tax administration. SATE has no ability to manage foreign trade.

[35] Technical note. Control. A full audit takes 240 days.

[36] Technical note. Control. In 2018, 30,597 freight units with a value of R$4.3 billion passed through the main port.

[37] Technical note. Tax litigation. Approximately 90 days between the date the tax claim is filed and completion of the process in the first instance.

[38] Technical note. Tax litigation. In 2018, the average litigation process (second instance) lasted 1.5 years.

e. Ineffective taxpayer service to support compliance with tax obligations owing to: (i) the existence of a large number of in-person transactions because in many cases problems cannot be resolved online;[39] (ii) SEFAZ/AP has no call centers, and there are only a few service offices (taxpayers outside the capital have to travel there to solve tax problems);[40] and (iii) physical premises for taxpayer services are inadequate, and there are no mechanisms for evaluating service quality.[41]

f. Inefficient collection and control of taxes owed, due to: (i) difficulties in timely identification and notification of taxpayers who owe money or are in arrears (the system does not automatically detect those taxpayers, management reports are deficient, and notice is served manually);[42] (ii) the refund/clearing/recovery process is manual; and (iii) the subdividing process can only be conducted in person.[43]

1.15 There are difficulties in **public expenditure management** that lead to wide differences between the priorities established in the planning tools, the budget planned at the start of the fiscal year, and the budget actually executed.[44] This is due to:

a. Inefficiencies in managing public investment owing to: (i) inefficient execution of State projects;[45] (ii) insufficient methodologies and tools for determining investment priorities;[46] (iii) delays in executing investment projects;[47] and (iv) poor understanding by civil servants of how to manage public investments.[48]

b. Shortcomings in public financial management tools owing to: (i) dissociation between financial programming, the tendering process, and cash management (furthermore, cash management procedures are performed manually);[49] (ii) impossibility of effective control over contracts and agreements; and (iii) difficulty in providing precise information for calculating

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39 Technical note. Taxpayer service. The average time taken to assist a taxpayer is 60 minutes. The ideal would be 10 minutes.

40 Technical note. Taxpayer service. There are only three service offices for 16 municípios.

41 Technical note. Taxpayer service. Just 10 out of 50 services can be performed online.

42 Technical note. Collection. In 2018, the balance of arrears payments was R$3.67 million. Outstanding debt in declared value was R$2.36 million. There were 212 omissions. Information on collections takes a week to reach the treasury.

43 Technical note. Collection. Information on tax collection takes a week to reach the financial system (SIPLAG).

44 In 2017, the difference between the planned and executed budgets was 4%.

45 Technical note. Investment management. The average cost overrun in project execution is 41%.

46 Technical note. Investment management. One hundred percent of projects have no preinvestment studies.

47 Technical note. Investment management. In all, 80% of the projects begun in the last five years will not be completed.

48 Technical note. Investment management. All told, 70% of employees in investment areas are not specialists in public investment.

49 Technical note. Financial management. The debt stock from earlier years is R$3.63 million.

the share going to municípios, since the calculation is performed manually and is inconsistent.[50]

c. Inefficiency in the State's public procurement processes because of: (i) difficulty in overall procurement planning;[51] (ii) difficulty in conducting procurement processes because the system has different weaknesses;[52] and (iii) difficulty in completing bids because the reference prices are not compatible with market prices in Amapá.[53]

d. Insufficient timely and reliable accounting information for decision-making, because the different systems that generate that information are not integrated.[54] Bank reconciliation is performed manually.[55]

e. Insufficient control over the public debt and its strategic management because all debt management is performed manually on checklists. No scenarios are simulated to improve the debt profile.[56]

f. Inefficiency in managing the quality of spending, wasting public resources, because: (i) the current model is mainly based on the quantitative aspects of financial execution, few evaluations are performed of the effectiveness and quality of spending, and no common indicators are available to measure public expenditure;[57] and (ii) insufficient information is available to generate reports for managing the quality of expenditure.[58]

1.16 **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 Tax Administration Program for the Brazilian States (PNAFE) (loan 980/OC-BR) and the PROFISCO I CCLIP (BR-X1005). It also supported the Fiscal Modernization Project in the State of São Paulo,[59] the Program to Support Fiscal Management Modernization and Transparency in the State of Bahia,[60] and

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50 Technical note. Financial management. In 2018, the rate for the município of Santana fell by 5%.

51 Technical note. Procurement management. In all, 22 of the 55 State institutions are not yet integrated into the procurement centralization process, and only three are partly integrated.

52 Technical note. Procurement management. In 2018, 36 procurement processes out of a total of 95 had to be repeated because of system deficiencies.

53 Technical note. Procurement management. Of 76 sessions in 2018 involving 356 lots, 216 were not successfully completed.

54 Technical note. Accounting management. SIPLAG, SATE, SIGA (integrated administrative management system), SIGRH (integrated human resources system), and GETRAN (transit management system). The three branches of government and social security work with different systems and are not integrated.

55 Technical note. Accounting management. The State's five main systems are not integrated. In 2018, 43,106 inconsistencies were found in the balance sheet; just 160 of the 3,500 government properties are regularized.

56 Technical note. Public debt. Contractual debts involve internal and external loans, social security debt, floating debt, and promissory notes representing R$3.8 billion which are controlled manually (three times the amount collected in taxes).

57 Technical note. Quality of expenditure. The State's four corporate systems do not have the interfaces to provide the information needed to manage public costs.

58 Technical note. Quality of expenditure. Vehicle rentals may exhibit discrepancies in value of up to 30%. In 2018, duplicate electricity payments of approximately R$3 million were reported.

59 Loan 1543/OC-BR.

60 Loan 1727/OC-BR.

Fiscal Stability Consolidation Projects in the States of Amazonas, Alagoas, Bahia, Pernambuco, and Rio Grande do Sul.[61] At other levels of government, the Bank supported the Federal Revenue Service Tax Modernization Program and the Fiscal Management Program for Brazilian Municipios (PNAFM I, II, and III).[62]

1.17 According to the midterm evaluation of the PROFISCO I CCLIP, 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%.

1.18 **Lessons learned from the Bank's operations in the country.** The main lessons learned from previous programs are:

a. The need to address the fiscal management problem through a specialized tool, considering best practices in the field. The MD-GEFIS evaluation methodology was developed in response to this lesson.

b. In terms of achieving outcomes, the outputs making the biggest contribution to increasing the efficiency of the States' tax audits were the SPED, including the NF-e, Escrituração Fiscal Digital [digital tax accounting] (EFD), and Escrituração Contábil Digital [digital bookkeeping] (ECD) were.[63] This operation will make a major investment in the SPED's development and seek to maximize its potential by expanding the use of the information it generates to automate tax control, simplifying tax obligations and improving public procurement, etc. by leveraging new digital technologies.

c. The most relevant lessons learned contained in the recent project completion report (PCR) for the seven states in PROFISCO I (Minas Gerais, Rio de Janeiro, Piauí, Mato Grosso, Maranhão, Pernambuco, and Rio Grande do Norte) were: (i) The importance of continuing to invest in technological innovation. PROFISCO-AP includes action such as innovative large-scale control, the use of big data, and risk management in controls, as well as cognitive tools for taxpayer service. (ii) The importance of pre-planning to implement complex outputs. It was agreed with the PROFISCO-AP executing team that one priority will be to draw up the technical specifications and terms of reference for technological innovation outputs, in particular, before the start of execution, supported by consultants specializing in information technology, expenditure, and income. (iii) The importance of solid transfers of knowledge related to the software developed by external consultants. (iv) The difficulty of evaluating projects with a very large number of indicators or indicators that are difficult to measure. This last aspect was resolved across the board in PROFISCO II. Individual projects have a relevant outcome indicator for each component; those indicators are the same across all the individual projects.

d. The PCR for PROFISCO I identified that the following factors had a negative impact on project execution: (i) difficulty in developing and executing outputs

61 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.

62 Loans 1194/OC-BR, 2248/OC-BR, and 3391/OC-BR.

63 McKinsey & Company, 2014: The NF-e and the SPED increased tax evaders' risk of being identified and has helped reduce informal employment in Brazil over the past 10 years (from 55% to 40%).

on account of the lack of prior experience in project execution and in communication with the different stakeholders; (ii) difficulty in preparing terms of reference and monitoring execution; and (iii) difficulty in executing a large number of outputs. The proposed project includes actions to: (i) maintain the structure and staff of the project coordination unit (PCU) that executed PMAE/AP, including additional measures to improve coordination and communication among the output leaders and to train key players in project management and Bank policies; (ii) contract support for the preparation of terms of reference and the adoption of project management tools; and (iii) reduce the number of components and outputs and consolidate procurement processes.

1.19 **The Bank's experience in other countries of the region.** Recent Bank experience with tax administration reform in Ecuador (loan 3325/OC-EC), El Salvador (loan 3852/OC-ES), Honduras (loan 3541/BL-HO), Jamaica (loan 2658/OC-JA), and Peru (loan 3214/OC-PE); modernization of financial management systems in Guatemala (loans 2050/OC-GU and 2766/OC-GU), Guyana (loans 1550/SF-GY and 1551/SF-GY), Honduras (loan 2032/BL-HO), and Nicaragua (loan 2422/BL-NI); and projects related to public investment management in Argentina (loan 3835/OC-AR), Bolivia (loan 3534/BL-BO), Chile (loan 1281/OC-CH), Ecuador (loan 2585/OC-EC), Mexico (loan 2550/OC-ME), Paraguay (loan 3628/OC-PR), Panama (loan 2568/OC-PN), and Peru (loan 2703/OC-PE) have been considered in the present operation. The most relevant aspects include: (i) the reforms should focus on improving the institutions' business management models; (ii) widespread use of digital intelligence and risk analysis in processing information increases accuracy in tax controls; (iii) the use of leading-edge technology (big data) makes it possible to process large volumes of data; and (iv) the institutions' human capital is the most important asset to be considered in a reform.

1.20 **International evidence.** Empirical evidence demonstrates that fiscal sustainability is closely related to strong fiscal institutions.[64] 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 employee attendance can improve efficiency in the use of public resources 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 public finances that contribute to fiscal sustainability.

1.21 In terms of taxes, recent evaluations show that tax-collection performance is highly dependent on strengthening tax administrations in their organizational structure, processes, and supporting tools: (i) improving access to and the quality of information available;[65] (ii) implementing control models supported by intensive use

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

[65] 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).

of information;[66] (iii) simplifying procedures to facilitate tax compliance;[67] and (iv) defining strategies to ensure the suitability and motivation of human resources.[68] Several Latin American tax administrations have strengthened these elements, particularly Brazil and Uruguay.[69]

1.22 As for the efficiency and effectiveness of spending, different studies point to the need to establish an expenditure management system that takes a multiyear approach to budget preparation, such as a medium-term budget framework.[70] Countries with a solid medium-term budget framework tend to be more effective in attaining their fiscal goals.[71]

1.23 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the challenge of Productivity and Innovation by reducing the cost of collection[72] through the use of information and digital technologies; with the crosscutting area of Institutional Capacity and Rule of Law, by strengthening tax systems[73] and the management and planning of public resources.[74] The program contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the indicators on: (i) taxes collected as a percentage of GDP; (ii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery, through strengthening of SATE, SIPLAG, and SIGA; (iii) subnational governments benefited by decentralization, fiscal management, and institutional capacity projects; (iv) countries benefited by IDB projects to improve mobilization of domestic resources; and (v) stronger accountability in institutions. It is also aligned with the Institutions for Growth and Social Welfare Sector Strategy (document GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), and the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8), in the following dimensions: (i) improving the efficiency and quality of expenditure and service delivery; (ii) increasing tax collection; and (iii) promoting greater transparency and accountability. The project is aligned with the IDB Group's country strategy with Brazil 2019-2022 (document GN-2973), specifically through the following strategic objectives: (i) reform the structure of public expenditure (Component 3); (ii) improve the public investment system (Component 3); and (iii) promote e-government and digital solutions to foster transparency, accountability (Component 1), and efficiency in delivering public services to citizens and businesses (Component 2). It is also aligned with the crosscutting challenge of

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

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

68 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).

69 PCR 1783/OC-UR. Barreix and Zambrano (2018). Factura electrónica en América Latina. IDB.

70 World Bank (2013: 8; 1998: 32).

71 IMF (2013); World Bank (2013).

72 Outcome indicator 2 in the results matrix.

73 Impact and outcome indicators 2 and output indicators 2.1 to 2.5 in the results matrix.

74 Outcome indicators 1 and 3 and output indicators 1.1, 1.3, and 3.1 to 3.5 in the results matrix.

innovation and digital transformation (Component 2). Lastly, the operation is included in the Update of the Annex III of the 2019 Operational Program Report (document GN-2948-2).

B. Objectives, components, and cost

1.24 The project's objective is to contribute to the financial sustainability of the State of Amapá through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management. The operation will finance the following components.

1.25 **Component 1. Financial management and fiscal transparency (US$18.2 million**). This component is intended to improve management processes and tools, modernize technological infrastructure, and increase fiscal transparency with the public, fortifying SEFAZ/AP's institutional performance. It will finance:

a. **Strategic management model for SEFAZ/AP,** including: (i) a strategic plan for fiscal management[75] with planning actions by SEFAZ/AP and the Planning Department (SEPLAN/AP); (ii) a risk matrix for State fiscal management; (iii) modeling for SEFAZ/AP's administrative processes (mapping, redesign, and implementation); (iv) internal control procedure;[76] (v) corrective procedures; and (vi) process/document electronic management for administrative processes/documents.

b. **Human resources management model for SEFAZ/AP,** including: (i) mapping civil servant skills profiles; (ii) knowledge management procedures; and (iii) a skills development program.[77]

c. **Plan to modernize technological tools for governance, security, and data management in SEFAZ/AP,** including: (i) a technology master plan that takes account of the new ICT management model; (ii) SEFAZ/AP information security procedure/policy (cybersecurity) and a contingency plan; and (iii) updating computer hardware and software, including infrastructure for using big data and expanding the contingency environment to deal with breakdowns or disasters (servers, backup, safe room).

d. **Mechanisms for transparency and tax education for citizens,** including: (i) a complaints and suggestions procedure; (ii) an improved transparency portal with new procedures and technology tools for communication and transparency of State policies; and (iii) reformulation and expansion of the tax education program, including an awareness campaign with specialized events.

1.26 **Component 2. Tax administration and litigation (US$9.4 million).** The component seeks to heighten tax collection efficiency, increase revenues, and simplify tax compliance. It will finance:

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75 Fiscal management includes: SEFAZ/AP, SEPLAN/AP, the State's Administrative Department, PGE/AP, and the State Comptroller General.

76 Methodology, processes, and computerized system.

77 This will include actions to mitigate resistance to changing over to the new processes and systems.

a. **Tools to support State tax policy,** including: (i) review and updating of legislation, supported by a tool for its consultation; (ii) updating of procedures to manage tax concessions and a supporting information system; and (iii) methodology for estimating potential tax receipts.

b. **State tax administration system (SATE),** including: (i) full integration of SATE with REDESIM, the SPED, e-Social, and other necessary institutions; (ii) automated control of the inheritance tax (ITCMD), integrated with notary offices and the State courts; (iii) simplification of tax obligations through the use of information from inter-state operations and the digital tax accounting of other federal units; (iv) implementation of a foreign trade control module in SATE to integrate the foreign trade system; and (v) implementation of the IPVA module in SATE.

c. **SEFAZ/AP model for electronic tax control and intelligence,** including: (i) updating the procedure for large-scale, risk-based tax control and audits, through improvements in SATE's control module; (ii) implementation of the tax intelligence module (data warehouse and big data*)*; (iii) update of the model for controlling the transit of goods including updating of SATE; and (iv) improvement in the physical infrastructure (remodeling) and technological infrastructure of tax service offices.

d. **SEFAZ/AP tax litigation and outstanding debt model expanded,** including preparation and introduction of: (i) revised litigation procedures in courts of the first and second instance and for the outstanding debt; and (ii) SATE module that integrates and enables control of processes between courts of the first and second instance, collections, the integrated planning, budget, and management system (SIPLAG), the PGE's outstanding debt, and the protocol and monitoring in the judicial branch.

e. **SEFAZ/AP comprehensive taxpayer service model,** including: (i) a new procedure for electronic taxpayer services with a rethinking of SEFAZ/AP's portal (legislation, registration, services, electronic tax domicile, processes, FAQs, and chat); (ii) digital tools for service; and (iii) procedure for in-person service through improvements and physical upgrades to the tax offices at Santana, Laranjal, and Oiapoque, including user satisfaction surveys.

f. **SEFAZ/AP model for tax claim recovery,** including: (i) a new procedure for risk-based administrative collections; (ii) a procedure for controlling refund/clearing/recovery; and (iii) restructuring the debt-financing procedure.

1.27 **Component 3. Financial management and public expenditure (US$1.6 million**). This component is intended to contribute to fiscal discipline and make public expenditure more efficient and effective. It will finance:

a. **Implementation of a model for managing the State public investment cycle,** including: (i) proposed business model for the State public investment cycle (cycle, planning, preinvestment, investment, monitoring, and evaluation); (ii) training plan (courses and materials) and implementation strategy; (iii) information system for managing the public investment cycle (modules for the different stages); and (iv) State Public Investment Office.

b. **Expansion of the SEFAZ/AP financial management model,** including: (i) methodology for managing cash flow and the SIPLAG monitoring module; (ii) integrated services contract management procedure, with a module in SIPLAG; and (iii) procedure for distributing quotas to the municipios participating in the ICMS, including automatic calculation and distribution of the municipal share and training in statistical and economic models.

c. **State procurement management model,** including: (i) redesign of the organization and processes for procurement and strategic contract planning (services, goods, procurement of materials, evaluation of the information system, and proposed improvements); (ii) updating of the integrated administrative management system (SIGA) for registering suppliers, contract management, automation of processes, and interface with SIPLAG; and (iii) methodology for better estimates of reference prices.

d. **Expansion of the SEFAZ/AP accounting management model**, including implementation of the SIPLAG accounting module for bank reconciliation and its integration with other State systems such as: (i) SATE; (ii) SIGA; (iii) SIGRH; (iv) GETRAN; and (v) the Integrated Social Security System.

e. **Implementation of the State public debt management model,** including: (i) strategic procedures, rules, and guidelines for debt management (criteria, results evaluation compared to management objectives, generation of balances, projections); and (ii) introduction of the public debt management model in SIPLAG to include new procedures.

f. **Model for managing the quality of State public expenditure,** including: (i) mapping of processes to control costs, definition of cost centers, and a methodology for evaluating unit costs; and (ii) integrated system for reporting and costing information in the units through interfaces with the different state systems, including the use of business intelligence with the information compiled.

1.28 The project will finance the following investment categories for all the components: (i) training US$979,179 (3%); (ii) consulting services US$4,537,778 (14%); (iii) goods US$14,756,958 (45%); (iv) nonconsulting services US$9,200,967 (28%); and (v) works US$3,525,119 (11%).

1.29 The project will also finance monitoring, evaluation, and auditing costs for US$513,889 and administration costs for US$236,111.

1.30 **Beneficiaries.** The greater fiscal sustainability of the State of Amapá will benefit its residents, companies, taxpayers, public agencies, and nongovernmental institutions, through better services, facilities, lower tax compliance costs, and more information available for State management and accountability.

C. Key results indicators

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

1.32 **Cost-effectiveness analysis.** A cost-effectiveness analysis of the project was performed to estimate its effectiveness compared to three different PROFISCO I projects whose results were evaluated in their PCRs and considered satisfactory. The variables used were project costs and the tax administration collection efficiency ratio.[78]

1.33 As illustrated in Table 1, with the project the State of Amapá will have an efficiency ratio of 5.85%, which is a 22.45% increase and considerably higher than the average for the three comparator states (17.19%). As for sensitivity, it is estimated that Amapá will need to achieve a minimum efficiency ratio of 6.2% to obtain effectiveness of 17.81%, which will be better than the average for the other three states (see the Cost-effectiveness evaluation).[79]

Table 1. Project cost-efficiency estimate (US$)

PROFISCO I states	Project cost (C)	Efficiency ratio before	Efficiency ratio after	Effectiveness (E)	Average cost effectiveness (ACE)= C/E
Mato Grosso do Sul	16,724,915	7.95	7.56	4.906	3,409,310
Piauí	23,521,254	9.24	6.21	32.792	717,282
Pernambuco	23,001,307	4.54	3.91	13.877	1,657,554
Weighted average				**17.19**	**1,928,049**
Amapá (2025) Base case scenario	**33,000,000**	**7.54**	**5.85**	**22.45**	**1,470,192**
Amapá (2025) Sensitivity	**33,000,000**	**7.54**	**6.2**	**17.81**	**1,853,301**

II. Financing Structure and Main Risks

A. Financing instruments

2.1 This operation has a total cost of US$33 million, financed through a specific investment loan with funds from the Bank's Ordinary Capital for US$30 million and a local counterpart contribution of US$3 million. The breakdown of resources by source of financing and category is given in the table below (Itemized budget):

Table 2. Total budget (US$)

Category	IDB	Local	Total	%
1. Direct costs	**29,250,000**	**3,000,000**	**32,250,000**	**97.73**
1.1 **Component 1.** Financial management and fiscal transparency	18,216,665	833,335	19,050,000	**57.73**
1.2 **Component 2.** Tax administration and litigation	9,433,335	2,166,665	11,600,000	**35.15**
1.3 **Component 3.** Financial management and public expenditure	1,600,000	-	1,600,000	**4.85**
2. Project management	**750,000**	-	**750,000**	**2.27**
Total	**30,000,000**	**3,000,000**	**33,000,000**	**100**

[78] Measured by the ratio between the administrative cost of collection and tax revenue intake. The lower it is, the better the results.

[79] Average cost effectiveness was also compared.

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

Table 3. Disbursement schedule (US$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	1,974,247	5,998,144	7,609,185	10,448,354	3,970,070	30,000,000
Local	83,333	341,666	750,000	1,102,085	722,916	3,000,000
TOTAL	**2,057,580**	**6,339,810**	**8,359,185**	**11,550,439**	**4,692,986**	**33,000,000**
%	6	19	25	35	14	100%

2.3 **Fulfillment of the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** The project fulfills the eligibility criteria envisaged in the CCLIP policy (document GN-2246-9)[80] for individual loan operations, given that: (i) it is in the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) the operation is included in the Update of the Annex III of the 2019 Operational Program Report (document GN-2948-2); (iii) the executing agency executed the PMAE/AP, which is similar to PROFISCO, the final report for which indicated that all the objectives were satisfactorily met and 100% of the funds disbursed. The coordination unit of the proposed operation will be the same unit that executed the PMAE/AP. Furthermore, the criteria for PROFISCO II are met (document PR-4546, paragraph 1.23b), since the State is an eligible borrower and already has a favorable recommendation from the External Financing Commission;[81] and (iv) the institutional analysis found that SEFAZ/AP gives no cause for concern regarding its capacity. It satisfactorily executed a similar project (PMAE/AP), and adequate execution and monitoring instruments can be used for this operation.

B. Environmental and social risks

2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (operational policy OP-703) and the results of the Safeguard Policy Filter, this is classified as a Category "C" operation. The project will support strengthening of tax and financial processes and does not involve infrastructure works or require the purchase of land. It is limited to renovating and upgrading existing facilities. Accordingly, no socioenvironmental risks are anticipated.

C. Fiduciary risks

2.5 The fiduciary risk was classified as medium. Although SEFAZ/AP has experience in project execution as demonstrated in PMAE/AP, delays could arise in project procurements, particularly in reporting and disbursements, owing to the State's lack of experience executing investment projects using the Bank's fiduciary policies. This risk will be mitigated through Bank assistance for the executing team through an intensive training program in project management and in the use of Bank policies and procedures.

D. Other risks and key considerations

2.6 The operation is classified as posing medium risk. The risks identified are:

[80] This operation was prepared in accordance with the eligibility criteria set forth in document GN-2246-9, pursuant to paragraph 3.12 of document GN-2246-13.

[81] Resolution 02/0133 of 7/12/2018.

a. **Fiscal sustainability.** There is a medium risk that difficulties may arise in obtaining the expected outcomes, particularly the increase in tax receipts, on account of external shocks such as slower economic growth in Brazil, a deterioration in global financial conditions, or changes in commodities prices. This risk cannot be completely mitigated. However, in the event the risk materializes, the actions envisaged in the project will be a considerable help to the State in addressing them from a more robust financial position, which will cushion the fiscal and economic impacts.

b. **Public management and governance.** The following risks are classified as medium: (i) delays in executing project activities because SEFAZ/AP lacks sufficient governance capacity to promote the necessary interdepartmental coordination (SEPLAN, SEAD, and the PGE); and (ii) SEFAZ/AP may have difficulty implementing the new procedures and systems in its administrative and operating areas as a result of a negative reaction by its personnel to the organizational and functional changes. These risks will be mitigated, respectively, through: (i) agreements signed by SEFAZ/AP, SEPLAN, SEAD, and the PGE setting out responsibilities for the proper use and maintenance of the outputs financed; and (ii) actions to mitigate resistance to changing over to the new processes and systems.[82]

c. **Sustainability.** There is a medium risk of discontinuity in the new processes implemented, systems obsolescence, and deterioration of technological infrastructure because the State does not have sufficient funds or a strategy to guarantee that the results will not deteriorate after the end of the project. This risk will be mitigated through a permanent training program for operational and information technology staff and through the use of clauses in contracts with systems and hardware infrastructure suppliers, including long-term maintenance support.[83]

d. **Development**. There is a medium risk of delays in implementing project outputs because SEFAZ/AP lacks sufficient institutional and technical capacity for the modernization, particularly in preparing terms of reference and technical specifications for the new processes and information systems. This risk will be mitigated by contracting specialized consulting services (financed as part of project management) in information technology to support SEFAZ/AP's staff in preparing terms of reference and technical specifications and to provide support in technical aspects of income and expenditure, as necessary, throughout the project execution period (financed by Component I.b).

[82] This will be financed as part of the operation's specific activities (Component 1: SEFAZ/AP human resource management model).

[83] The processes and systems mentioned are chiefly related to the following program activities: Component 2-(i) tax control and intelligence, which will allow more potential tax evaders to be identified and encourage their self-regularization; Component 3-(ii) use of tax documents to set reference prices for public procurements, which will save time and resources in bidding processes; and (iii) strategic management of State assets, which could generate additional nontax income or optimize current income. With respect to investments in technology (Component 1) SEFAZ/AP will mainly use its in-house staff and consulting services to support the necessary developments and maintenance. The project will finance improvements in data protection and cybersecurity measures.

2.7 **State fiscal analysis.** Technically, the State of Amapá is classified as "B" in the STN's capacity to pay methodology (CPAG), which means that it has satisfactory levels of: (i) debt; (ii) current savings; and (iii) financial liquidity. Accordingly, the State is authorized to contract new loans with a sovereign guarantee by the central government. Notwithstanding, the State believes that it could temporarily (next six months) encounter problems with cash availability, which would force it to suspend payment of some of its financial commitments so as not to affect its payroll. In this scenario, the State petitioned the Supreme Court for a temporary suspension of the potential execution of counter-guarantees by the central government, until the State can join the Fiscal Balance Program (PEF) and receive the necessary financial assistance. The Supreme Court granted the State's request to join that program but, as a cautionary measure, the STN downgraded the State to "C," until its fiscal situation can be clarified (see Fiscal Analysis of Amapá). It should be noted that the reclassification from "B" to "C" is not an indication of any noncompliance with the LRF in terms of contracting loans.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower is the State of Amapá, which will execute the project through SEFAZ/AP, and the Federative Republic of Brazil is the guarantor of the loan. A project coordination unit (PCU) will be established to execute the project, with a coordinator and specialists in procurement, financial administration, monitoring, and planning. The PCU will coordinate the project's planning, monitoring, evaluation, and auditing activities.

3.2 The PCU's main functions will be to: (i) plan the execution of activities; (ii) prepare, implement, and update the following operating tools: the multiyear execution plan, the annual work plan, the procurement plan, and the monitoring and evaluation plan; (iii) supervise execution and submit status reports; (iv) coordinate and carry out the processes for preparing terms of reference, bidding, procurement of goods, and selection and contracting of services; (v) present justifications and disbursement requests to the Bank; and (vi) prepare the financial statements; and (vii) submit the project evaluation. The borrower will adhere to the program Operating Regulations approved by the Bank for the PROFISCO II CCLIP, which describe: (i) eligibility criteria for financeable projects and outputs; (ii) project execution functions, procedures, and rules; and (iii) operational and contractual relationships between the parties involved in the project.

3.3 **Interagency coordination mechanism.** SEFAZ/AP will cooperate with SEPLAN, SEAD, and the PGE in executing the activities to benefit them. Those institutions will appoint leaders for the pertinent outputs who will coordinate with the PCU and oversee their technical development and implementation. Mapping and a determination of information and process flows between beneficiaries will be used to coordinate procurements related to human resource management, purchasing, public expenditures, tax litigation, internal control, and communication with the public, identifying the roles, responsibilities, and timeframes to be institutionalized through cooperation instruments (paragraph 3.5).

3.4 **Special contractual conditions precedent to the first disbursement: (i) The borrower has adhered 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 establish 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 subject to periodic review and may be modified with the Bank's express approval. (ii) **The 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 to work on the project's operational and fiduciary processes full time and with the required experience.

3.5 **Special contractual conditions for execution.** Prior to beginning execution of activities with outputs intended for SEPLAN, SEAD, or the PGE, SEFAZ/AP will sign instruments of cooperation with each of those institutions to establish the roles and responsibilities of the parties during execution. This condition is justified by the need to ensure that the beneficiaries cooperate as necessary with SEFAZ/AP, which will be responsible for executing the activities.

3.6 **Procurement.** Procurement processes will be carried out by a Special Bidding Committee appointed for the program, with the capacity to meet the demand for procurements and contracts in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) and the procurement plan. No advance procurement or retroactive financing is envisaged.

3.7 **Direct contracting.** The following direct contracts will be entered into, based on the policies set forth in documents GN-2349-9 and GN-2350-9: (i) Training. On the federal level, the National Public Administration School of the Ministry of Economic Affairs. On the state level, the government's civil service training schools and data-processing companies. This is justified by their unique and exceptional natures as government teaching and research centers. (ii) SIGA system maintenance by AZ-Informática Ltda. (iii) Technical services for the user service center by Indra Brasil. (iv) Development of new modules for SIPLAG by Logus-Sistema de Gestão Pública Ltda. (v) Information technology analysis, research, and advisory services by Gartner do Brasil Serviços de Pesquisas Ltda. The direct contracts in items (ii)-(v) are justified because these companies are already performing the activities satisfactorily (see Annex III, Section IV, B).

3.8 **Audited financial statements.** The borrower will submit audited financial statements to the Bank annually, within 120 days following each fiscal year-end. The audits will be performed by an independent consulting firm contracted with loan proceeds.

B. Summary of arrangements for monitoring results

3.9 **Monitoring.** This will be based on the: (i) multiyear execution plan and annual work plan; (ii) procurement plan; (iii) results matrix; and (iv) monitoring and evaluation plan. The PCU will prepare semiannual reports on progress in complying with the targets for outcomes and outputs, and the financial targets for approval by the Bank, which will pay inspection visits and conduct ex post reviews as part of project monitoring.

3.10 **Evaluation.** The project will be evaluated in accordance with the targets and annual outcome and output indicators in the results matrix, through a comparison of results before and after the project. The monitoring and evaluation plan envisages an independent midterm and final evaluation.[84] If necessary, 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 send the Bank a final evaluation 90 days after the date of the last disbursement, to be used as an input for the PCR. The monitoring and evaluation plan includes an impact assessment using a randomized controlled experimental methodology.

[84] The evaluation will be based on the sub-output "updating the control model for transporting goods," as this is among the most relevant for the State, because it is primarily a goods importer, and low levels of inspection at the borders can result in significant revenue losses. This evaluation is consistent with the evaluation program proposed for the PROFISCO II CCLIP, because it seeks to measure taxpayer behavior as regards tax compliance as a result of specific actions financed by individual operations. All the evaluations follow the same line, but each is based on the most relevant action for the State.

Development Effectiveness Matrix		
Summary	BR-L1525	
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 (#)* -Countries benefited by IDB's projects aimed at improving domestic resource mobilization (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2973	(i) reform the structure of public spending (component III); (ii) improve the public investment system (component III); and (iii) use electronic government and digital solutions to promote transparency, accountability (component I) and efficiency, improving services to citizens and businesses (component II).
Country Program Results Matrix	GN-2948-2	The intervention is included in the 2019 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	9.4	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.4	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	2.2	
4.2 Identified and Quantified Benefits and Costs	3.3	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.2	
4.5 Consistency with results matrix	1.4	
5. Monitoring and Evaluation	8.6	
5.1 Monitoring Mechanisms	1.8	
5.2 Evaluation Plan	6.8	
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. Procurement: Information System, Price Comparison, Contracting Individual Consultant.
Non-Fiduciary	Yes	Strategic Planning National System, Statistics National System, Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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 methodology (MD-GEFIS) to assess the state of public finances and fiscal mangement processes in the State of Amapá to design the project and to monitor future performance against the baseline.

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

Evaluability Assessment Note:

The main goal of the operation is to contribute to the fiscal sustainability of the State of Amapa. To achieve this end, the proposal 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 document includes a description of the process gaps that lead to weaknesses in each of these three areas. The project is the child of a series of operations under the Conditional Credit Line for Investment Projects (CCLIP) parent BR-X1039.

The project proposal diagnoses a primary balance as a share of the State PIB of 3.3 percent in 2018, and a Current Net Debt as a share of the State PIB of 7.1 Percent (SEFAZ, 2018). The diagnosis is based on the MD-GEFIS tool which analyzes processes in the three main areas which define the components. The Ministry of Finance provides a diagnosis for a total of 21 sub areas. Each diagnosis identified the main restrictions for the Ministry to increase tax revenue, decrease running costs or improve efficiency in expenditures, and improve service delivery to citizens. Overall, the diagnosis identifies gaps in institutional arrangements (such as weak coordination and outdated legal documents), deficits in personnel management and training, and gaps in capital investments (resulting in outdated technological infrastructure, limited availability of information, and lack of mechanisms to communicate with citizens). The quantification of these needs is disaggregated for 16 processes.

The cost-effectiveness analysis compares the tax revenue efficiency targets of the proposed project to that of other three projects rated as satisfactory under the partial PROFISCO I evaluation. The analysis compares the cost to achieve a level of tax cost per dollar collected. The analysis includes a sensitivity analysis and concludes the project is cost effective relative to the two comparison PROFISCO I projects.

Monitoring relies on reports by the Revenue Secretariat of the State, the State Attorney General, and the Planning Secretariat. The ex post evaluation plan includes an impact evaluation to identify the effects of electronic auditing and auto-regularization services on tax revenue. The evaluation relies on a randomized control trial.

The project identifies six risk and are all classified as medium. The risks matrix lists mitigation actions for each identified risk.

RESULTS MATRIX

Project objective:	The objective is to contribute to the fiscal sustainability of the State of Amapá through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management.

EXPECTED IMPACTS

Indicator	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Impact 1 – Increase in the ratio between tax revenue and GDP in Amapá											
Tax revenue/GDP	%	5.81	2018	5.81	5.81	6.07	6.32	6.58	6.58	Annual balance sheet, SEFAZ/AP	See the Monitoring and evaluation plan
Impact 2 – Increase in the ratio between the primary balance and GDP in Amapá											
Primary balance/GDP	%	3.28	2018	3.28	3.28	3.28	3.28	3.28	3.28[1]	Annual balance sheet, SEFAZ/AP	See the Monitoring and evaluation plan
Impact 3 – Reduction in the ratio between the net current debt and GDP in Amapá											
Net current debt/GDP	%	7.1	2016[2]	7.1	7.1	6.8	6.5	6.0	6.0	Annual balance sheet, SEFAZ/AP	See the Monitoring and evaluation plan

[1] The primary balance is expected to remain positive and constant.

[2] The year 2016 was used as the baseline because of the difficulties that arose in 2017 and 2018 involving the deductions used to calculate the net current debt.

EXPECTED OUTCOMES[3]

Indicator	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
OUTCOME 1: Increase in the ratio between strategic planning targets that were met and the total number of targets planned											
Number of targets met/total number of targets planned	%	20	2018	20	20	45	60	80	80	Annual report, SEFAZ/AP	See the Monitoring and evaluation plan
OUTCOME 2: Reduction in the ratio between SEFAZ's collection cost and tax revenue collected											
Collection cost/tax revenue	%	7.63	2018	7.37	7.21	6.76	6.35	5.97	5.97	Annual report, SEFAZ/AP	See the Monitoring and evaluation plan
OUTCOME 3: Reduction in the discrepancy between the planned budget and the executed budget											
Executed budget/ planned budget	%	96	2018	96.50	97	97.50	98	98.50	99	Annual report, SEPLAN	See the Monitoring and evaluation plan

OUTPUTS[4]

Indicator	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Financial management and fiscal transparency											
1.1 SEFAZ/AP strategic management model implemented	Model[5]	0	2018	0	0	0	0	6	6	Management report by SEFAZ/AP's Strategic Planning Office	See the Monitoring and evaluation plan
1.2 SEFAZ/AP human resources management model implemented	People trained	0	2018	0	100	100	100	91	391	Management report by SEFAZ/AP's Human Resources Office	
1.3 SEFAZ/AP plan to modernize technical tools for governance, security, and data management implemented	Plan	0	2018	0	0	0	2	1	3	Management report by SEFAZ/AP's Information Technology Office	
1.4 Mechanisms[6] for State transparency	Mechanisms	0	2018	0	0	0	1	2	3	Management report by SEFAZ/AP's Information	

and tax education implemented										Technology Office	
Component 2: Tax administration and litigation											
2.1 Instruments[7] to support the State's tax policies implemented	Instruments	0	2018	0	0	0	3	0	3	Management report by SEFAZ/AP's Fiscal Economic Studies Office	See the Monitoring and evaluation plan
2.2 State Tax Administration System (SATE) implemented	Modules (software)	0	2018	0	0	0	1	4	5	Management report by SEFAZ/AP's Information Technology Office	
2.3 SEFAZ/AP tax control and intelligence model implemented	Model	0	2018	0	0	0	1	2	3	Management report by SEFAZ/AP's Control Office	
2.4 SEFAZ/AP tax litigation and outstanding debt model expanded	Model	0	2018	0	0	0	0	1	1	Management report by SEFAZ/AP's Litigation and Active Debt Office	
2.5 SEFAZ/AP comprehensive taxpayer service model implemented	Model	0	2018	0	0	0	1	2	3	Management report by SEFAZ/AP's Taxpayer Service Office	
2.6 SEFAZ/AP tax claim recovery model implemented	Model	0	2018	0	0	0	3	0	3	Management report by SEFAZ/AP's Tax Credit Office	

3 The results are cumulative.

4 The results are annual.

5 "Model" is a series of activities that can include: (i) diagnostic of the current situation; (ii) proposal for change; (iii) process reengineering; (iv) an IT solution; and (v) training in the new processes and supporting tools (goods or services).

6 "Mechanisms" include: (i) procedure for citizen complaints and suggestions; (ii) transparency portal; and (iii) tax education program.

7 "Instruments" include: (i) legislation; (ii) tax concession procedure; and (iii) methodology for estimating the fiscal gap.

Component 3: Financial management and public expenditure											
3.1 Model to manage the State's public investment cycle implemented	Model	0	2018	0	0	2	2	0	4	Management report by SEPLAN's Public Investment Management Office	See the Monitoring and evaluation plan
3.2 SEFAZ/AP financial management model expanded	Model	0	2018	0	0	4	0	0	4	Management report by SEFAZ/AP's Treasury Department	
3.3 State procurement management model implemented	Model	0	2018	0	0	1	3	0	4	Management report by the State Attorney General's Office (PGE)	
3.4 SEFAZ/AP accounting management model expanded	Model	0	2018	0	0	0	4	0	4	Management report on public accounting, SEFAZ/AP	
3.5 State public debt management model implemented	Model	0	2018	0	0	0	0	1	1	Management report on the public debt, SEFAZ/AP	
3.6 State public expenditure quality management model implemented	Model	0	2018	0	0	0	0	2	2	Management report on the quality of expenditure management, SEFAZ/AP	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Brazil
Project Number:	BR-L1525
Name:	Fiscal Management Modernization Project for the State of Amapá – PROFISCO II-AP
Executing Agency:	State of Amapá, acting through its Finance Department (SEFAZ/AP)
Fiduciary Team:	David Salazar and Fábia Bueno (VPC/FMP)

I. EXECUTIVE SUMMARY

1.1 The institutional asessment of the project's fiduciary management was based on: (i) the country's current fiduciary context; (ii) the findings of the assessment of the main fiduciary risks; (iii) the MD-GEFIS report; (iv) institutional analysis; and (v) working meetings with the Project Team and SEFAZ/AP.

1.2 Brazil has robust country fiduciary systems that enable sound management of administrative, financial, control, and procurement processes, fulfilling the principles of transparency, economy, and efficiency. The executing agency's systems related to its planning and organization, execution, and control capacity exhibit an adequate level of development but, given its lack of experience in projects financed by multilateral agencies, the risk is considered medium.

1.3 SEFAZ/AP, as the executing agency, has the legal capacity to execute the project.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

2.1 SEFAZ/AP is structured into three levels of action: senior authorities; managers or intermediate area; and operations or end area.

2.2 The project will benefit SEFAZ/AP as executing agency, the Planning Department (SEPLAN/AP); the Administrative Department (SEAD/AP); and the State Attorney General's Office (PGE/AP).

2.3 Project activities will be carried out through the project coordination unit (PCU), which will be responsible for institutional and technical coordination. The PCU is a project management unit that reports to the Office of the Secretary of Finance and is established by government degree.

2.4 Procurements will be carried out by a special bidding committee appointed for the program, with sufficient capacity to meet program demand.

2.5 The executing agency is subject to both internal and external oversight. Internal control is performed by the Office of the State Comptroller General (CGE/AP) and external control by the State Audit Office (TCE/AP), which audits all State government institutions.

III. INSTITUTIONAL CAPACITY ASSESSMENT, FIDUCIARY RISK, AND MITIGATION ACTIONS

3.1 The institutional capacity assessment and its validation with SEFAZ/AP staff conclude that the executing agency has sufficient and adequate institutional capacity, with opportunities for improvement in executing Bank operations.

3.2 The fiduciary risk was classified as medium. Although SEFAZ/AP has experience in project execution as demonstrated in the PMAE/AP, delays could arise in project procurements, particularly in reporting and in disbursements owing to the State's lack of experience in executing investment projects using the Bank's fiduciary policies. This risk will be mitigated with Bank assistance for the executing team through an intensive training program in project management and the use of Bank policies and procedures.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

4.1 **Procurement of works, goods, and nonconsulting services.** Contracts subject to international competitive bidding (ICB) will be executed through standard bidding documents (SBDs) issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank.

4.2 **Selection and contracting of consultants.** These contracts will be executed using the standard request for proposals issued by the Bank. Consultants will be selected and contracted in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).

4.3 **Use of country procurement systems.** The country procurement (sub)system approved by the Bank, the Pregão Eletrônico [reverse electronic auction system] included in the SIGA and the Bank of Brazil's licitações-e [e-bidding] will be used to procure off-the-shelf goods for up to US$5 million. Any system or subsystem that is approved later will be applicable to the operation. The procurement plan and its updates will state that procurement will be executed using approved country systems.

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

B. Direct contracting

4.5 **Government schools and entities.** Given the way finance departments are structured in Brazil, outside entities are responsible for developing employee knowledge, skills, and competencies. At the federal level: (i) the Escola Nacional de Administração Pública of the Ministry of Economic Affairs (ENAP/ME) and at the state level: (i) government civil servant training schools; and (ii) data processing companies responsible for developing State information systems. As provided in paragraphs 1.11(c) and 3.10 of document GN-2350-9 and for the purpose of making the outputs developed and financed by the project sustainable, the federal and state institutions responsible for training civil servants will be contracted directly, given their unique nature and exceptional worth as government teaching and research centers. The total estimated value of these contracts is US$150,000.

4.6 **Supplier of operational, adaptive, and evolutionary maintenance of the SIGA.** As provided in paragraphs 3.10 and 3.11 of document GN-2350-9, AZ Informática Ltda will be contracted given the advantage of continuity in its services, subject to its continued good performance. The estimated value of this contract is US$255,000.

4.7 **Information technology services for user service centers, implementation of web solutions, and third-level technical support.** As provided in paragraph 3.6(a) of document GN-2349-9, Indra Brasil will be contracted to continue the services it is currently providing to supervise technological coordination in SEFAZ/AP. The estimated value of this contract is US$1.13 million.

4.8 **Development of new modules for budget, financial, asset, and accounting execution**. As provided in paragraph 3.6(a) of document GN-2349-9, Logus Sistema de Gestão Pública Ltda will be contracted to continue developing new modules for the system, of which it is the exclusive supplier. The estimated value of this contract is US$868,000.

4.9 **Analysis, research, and impartial advisory services for purchasers of information technology.** As provided in paragraphs 3.10 and 3.11 of document GN-2350-9, Gartner do Brasil Serviços de Pesquisas Ltda will be contracted on account of the advantages of continuity of services, in addition to the fact that the firm has exceptional experience and qualifications to perform the necessary consulting services. The estimated value of this contract is US$125,000.

Table 1. Thresholds for international competitive bidding and international shortlist

Method	ICB for works	ICB for goods and nonconsulting services	International shortlist for consulting services
Threshold	US$25 million	US$5 million	US$1 million

Table 2. Main procurements

Purpose	Selection method	Estimated date	Estimated amount (US$ millions)
Goods and nonconsulting services			
Continuing Professional, Personal and Practice Development (CPD Modular)	Pregão Eletrônico	2020-III	3.2
Consulting firms			
Strategic planning and outcome indicators for SEFAZ/AP and SEPLAN fiscal planning	Quality and cost-based selection (QCBS)	2020-II	0.8
Redesign of processes and routine manual management: taxation, collection, inspection, service, accounting, and finance (SEFAZ/AP)	QCBS	2020-II	0.8

C. Procurement supervision

4.10 Supervision will be ex post, except in cases where ex ante supervision is warranted, and as indicated in Table 3. Procurements processed through the country system will also be supervised through that system.

4.11 The supervision method will be determined for each selection process. Ex post reviews will be programmed in 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	Under US$1 million

D. Records and files

4.12 The PCU will be responsible for documentation of the process and will keep all documents needed for supervision and auditing purposes.

V. FINANCIAL MANAGEMENT

5.1 **Programming and budget.** SEFAZ/AP is responsible for planning the activities of PROFISCO II, and the PCU is responsible for the execution and control of activities, as envisaged in the multiyear execution plan and annual work plan. State institutions use the following planning instruments: the multiyear plan, the Lei de Diretrizes Orçamentárias [budget guidelines act] (LDO), and the Lei Orçamentária Anual [annual budget act] (LOA). The project budget will form part of the LOA.

5.2 The PCU will make sure the budgetary funds for the project, including the Bank financing and local contribution, are duly budgeted each year and secured for execution according to the project's timeline. The funds must be included in the year of execution in the integrated planning, budget, and management system (SIPLAG) as an external source. The annual budget must include the funds necessary for implementation, including both the external loan and the local contribution.

5.3 **Accounting and information systems.** In Amapá, public institutions use SIPLAG, which integrates financial, accounting, and budget management. The system is auditable and has access profiles and security guidelines. It complies with Bank requirements for controls, reporting, and financial statements and will be used in executing PROFISCO II. The project will benefit from the experience of other states that have already implemented a financial management system under PROFISCO II to generate the financial reports on disbursements and external audits required by the Bank.

5.4 **Disbursements and cash flow.** The project will use SEFAZ/AP's treasury system. Expenses will be subject to the budgetary and financial execution process and will be duly recorded in SIPLAG.

5.5 Bank funds will be administered through an exclusive bank account that will identify loan proceeds and perform the necessary bank reconciliations, including income and payments.

5.6 Disbursements will be made in U.S. dollars in the form of advances of funds. Advances will be based on a projection of financial resources for up to a maximum of 180 days. For future advances, it will be necessary to account for at least 80% of the previously advanced funds.

5.7 Expenses considered ineligible by the Bank will be reimbursed from the local contribution or from other funds at the Bank's discretion, depending on the nature of the ineligibility.

5.8 The exchange rate agreed upon with the executing agency to report on expenses paid from advances of loan proceeds will be the first-in, first-out exchange rate. To determine the equivalency of expenditures incurred from the local contribution or as reimbursements of expenditures from the loan, the exchange rate will be the buying rate set by the Central Bank of Brazil on the day preceding the effective date of submission of the request to the Bank.

5.9 **Internal control and internal audit.** Amapá has the Controladoria Geral do Estado, [State Comptroller General] (CGE) which is part of the state's executive branch and reviews SEFAZ/AP's processes and internal controls. It carries out its activities through audit coordinators, the inspector general's office (*corregedoria*), *escucha pública,* strategic activities, information technology, and administrative-financial activities. The project's activities will be subject to its oversight.

5.10 **External control and reports.** External control will be performed by a firm of Bank-eligible external auditors.

5.11 The audited annual financial statements will be submitted in accordance with terms of reference agreed upon with the Bank within 120 days after the end of each fiscal year.

5.12 **Financial supervision plan.** The plan may be altered during project execution in response to evolving risk levels or for additional control needs.

Table 4. Supervision plan

Nature—Scope	Frequency	Entity responsible	
		Bank	Executing agency
Ex post review of disbursements and procurements	Annual	Fiduciary team	PCU-External auditor
Annual audit	Annual	Fiduciary team	PCU-External auditor
Review of disbursement requests	Periodic	Fiduciary team	
Supervision visit	Annual	Fiduciary specialist	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/19

Brazil. Loan ____/OC-BR to the State of Amapá. Fiscal Management Modernization Project for the State of Amapá – PROFISCO II – AP. Ninth Individual Loan 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 Amapá, 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 Fiscal Management Modernization Project for the State of Amapá – PROFISCO II – AP, which constitutes the ninth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II, approved on 8 December 2017 by Resolution DE-113/17. Such financing will be for the amount of up to US$30,000,000, 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 _______________ 2019)

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