

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**FISCAL MANAGEMENT MODERNIZATION PROJECT OF THE STATE OF PARANÁ
PROFISCO II/PR**

(BR-L1527)

**TENTH 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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2	Monitoring and evaluation plan
3	Procurement plan
OPTIONAL	
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2	Itemized budget
3	Matrix of problems, solutions, and results
4	Paraná state fiscal data
5	Fiscal management assessment report (MD-GEFIS)
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11	Safeguard policy filter (SPF) and safeguard screening form (SSF)

ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional line of credit for investment projects
CELEPAR	Companhia de Tecnologia da Informação e Comunicação do Paraná [Information and Communication Technology Company of the State of Paraná]
CGE/PR	Controladoria Geral do Estado do Paraná [Office of the State Comptroller General]
DF-e	Documentos fiscais eletrônicos [electronic tax documents]
EFD	Escrituração fiscal digital [digital tax accounting]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICB	International competitive bidding
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [goods and services sales tax]
IPVA	Imposto sobre a propriedade de veículos automotores [property tax on motor vehicles]
IRR	Internal rate of return
LDO	Lei de Diretrizes Orçamentárias [Budget Guidelines Law]
LOA	Lei do Orçamento Anual [Annual Budget Law]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
MD-GEFIS	Avaliação da Maturidade e Desempenho da Gestão Fiscal [Fiscal Management Maturity and Performance Assessment]
MEP	Monitoring and evaluation plan
MTBF	Medium-term Budgetary Framework
NCB	National competitive bidding
NCB	National competitive bidding
NCI	Net current income
NFC-e	Nota fiscal de consumidor eletrônica [electronic sales invoice]
NF-e	Nota fiscal eletrônica [electronic tax invoice]
PAF-e	Processo Administrativo Fiscal Eletrônico [Electronic Administrative Appeal Proceeding]
PCR	Project completion report
PCU	Project coordination unit
PGE	Procuradoria-Geral do Estado do Paraná [Office of the Paraná State Attorney General]
PMR	Progress monitoring report
PNAF	Programa Nacional de Administração Fiscal [National Fiscal Administration Program]
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for Brazilian States]
PNAFM	Programa Nacional de Apoio à Gestão Administrativa e Fiscal dos Municípios Brasileiros [National Program to Support the Administrative and Fiscal Management of Brazilian Municípios]
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Tax Administrations in Brazil]

QCBS	Quality- and cost-based selection
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National Network for Simplified Registration and Legalization of Businesses and Firms]
SEFA/PR	Secretaria de Fazenda do Estado do Paraná [Paraná State Finance Department]
SEPL/PR	Secretaria do Planejamento e Projetos Estruturantes do Estado do Paraná [Paraná State Planning and Structural Projects Department]
SGT	Sistema de Gestão Tributária [Tax Management System]
SIAF	Sistema Integrado de Administração Financeira [Integrated Financial Administration System]
SIGMA.PP	Sistema de Gerenciamento, Monitoramento, e Acompanhamento de Programas e Projetos [Program and Project Management, Monitoring, and Support System]
SISCRED	Sistema de Controle da Transferência e Utilização de Créditos Acumulados [System for Control of the Transfer and Use of Accumulated Credits]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
STN	Secretaria do Tesouro Nacional [National Treasury Department]
TCE/PR	Tribunal de Contas do Estado do Paraná [Paraná State Audit Office]

PROJECT SUMMARY

BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT OF THE STATE OF PARANÁ – PROFISCO II/PR (BR-L1527)

TENTH 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 Paraná			Amortization period:	25 years	
Guarantor:					
Federative Republic of Brazil			Disbursement period:	5 years	
Executing agency:					
State of Paraná, acting through the Paraná State Finance Department (SEFA/PR)			Grace period:	5.5 years ^(b)	
Source	Amount (US\$)	%	Interest rate:	LIBOR-based	
IDB (Ordinary Capital):	50 million	91%	Credit fee:	^(c)	
			Inspection and supervision fee:	^(c)	
Local:	5 million	9%	Weighted average life:	15.25 years	
Total:	55 million	100%	Currency of approval:	U.S. dollar	
Project at a Glance					
Project objective/description: The project objective is to contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. This project is the tenth individual loan operation under the PROFISCO II CCLIP (BR-X1039), approved by the Board of Executive Directors pursuant to Resolution DE-113/17.					
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the borrower will adhere to the program Operating Regulations previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit (PCU) has been established, and its members appointed (see paragraph 3.4).					
Special contractual execution condition: Before starting to execute activities whose beneficiaries are the Office of the Paraná State Attorney General (PGE) and the Paraná State Planning and Structural Projects Department (SEPL/PR), the executing agency will sign cooperation agreements with those entities, specifying the roles and responsibilities of the parties during project implementation (see paragraph 3.5).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: ^(d)		SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting themes: ^(e)		GD	<input type="checkbox"/>	CC	<input type="checkbox"/>
				IC	<input checked="" type="checkbox"/>

^(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 the 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); and EI (Economic Integration).

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 This project is the tenth individual loan operation under the PROFISCO II conditional credit line for investment projects (CCLIP) (BR-X1039), approved by the Board of Executive Directors pursuant to Resolution DE-113/17, to consolidate the progress made by the PROFISCO I CCLIP (BR-X1005) and continue to pursue the states' fiscal management modernization.
- 1.2 The PROFISCO II CCLIP (BR-X1039) was approved in 2017 for US\$900 million with the objective of contributing 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, the Federal District, and the Federative Republic of Brazil that receive a favorable recommendation from the External Financing Commission of the Ministry of Planning (COFIEC) are eligible for the preparation of an individual operation.
- 1.3 The PROFISCO II CCLIP (BR-X1039) seeks to increase revenue intake and improve the country's business environment and competitiveness, and was primarily designed to support: (i) enhancement of the functionality of the Digital Public Accounting System (SPED) in tax audit automation and tax obligations, doing away with at least 12 monthly tax filings per taxpayer; (ii) improvement of public purchasing with the use of reference prices, reducing costs and processing times; and (iii) strengthening of the processes, methodologies, and technologies already supported by the PROFISCO I CCLIP.
- 1.4 **Economic and fiscal conditions in Brazil.** Brazil's GDP contracted 6.9% in real terms between 2014 and 2016. Growth only resumed in 2017, at 1.0%, and stayed at approximately the same level in 2018. The economy is expected to grow around 0.9% in 2019, and 2% in 2020.¹
- 1.5 The decline in economic activity caused consolidated public sector revenue to fall sharply by around three percentage points, from 34.5% of national GDP in 2013 to 31.3% in 2018. In contrast, inertial forces kept public expenditure rising steadily during this period from 37.4% of national GDP in 2013 to 38.1% in 2018.² As a result, the federal government posted a succession of primary deficits (2.5%, 1.8%, and 1.7% of national GDP in 2016, 2017, and 2018, respectively), and public investment retreated sharply by 24.2% between 2014 and 2017). The public debt grew from 60% of national GDP in 2013 to 78.6% in 2018 and may surpass 90% in 2023.³
- 1.6 To mitigate the crisis, the federal government is promoting economic measures to promote fiscal sustainability. The Chamber of Deputies passed a pension system reform in September 2019, which the Senate is also expected to approve in the near future. In the same month, the Economic Freedom Law was passed, which cuts red tape and enhances the business climate. In June 2019, the federal government sent a bill to the National Congress for the fiscal balance program law to support subnational governments. Various tax reform proposals, including the creation of a nationwide value added tax, are also under discussion in the National Congress.

¹ [Brazilian Institute of Geography and Statistics \(IBGE\)](#) and [Central Bank of Brazil, 2019](#).

² [Tesouro Transparente](#).

³ [International Monetary Fund \(IMF\), 2019](#).

Lastly, the federal government is speeding up the program of privatizations and infrastructure concessions.

- 1.7 **Fiscal conditions in Paraná.**⁴ Paraná has Brazil's fourth largest state economy, representing 6.4% of national GDP in 2016.⁵ Owing to the economic crisis that affected the country, Paraná posted negative growth in 2014 and 2015 (-1.9% and -2.1%, respectively), before making a slight recovery in 2016 (0.25%).
- 1.8 Despite the state's financial balance and [payment capacity](#) rating,⁶ its fiscal sustainability is at risk. Its net current income (NCI) rose 10.7% in real terms between 2013 and 2018, while tax revenue expanded 13.1%. This result was heavily influenced by the goods and services sales tax (ICMS), which generated 53% of the state's total NCI in 2018.
- 1.9 Current expenditures outpaced NCI with 15.1% growth between 2013 and 2018, driven by payroll expenditures, which increased 33%. To deal with the spike in current spending, the state is adopting measures to contain expenditure through costing.⁷ The state's investment capacity has been volatile in recent years and relied on borrowing. Consolidated debt, although relatively low, is on the rise (from 39% to 65% of NCI between 2016 and 2018).
- 1.10 **Rationale.** The country's slow economic recovery and the state's vulnerability highlight the urgent need for new fiscal management modernization actions, to keep the public accounts in balance and consolidate their fiscal sustainability. In addition, new complementary approaches are necessary to bolster the state's fiscal performance. The PROFISCO I/PR operation (loan 3065/OC-BR)⁸ put great emphasis on improving tax administration by implementing the Electronic Administrative Appeal Proceeding (PAF-e), which automated the taxation process, and by incorporating "business intelligence" data cross-referencing tools into tax management. It also promoted improvements and new functionalities in the Integrated Financial Administration System (SIAF). These efforts enabled Paraná to partly counteract the effects of the crisis, chiefly by maintaining internally generated revenue and facilitating tax compliance, supported by better financial management. This project will take these lines of modernization further and promote: (i) the strengthening of public expenditure management; (ii) use of the Digital Public Accounting System (SPED) and digital technologies; and (iii) the simplification of tax compliance to enhance the state's business climate.
- 1.11 The effectiveness and efficiency of public institutions are constrained by the restrictions faced by their staff, access to information technology, availability of financial resources, and the legal framework (Arenas de Mesa, 2016; Finan et al., 2017). The empirical evidence demonstrates the need for strong fiscal institutions, to create a more robust environment that fosters fiscal sustainability (Poterba, 1999).

⁴ [National Treasury Department \(STN\), 2019](#): data source for paragraphs 1.5 to 1.7.

⁵ [IBGE](#). 2016 is the last year for which statistics are available for all Brazilian states.

⁶ Fiscal risk rating methodology used by the STN.

⁷ [Decree 53/2019, Law 19,115/2017, Decree 53/2019, Decree 1,416/2019, Law 19,848/2019, SEFA Resolution 15/2018, Law 19,130/2017, Law 18,3928/2016](#).

⁸ [PROFISCO I/PR project completion report](#).

- 1.12 The Paraná State Finance Department (SEFA/PR) thus needs to address lingering weaknesses holding back its fiscal performance. In terms of human resources, SEFA/PR has a staff of 1,088: 717 tax auditors and 371 finance technical staff, 73% of whom may retire within the next five years. However, it has no management model or procedures for assessing and sizing its workforce that would enable it to quantify and determine the qualifications and composition of its personnel, so the staff allocation does not address current and future needs or enable better targeting of training based on competencies. Furthermore, no competencies-based knowledge transfer and training program has been implemented for staff to upgrade their qualifications, nor is there a training program for new leaders. Lastly, SEFA/PR's systems are largely unautomated and so require substantial manual intervention.⁹
- 1.13 In terms of technological infrastructure constraints,¹⁰ SEFA/PR's hardware and systems have been partially modernized with new computers and improved storage and processing capacity, with PROFISCO I/PR support. In recent years, however, digitization of the large volume of tax documents in the SPED, such as the electronic tax invoice (NF-e) and electronic sales invoice (NFC-e), has grown by over 800%, calling for more and more capacity to store and process information and documents. The SEFA/PR technological platform is still insufficient to meet information/data protection and retrieval and data integrity needs, as well as the new demand for technologies and processing of large volumes of data. Network monitoring, server, and system software have deficiencies, causing delays in response times and longer processing times for service. The technology and capacity available in the data center structure are insufficient and inadequate to meet current and future demand. SEFA/PR has 518TB of capacity in specialized high-performance equipment, but this will decline sharply by 2020 as the hardware reaches the end of its life cycle. Lastly, the tools supporting information technology management and governance processes are makeshift and inadequate, which slows down decision-making processes.
- 1.14 In terms of the legal framework,¹¹ many normative documents have still not been catalogued, updated, and consolidated, which adds complexity to tax administration and makes them difficult for auditors, accountants, and taxpayers to consult. Additionally, to fulfill their ICMS tax commitments, taxpayers must file several different tax returns that duplicate processes, when this could be done through a single return.
- 1.15 There are other significant challenges involved in strengthening Paraná's fiscal sustainability that were identified using the Fiscal Management Maturity and Performance Assessment ([MD-GEFIS](#))¹² methodology and in the [Matrix of Problems, Solutions, and Results](#), which is used to identify products and activities based on the problems and challenges identified, as described below:

⁹ [Technical note – Personnel.](#)

¹⁰ [Technical note – Information technology.](#) The equipment (hardware and software) purchased under PROFISCO I/PR was intended to host the large volume of data and information resulting from the electronic invoice. This project seeks to expand hardware capacity and purchase data analysis tools.

¹¹ [Technical note – Tax legislation.](#)

¹² [MD-GEFIS Report.](#)

- 1.16 **Fiscal management.** SEFA/PR's corporate processes relating to institutional governance, personnel and technology management, and fiscal citizenship and transparency are insufficiently developed and integrated,¹³ which limits their institutional performance. This is a consequence of:
- a. **Low maturity of results-based management, which undermines the achievement of strategic objectives**, owing to:¹⁴ (i) a lack of standardization and documentation of work processes; (ii) difficulty in monitoring the implementation of strategic projects; (iii) no indicators, mechanisms, or instruments to evaluate the organization's results, nor any indicators to monitor projects; and (iv) a failure to identify institutional risks.
 - b. **Low efficiency in leveraging the workforce**, owing to:¹⁵ (i) no direction provided for the allocation, succession, and training of staff based on the required competencies; (ii) no system of records, policies, and manuals to ensure that the knowledge generated both inside and outside the organization is shared, especially amid a graying workforce; and (iii) no strict adherence of training activities to institutional needs and demands.
 - c. **Low maturity of information technology management to meet new demands**,¹⁶ owing to: (i) no information technology management tools or standardized processes for developing software packages; (ii) limited data security to address technological developments and the increased use of digital systems; and (iii) technological infrastructure not ready to meet the growing demand for data storage and processing.
 - d. **Limited awareness of tax obligations and public expenditure execution among the general public**,¹⁷ owing to insufficient coverage and dissemination of the Fiscal Education for Citizenship Program and the limited functionality and accessibility of the State Transparency Portal.
- 1.17 In **tax administration**, revenue performance falls short of potential.¹⁸ This is a result of:
- a. **Weakness in tax policy management**,¹⁹ owing to: (i) the absence of mechanisms to identify, monitor, and evaluate tax concessions in the general and special regimes; (ii) the absence of a methodology for calculating the gap between actual and potential revenue intake in each sector; and (iii) tax legislation that is unconsolidated and difficult for taxpayers to consult.

¹³ [MD-GEFIS Report](#): Three of the six dimensions of financial management have an initial level of maturity, and the other three only an intermediate level.

¹⁴ [MD-GEFIS Report](#) and [Technical note – Governance](#).

¹⁵ [MD-GEFIS Report](#) and [Technical note – Personnel](#): 72.2% of SEFA/PR staff will become eligible for retirement in the next five years.

¹⁶ [MD-GEFIS Report](#) and [Technical note – Information technology](#): The maturity level of the SEFA/PR governance processes is 1.6, compared to the benchmark for government agencies of 2.5.

¹⁷ [Technical note – Fiscal education](#) and [Technical note – Transparency](#): Paraná's Transparency Portal ranks 16th among the 27 states.

¹⁸ In Brazil, tax evasion is estimated at 7.6% of national GDP (SINPROFAZ, 2016).

¹⁹ [Technical note – Tax concession](#) and [Technical note – Tax legislation](#): There are no estimates of the revenue gap by sector, and the estimate of tax expenditure contained in the Budgetary Guidelines Law only considers the new concessions expected to be granted in the period.

- b. **High costs of compliance with tax obligations**,²⁰ because: (i) cadastral data is fragmented in the cases of taxpayers liable for the ICMS and motor vehicle ownership tax (IPVA), and also in the case of rural producers; (ii) although, for business registration purposes, the ICMS taxpayer register is integrated into the National Network for Simplified Registration and Legalization of Businesses and Firms (REDESIM), the processes involved in deregistration and alteration of data are performed manually, and integration with other state, municipal and federal bodies remains insufficient; (iii) taxpayers registered under the ICMS tax substitution regime²¹ must complete twelve declarations to meet their obligations, which is compounded by delay in issuing the tax compliance certificate; and (iv) paying foreign trade taxes is cumbersome.
- c. **Weakness in electronic tax document management**,²² because: (i) there is no real time operational information on the issuance of electronic tax documents (DF-e), owing to the obsolescence of the authorizing environments' operational management system; (ii) tax data relating to the delivery of electricity services are sent to SEFA/PR in a statement, making it impossible to crosscheck against individually issued invoices; (iii) the system for handling data sent by credit card operators is not adapted to the new assessment model²³ and does not allow for automatic notification to payment institutions; and (iv) the register of parties responsible for developing the DF-e issuance software packages is out of date.
- d. **Ineffective management of enforced tax collection**,²⁴ owing to: (i) no structured model for the administrative enforcement of tax claims, compounded by insufficient data, indicators, and reports, and an inadequate methodology for determining the necessary actions, according to the time, debt profile, or situation of the taxpayer in arrears; and (ii) no planning for the enforced collection of adjudicated tax claims based on strategies to increase rates of recoverability, as well as tools to evaluate the performance of the actions in question.
- e. **Limited efficiency of the fiscal action process**,²⁵ because: (i) risk analysis is not performed to classify taxpayers and target fiscal actions; (ii) it is difficult to manage the stages of the fiscal action process (taxpayer selection, fiscal programming, execution of the audit, and evaluation of results), because the

²⁰ [Technical note – Cadastre and REDESIM](#), [Technical note – Tax simplification](#), and [Technical note – Foreign trade](#): SEFA/PR has three different cadastres that can generate divergent data and misses the deadline on the twelfth of each month for processing EFD data.

²¹ Under the tax substitution regime, another party is legally mandated as substitute for the taxpayer to pay and thus discharge a tax liability.

²² [Technical note – DF-e](#): Web-based processing of SPED documents that have been delayed by at least four days owing to obsolescence of the validation system. The National Financial Policy Council instituted the NF-e for electricity services to replace paper billing ([SINIEF Adjustment 01/2019](#)).

²³ [COTEPE/ICMS 65/2018](#).

²⁴ [Technical note – Enforced collection](#) and [Technical note – Adjudicated tax claims](#): The recovery rate on adjudicated tax claims in 2018 was 1.92% of the outstanding stock.

²⁵ [MD-GEFIS Report](#) and [Technical note – Fiscal action](#): The maturity level of the ICMS tax audit process is 1 on a scale of 0 to 3, with 0 being the lowest.

different systems are not integrated; and (iii) there is limited capacity for data analysis to support the targeting and execution of fiscal actions.

- f. **Insufficient control of taxpayer audits**,²⁶ because: (i) although businesses and economic sectors are monitored in real time, only a few segments are covered, and the auditors still have to identify signs of fraud manually; (ii) goods in transit are inspected on an ad hoc basis without prior analysis of the data, and there is no monitoring of vehicle flow within the state; and (iii) there is neither methodology nor tools for the investigation of structured tax fraud.
- g. **Weak incentive for spontaneous compliance with tax obligations**,²⁷ owing to: (i) no structured methodologies for detecting signs of inconsistency in tax documents; and (ii) no automated tool for notifying taxpayers of inconsistencies identified in their tax returns.
- h. **Inefficiency in control of the use of accumulated ICMS credits**²⁸ and **refund of amounts paid in error**, because: (i) the credit approval process is only partially automated; (ii) the System for Control of the Transfer and Use of Accumulated Credits (SISCRED), which controls the amounts of credits approved and used, is technologically obsolete and not integrated with the other SEFA/PR systems; (iii) credits not linked to the graphic account are controlled by spreadsheet; (iv) credits representing taxes paid in error are refunded manually and in person; and (v) the system for recovery, recoupment, and supplementation of the ICMS under the tax substitution modality is technologically obsolete.
- i. **Inefficiency in tax litigation**,²⁹ owing to: (i) no integration between the online tax administration process (PAF-e) and other SEFA/PR systems, and the fact that administrative appeals are filed on paper and processed manually; and (ii) failure to update the current fiscal litigation model and technological obsolescence of the court litigation management system.
- j. **Limited taxpayer service capacity**,³⁰ owing to: (i) the absence of a comprehensive taxpayer service model; (ii) online services not completed; and (iii) the fact that online services are scattered across three portals, in each of which taxpayers have to register separately.

²⁶ [MD-GEFIS Report](#) and [Technical note – Tax inspection and intelligence](#): The maturity level of the transit control process is 0 on a scale of 1 to 3, with 0 being the lowest.

²⁷ [Technical note – Self-regularization](#): An average of 18 months elapses between tax filing and notification to the taxpayer for the voluntary regularization of amounts owed.

²⁸ [Technical note – Credit control](#). Accumulated credit corresponds to the credits to which the taxpayer is entitled for tax paid on its purchases of goods and services at previous stages.

²⁹ [Technical note – SEFA tax litigation](#) and [Technical note – PGE tax litigation](#): In 2018, the mean processing time for proceedings at the trial and appellate levels of administrative litigation was 2.1 and 4.3 years, respectively. The stock of court litigation proceedings increased from 7,367 to 23,926 between 2015 and 2018. The PAF-e developed under PROFISCO I/PR is not integrated with administrative appeals or with the PGE system.

³⁰ [Technical note – Taxpayer service](#): The number and type of services performed in person are not tracked. Over half of SEFA/PR Portal services cannot be completed online and require the taxpayer to come to the tax office. Quick access via mobile devices is not possible.

- k. **Difficulty in adopting accounting best practices with real-time recording of information on tax collected and owed**,³¹ because: (i) the Tax Management System (SGT) is not integrated with the SIAF and PAF-e; (ii) information on rural producers is spread across several systems; and (iii) the distribution of transfers to municípios is difficult to monitor.
- 1.18 Shortcomings in **financial administration** and **public expenditure management** make it difficult to improve results in terms of fiscal discipline and public expenditure efficiency and effectiveness. The causes are:
- a. **Inefficient technical and allocative**³² **efficiency of public resources**, because:³³ (i) decisions on resource allocation are based on marginal adjustments made to previous years' budgetary allocations; and (ii) there are no cost-benefit analysis and impact assessment methodologies for public investment projects.
 - b. **Limited control of accounting and property records**,³⁴ because: (i) the new SIAF does not fully comply with the operational routines involved in tax withholding; the payment control system is unstable, sometimes showing an item as paid, without the creditor having received it; the issuance of reports and payment vouchers is unreliable; and there are no management reports, among other deficiencies;³⁵ and (ii) there is no integrated property management system covering all management units.
 - c. **Limited management financial assets**,³⁶ because: (i) financial assets are monitored in an Excel spreadsheet without strategic direction; and (ii) the state's asset controls are inefficient.
 - d. **Limited information on the costs of public services**,³⁷ owing to the absence of a system for identifying public costs that allows for their comparison across administrative units.
 - e. **Weak control of public debt**,³⁸ owing to: (i) no standardized criteria for updating judicial proceedings against the state; and (ii) manual process for updating loan contract balances and recording exchange rates.

³¹ [Technical note – Tax system.](#)

³² [Better spending for better lives. IDB.](#)

³³ [Technical note – Budget and investment](#): In 2018, the Annual Budget Law suffered more than 300 alterations per month. The discrepancy between the budget as approved and the budget as executed was 54.6% in 2017 and 49% in 2018. Infrastructure cost overruns and delays in Latin America and the Caribbean represent an estimated 0.7% of GDP, and waste in public procurement is estimated at between 0.9% and 2.6% of GDP.

³⁴ [Technical note – SIAF and property](#): Limited recognition and measurement of assets and liabilities and changes in property. The inventory of state property is out of date.

³⁵ [Paraná State Audit Office \(TCE/PR\).](#)

³⁶ [Technical note – Assets and public debt](#): there is no centralized information on financial and movable assets.

³⁷ [Technical note – Public cost](#). There is no information on the costs of activities that are inputs in the budget preparation process.

³⁸ [Technical note – Assets and public debt](#): Every month there are discrepancies in the debt balances presented by the SEFA/PR system and the creditors.

- 1.19 **The Bank's experience in the country.** The Bank has supported numerous operations to improve fiscal management in Brazil, especially at the state level under the National Fiscal Administration Program for the Brazilian States (PNAFE) (980/OC-BR) and the PROFISCO I CCLIP (BR-X1005). It also supported the Fiscal Modernization Project in the State of São Paulo, the Program to Support Fiscal Management Modernization and Transparency in the State of Bahia (loan 1727/OC-BR), and fiscal stability consolidation projects in the states of Amazonas, Alagoas, Bahia, Pernambuco, and Rio Grande do Sul.³⁹ At other levels of government, the Bank supported the Federal Revenue Service Fiscal Modernization Program (SRF, 1996) and the National Program to Support the Administrative and Fiscal Management of Brazilian Municípios (PNAFM I, II, and III) (loans 1194/OC-BR, 2248/OC-BR, and 3391/OC-BR). Since 2017 the following states have also been supported under the PROFISCO II CCLIP (BR-X1039): Piauí (loan 4460/OC-BR); Maranhão (loan 4458/OC-BR); Ceará (loan 4436/OC-BR); Pará (loan 4459/OC-BR); Pernambuco (loan 4554/OC-BR); Mato Grosso do Sul (loan 4597/OC-BR); São Paulo (loan 4706/OC-BR); and Espírito Santo (loan 4741/OC-BR).
- 1.20 According to the [midterm evaluation](#) of the PROFISCO I CCLIP, between 2009 and 2013, states with a PROFISCO project at an advanced stage were taking in an average of 6% more in ICMS revenue than states with a PROFISCO project in its early stages. The final evaluation of [PROFISCO I/PR⁴⁰ \(loan 3065/OC-BR\)](#) concluded that the project had performed successfully (Relevance – Excellent; Effectiveness – Satisfactory; Efficiency – Excellent; and Sustainability – Excellent). Of the five outcomes planned, four (80%) were fully achieved, and the last one will be reported in the annual review at end-2019. In terms of tax revenue, the methodology of cross-referencing electronic tax data with the use of business intelligence tools (US\$390,000) and the PAF-e (US\$5.2 million for initial implementation of the process) were the actions that most directly contributed to the increase in the state's tax revenue intake. In the case of public expenditure, the SIAF's new functions (US\$1.8 million) contributed to more effective financial management, promoting greater accountability and enhanced transparency, as well as increased integration of the information generated by the state's various public finance systems (budget, treasury, accounting, and debt). The performance of the executing agency and the Bank were rated satisfactory. In addition, the team that will execute PROFISCO II/PR is essentially the same as the one that executed its predecessor, PROFISCO I/PR.
- 1.21 **Lessons learned.** The lessons learned from the PROFISCO I CCLIP and PROFISCO I/PR include the following:
- a. **Design.** The need for an instrument to identify innovative solutions in fiscal management processes. That was the reason for developing the MD-GEFIS, which identifies the maturity of the states' fiscal management processes and opportunities for strengthening them.⁴¹

³⁹ Policy-based loan programs: 2081/OC-BR; 2841/OC-BR; 2850/OC-BR; 3039/OC-BR; 3061/OC-BR; 3138/OC-BR; and 3139/OC-BR.

⁴⁰ [Project completion report \(PCR\)](#).

⁴¹ [Inter-American Center of Tax Administrations \(CIAT\), 2017](#).

- b. **Development.** Participation by SEFA/PR in the [Fiscal Management Commission Network](#) fostered an exchange of experiences and solutions for the modernization of fiscal management with other states.
 - c. **Execution.** To compensate for delays in execution, the Bank created a monitoring tool known as the Execution Acceleration Plan, which uses the progress monitoring report (PMR) to identify delayed outputs and prepares mitigation measures until execution is normalized.
 - d. **Results.** It was found that the SPED, including the NF-e, digital tax accounting (EFD), and digital bookkeeping system were the outputs that contributed the most to increasing the efficiency of the states' fiscal controls.⁴² This operation will make a major investment in the SPED and seek to maximize its potential by more fully exploiting the information it generates, to automate tax auditing⁴³ and streamline tax compliance, among other actions, leveraging the new technologies of the digital economy.
 - e. **PROFISCO I/PR**, specifically, was executed within the original five-year time frame. The following recommendations were incorporated into PROFISCO II/PR: (i) ensure the sustainability of the results achieved by including outputs related to improving the quality of public expenditure and increasing the effectiveness of tax collection; (ii) ensure the sustainability of information technology investments by planning and prioritizing resources for the updating and maintenance of infrastructure and data security; (iii) improve project execution through advance planning to implement complex products. Accordingly, in this project it has been agreed with the executing agency that the technical specifications and terms of reference, chiefly of the technological innovation outputs, will be prepared before starting implementation and will be supported by specialized consulting services.
- 1.22 **The Bank's experience in other countries of the region.** The Bank's recent experiences with tax administration reform in Belize (loan 4839/OC-BL), Costa Rica (loan 4819/OC-CR), Peru (loan 4829/OC-PE), 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); experiences with the modernization of financial management systems in Guyana (loans 1550/SF-GY and 1551/SF-GY), Honduras (loan 2032/BL-HO), and Nicaragua (loan 2422/BL-NI); and experiences with the management of public investment 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 reflected in this operation and emphasize the role of institutional strengthening of fiscal management. Some of the lessons learned are detailed below, which are consistent with [international evidence](#).
- 1.23 On the taxation side, revenue performance depends heavily on the institutional strengthening of tax administrations in terms of their organizational structure, processes, and support tools: (i) make the available information more accessible

⁴² [McKinsey & Company, 2014](#): NF-e and SPED made it more likely that tax evaders would be identified and thus helped reduce the informality of employment in Brazil in the last ten years (from 55% to 40%).

⁴³ Araujo, 2013: The use of SPED and artificial intelligence will increase the identification of tax frauds.

and improve its quality;⁴⁴ (ii) implement audit models based on intensive information use;⁴⁵ (iii) simplify procedures to facilitate tax compliance;⁴⁶ and (iv) identify strategies to ensure the suitability and motivation of human resources.⁴⁷ Several Latin American tax administrations have strengthened these elements, notably Brazil and Uruguay.⁴⁸ Nonetheless, the available evidence on financial management strengthening shows that automation alone does not produce the expected results, since processes also need to be improved.⁴⁹ Moreover, in terms of expenditure efficiency and effectiveness, several studies identify the need to put an expenditure management system in place that adopts multiyear budgeting, such as the Medium-term Budgetary Framework (MTBF).⁵⁰ Countries with a sound MTBF tend to be more effective in meeting their fiscal targets.⁵¹

- 1.24 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the challenge of developing productivity and innovation by using information technology and digital systems to reduce tax collection costs; and with the crosscutting theme of institutional capacity and rule of law by strengthening tax systems and the management and planning of public resources. The project contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the following indicators: (i) percent of GDP collected in taxes; (ii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery, by strengthening the SGT and SIAF systems; (iii) subnational governments benefited by decentralization, fiscal management, and institutional capacity projects; and (iv) accountability institutions strengthened. It is also aligned with the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) and is consistent with the following sector framework documents: Decentralization and Subnational Governments (document GN-2813-8), and Fiscal Policy and Management (document GN-2831-8), along the following dimensions: (i) improve expenditure quality and efficiency and service delivery; (ii) increase tax revenue intake; and (iii) promote greater transparency and accountability.
- 1.25 **The Bank's country strategy.** The project is aligned with the IDB Group country strategy with Brazil 2019-2022 (document GN-2973) through the following strategic objectives: (i) reform the structure of public expenditure (Components 1 and 3); (ii) perfect 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 enterprises (Component 2). In addition, the project is aligned with the crosscutting issue of innovation and digital transformation (Component 2 and 3). Lastly, the

⁴⁴ Slemrod et al. (2015); Pomeranz (2015); Kleven et al. (2011).

⁴⁵ Almunia and López Rodríguez (2016).

⁴⁶ Hallsworth et al. (2014).

⁴⁷ Khan et al. (2016).

⁴⁸ PCR for loan 1783/OC-UR. Barreix and Zambrano (2018).

⁴⁹ PCR for loans 1550/SF-GY and 1551/SF-GY.

⁵⁰ [World Bank, 2013](#) and [1998](#).

⁵¹ [IMF, 2013](#) and [World Bank, 2013](#).

operation is included in the Update of Annex III of the 2019 Operational Program Report (document GN-2948-2).

B. Objectives, components, and cost

- 1.26 The project objective is to contribute to the state's fiscal sustainability through the following specific objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. The project will finance the following components:
- 1.27 **Component 1. Fiscal management and transparency (US\$21,105,789).** This component seeks to improve management instruments, modernize the technology infrastructure, and make fiscal management more transparent to the general public by enhancing SEFA/PR's institutional performance. It will finance the following activities:
- a. **Institutional governance model⁵² (US\$2,869,736.84)**, including: (i) a process management methodology and a process office; (ii) a project management methodology and a project office; (iii) a results-based management methodology and technological tool; and (iv) a risk management methodology and technological tool.
 - b. **Strategic management model for SEFA/PR staff (US\$2,001,315.79)**, including: (i) mapping and description of competencies, staff inventory, and staff management technological tool; (ii) a knowledge management methodology; and (iii) expansion of the training program based on required skills and institutional strategy, course management platform and talent bank.
 - c. **Information technology management model⁵³ (US\$15,511,052.63)**, including: (i) information technology governance and management procedures;⁵⁴ (ii) medium- and long-term information security plan;⁵⁵ and (iii) expansion of the technology stock in terms of both hardware and software.
 - d. **Transparency and fiscal citizenship mechanisms (US\$723,684.21)**, including: (i) a review of the strategies for promoting the fiscal education program, a mobile application for communication with the general public, and a communication plan; and (ii) new tools for communication with the general public and a mobile app with fiscal transparency information.
- 1.28 **Component 2. Tax administration and litigation (US\$23,191,210).** This component seeks to make tax collection more efficient, grow revenues, and simplify tax compliance. It will finance implementation of the following:
- a. **Tax policy management model (US\$852,631.58)**, including: (i) a methodology and system for managing tax concessions; (ii) a methodology for

⁵² The model is a set of activities that may include: (i) a diagnostic assessment of the current situation; (ii) a methodology and change proposal; (iii) a reengineering of processes; (iv) an information technology solution; and (v) training in new processes and tools.

⁵³ The information technology governance and management model and the data security plan should specify responsibilities and resources for the maintenance and updating of the technology stock and data security actions, respectively.

⁵⁴ With the definition of responsibilities and resources for the maintenance and updating of the technology stock.

⁵⁵ The data security plan will set out guidelines and a roadmap for data protection and cybersecurity actions in the SEFA/PR.

estimating potential tax revenue; and (iii) system for managing tax legislation with a consultation mechanism.

- b. **Cadastre and electronic tax document system (US\$1,811,052.63)**, including: (i) the “Single Cadastre” module for SEFA/PR taxpayers, encompassing ICMS, IPVA, and rural producer data; (ii) modules for the deregistration and updating of REDESIM enterprise cadastres and full integration of ICMS registers with other reporting institutions; (iii) simplification of tax obligations with the use of EFD information and a module for identifying irregularities in declarations; and (iv) a module for integration into the Single Foreign Trade Portal.
- c. **Electronic tax document management system (US\$336,842.11)**, including: (i) an operational management module for DF-e issuance data; (ii) a module for authorizing the electronic invoicing of electricity services; (iii) modules for managing information sent by credit card operators, etc.;⁵⁶ and (iv) a module for a registry of technical responsibilities for DF-e software development.
- d. **Enforced tax collection management module (US\$2,257,894.74)**, through: (i) a procedure for managing administrative collection with enforcement rules defined according to taxpayer profile, classification of the tax claim by degree of recoverability, enforced collection portfolio, and specialized call center, and an enforced collection management system including automatic notification of tax claims; and (ii) an integrated enforced collection management procedure for adjudicated tax claims in the Office of the Paraná State Attorney General (PGE) and adjudicated tax claims management module in the respective PGE system.
- e. **Fiscal action management model (US\$1,123,421.05)**, including: (i) a risk-based taxpayer selection methodology; (ii) a system for the management of fiscal actions integrated with taxpayer selection processes, fiscal programming, and indicator production; and (iii) data analysis tools for the targeting and execution of fiscal action.
- f. **Taxpayer audit model (US\$1,979,473.68)**, including: (i) a taxpayer and economic sector monitoring system;⁵⁷ (ii) a procedure and tools for real-time monitoring of goods in transit, with a technological solution for monitoring vehicles integrated into the National Operator of the States system, a taxpayer risk analysis methodology, a status room for real-time monitoring of goods and a mobile tool to support transit inspection; and (iii) a procedure and technological tool for the investigation of structured tax frauds using internal and external databases.
- g. **Taxpayer self-regularization system (US\$4,703,947.37)**, including: (i) new procedures for the automated identification of tax documents showing signs of inconsistency, using data banks for the processing of unstructured data and the use of artificial intelligence; and (ii) a taxpayer self-regularization procedure, focused on encouraging spontaneous tax compliance.

⁵⁶ Adapted to the new Means of Payment Information Declaration template [COTEPE/ICMS 65/2018](#).

⁵⁷ An information technology system is the software that contains a set of rules to operationalize the conceptual business model.

- h. **System for the control of accumulated credits and refund of amounts paid in error (US\$1,324,736.84)**, including: (i) a methodology for the control of accumulated credits and refund of amounts paid in error; (ii) a SISCREED module for the control of transfers and uses of credit between taxpayers; (iii) a module for the control of credits not linked to the graphic account;⁵⁸ (iv) a module for refunding taxes paid in error; and (v) module for the recovery, compensation, and offsetting of ICMS under the tax substitution regime.
 - i. **Tax litigation management model (US\$3,736,842.11)**, including: (i) extension of PAF-e to second instance administrative litigation and integration with the SGT and the PGE systems; and (ii) a procedure and technological tool for tax litigation management within the PGE.
 - j. **Taxpayer services model (US\$1,426,210.53)**, including: (i) new citizen service procedures; (ii) self-service options available on Internet and mobile platforms; and (iii) the Single Taxpayer Services Portal.
 - k. **Tax management system (US\$3,638,157.89)**, including: (i) modules for integrating the SGT with the SIAF and PAF-e; (ii) a module for managing the cadastre of business processes of rural producers; and (iii) a module for the collection and distribution of transfers to municípios.
- 1.29 **Component 3. Financial administration and public expenditure (US\$9,022,368)**. This component seeks to contribute to fiscal discipline and increase the efficiency and effectiveness of public expenditure. It will finance implementation of the following:
- a. **Results-based budget planning model (US\$940,789.47)**, including: (i) a results-based budgeting methodology and technological tool; and (ii) new procedures and instruments for the programming, prioritization, and investment selection phase with tools, methodologies, and training for project preparation.
 - b. **Accounting, budgetary, financial, and property management system (US\$5,530,263.16)**, including: (i) the SIAF; and (ii) modules for integration of the non-real estate and real estate property management systems with the accounting system.
 - c. **Asset management system (US\$289,473.68)**, including a financial asset management methodology and system.
 - d. **Public services cost management model (US\$755,263.16)**, including: (i) a public costs management methodology; (ii) cost management system; and (iii) methodology for verification of public costs in a given sector.
 - e. **Public debt management system (US\$1,506,578.95)**, including: (i) a module for managing small-value judicial claims against the state; and (ii) public debt management.
- 1.30 The project will provide US\$9.8 million to finance consulting services (individual consultants and firms) across all components, US\$24.9 million for nonconsulting services, US\$16.3 million for goods, and US\$2.3 million for training.

⁵⁸ ICMS credits not verified by EFD.

1.31 The following will also be financed: (i) US\$690,000 for project management costs, including US\$420,000 for monitoring and evaluation and US\$270,000 for audits; and (ii) US\$990,633 for contingencies.

1.32 **Beneficiaries.** By enhancing public finance performance, increasing the tax revenue intake, and making public expenditure more efficient, the state's greater fiscal sustainability will benefit its citizens, businesses, and individual taxpayers, as well as public and nongovernmental entities, through better service delivery, upgraded facilities, lower tax compliance costs, and greater availability of information and data for public management and public accounts transparency.

C. Key results indicators

1.33 The expected impacts are: (i) a decrease in the state's primary fiscal deficit/GDP ratio; (ii) an increase in the state's tax revenue intake/GDP ratio; and (iii) a decrease in the state's net current debt/GDP ratio. The expected outcomes are: (i) an increase in the ratio of strategic planning targets met to total targets planned; (ii) a decrease in the ratio of collection cost to tax revenue intake; and (iii) a decrease in the discrepancy between the budget as planned and as executed.

1.34 **Cost-effectiveness analysis.** An [economic analysis](#) of the project compared the economic/financial costs and benefits, based on the following outcomes: (i) higher tax revenue intake following the adoption of a new system for automatic identification of tax documents showing signs of inconsistency, along with a methodology for taxpayer self-regularization, and a new enforced collection system; (ii) resource savings from the automation of processes, substantially reducing the time spent by tax auditors and fiscal agents on activities that are currently done manually; and (iii) lower costs for taxpayers as a result of quicker service times, with in-person channels being replaced by virtual ones. By end-2029 (i.e., after 10 years), the project investments are expected to have a net present value of US\$16 million and an internal rate of return (IRR) of 29%.⁵⁹ The results are robust to the sensitivity analysis, which considered three different scenarios: a 30% devaluation of the Brazilian real (IRR of 27.52%), a 25% reduction in all benefits (IRR of 25.9%), and a scenario that combines the devaluation and benefit reduction (IRR of 11.77%).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This operation was designed as a specific investment loan under the PROFISCO II CCLIP (BR-X1039), with an estimated total cost of US\$55.0 million. This will be financed through an investment loan of up to US\$50 million (91% of the project cost) from the Bank's Ordinary Capital and a local counterpart contribution of US\$5 million (9% of the total project cost). The distribution of resources by source of financing and category is described in the following table:

⁵⁹ Base case scenario, excluding the increase in tax revenue intake.

Table 1. Total budget (US\$)

Categories:	IDB	Local	Total	%
A. Direct costs	48,695,684	4,623,683	53,319,367	96.9
Component 1 Fiscal management and transparency	21,020,263	85,526	21,105,789	38.4
Component 2 Tax administration and litigation	18,750,421	4,440,789	23,191,210	42.2
Component 3 Financial administration and public expenditure	8,925,000	97,368	9,022,368	16.4
B. Project management	330,000	360,000	690,000	1.3
1. Monitoring and evaluation	330,000	90,000	420,000	0.8
2. Audit	-	270,000	270,000	0.5
C. Contingencies⁶⁰	974,316	16,317	990,633	1.8
Total	50,000,000	5,000,000	55,000,000	100
%	91	9	100	

- 2.2 **Disbursement schedule.** Disbursements will be made over a five-year period as shown in Table 2.

Table 2. Disbursement schedule (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	4,131,188	10,201,118	14,529,933	12,856,178	8,281,583	50,000,000
Local	698,785	1,000,929	1,693,980	1,072,344	533,962	5,000,000
Total	4,829,973	11,202,047	16,223,913	13,928,522	8,815,545	55,000,000
%	10	20	29	25	16	100

- 2.3 **Compliance with the eligibility conditions for participation in the PROFISCO II CCLIP (BR-X1039).** This project is the tenth individual loan operation under the PROFISCO II CCLIP (BR-X1039), approved by the Board of Executive Directors pursuant to Resolution DE-113/17. The project meets the eligibility criteria of the CCLIP policy (document GN-2246-9)⁶¹ for individual loan operations, given that: (i) the project falls under one of the sectors and components defined under the PROFISCO II CCLIP; (ii) the project is included in the Update of Annex III of the 2019 Operational Program Report (document GN-2948-2); (iii) the state will implement the operation through SEFA/PR, which was the same executing agency as for the PROFISCO I/PR individual operation (loan 3065/OC-BR); (iv) the state successfully executed the PROFISCO I/PR project, achieving four of the five planned objectives (see paragraph 1.20), according to the [PROFISCO I/PR project completion report](#). In addition, the executing agency met the requirements of the Loan Contract and the Bank's policies, and its accounts were audited and found to meet the required quality standard; and (v) the findings of the institutional analysis

⁶⁰ Contingencies: resources that may be used for eligible expenditures under any of the project components.

⁶¹ This operation has been prepared in accordance with the eligibility criteria specified in document GN-2246-9, pursuant to the provisions of paragraph 3.12 of document GN-2246-13.

show that the performance level of the SEFA/PR has not deteriorated, the same project execution and monitoring tools will be used for this new operation as for the previous one, and the project coordination unit (PCU) staff will be the same.

B. Environmental and social safeguard risks

- 2.4 In accordance with Directive B.3 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the project is classified as a category "C" operation.

C. Fiduciary risks

- 2.5 Two medium-level fiduciary risks were identified: (i) inconsistencies in financial reporting owing to poor integration between the Integrated Financial Administration System (SIAF) and the Program and Project Management, Monitoring, and Support System (SIGMA.PP); and (ii) delays in procurement processes for goods and services. These risks will be mitigated respectively through: (i) completion of the integration between the SIAF and SIGMA.PP systems, to be done under Component 3; and (ii) strengthening of the planning and monitoring tools for the scaling of processes over the course of the project and training for SEFA/PR technical staff on preparing terms of reference.

D. Other key risks and issues

- 2.6 The overall risk of the operation was rated as medium, with the following individual risks being identified:
- a. **Fiscal sustainability (medium risk).** Brazil may not remain on its sustainable growth path, which could affect the state's economic and fiscal performance. Although this risk cannot be fully mitigated, the project actions will contribute significantly to enabling the state to address it from a more robust fiscal position, if this risk materializes, thereby reducing the fiscal and economic impacts. The state also continues to adopt a number of measures to ensure fiscal balance: (i) expenditure containment actions ([Decree 53/2019](#), [Law 19,115/2017](#)); (ii) expenditure restrictions and limits on SEFA/PR ([Decree 53/2019](#)); and (iii) expenditure guidelines and restrictions on the state government ([Decree 1416/2019 and Law 19,848/2019](#)).
 - b. **Development (medium and high risks).** Delays in the development of outputs coordinated by the Office of the Paraná State Attorney General (PGE) (see paragraph 1.26a) and the Paraná State Planning and Structural Projects Department (SEPL/PR) (see paragraph 1.27a), due to a failure to prioritize project actions, were rated as a medium risk. This will be mitigated through: (i) the formalization of technical cooperation agreements and the establishment of focal points at the PGE and SEPL/PR, and the designation of a focal point within the PCU (see paragraph 3.3); and (ii) institutional support from the Office of the State Governor for guidance on joint actions with other departments. The risk of delays in procurement and development of project processes and information technology systems⁶² were rated as high, owing to the limited responsiveness of the SEFA/PR information technology sectors. This risk will be mitigated through: (i) definition of the information technology

⁶² Outputs of Components 2 and 3.

governance model (see paragraph 1.25(c)) and coordination with the technical areas involved in the design (see paragraphs 1.28 and 1.29) and technical decisions on the technological solutions of SEFA/PR and the firm [Companhia de Tecnologia da Informação e Comunicação do Paraná \(CELEPAR\)](#); and (ii) establishment of a focal point at SEFA/PR and SEPL/PR for internal coordination of the demand for systems development and continuous monitoring of actions (see paragraph 3.3).

- 2.7 **Financial analysis.** The [project economic analysis](#) confirms the state's capacity to service the debt to be contracted, which represents 0.057% of the state's GDP in 2017 and 0.44% of its net current income (NCI) that year. The state is classified in category B by the National Treasury and has been satisfying the requirements of the Fiscal Responsibility Law and the conditions of the Paraná Fiscal Adjustment Program.⁶³
- 2.8 **Project sustainability.** In addition to the measures already being adopted by the government (see paragraph 2.6), the project includes measures conducive to medium- and long-term fiscal sustainability. These include expenditure control⁶⁴ and the reduction of tax evasion, through the Component 2 outputs, which will result in higher revenues. To ensure that the capacities generated by the project are sustainable after the end of execution, PROFISCO II/PR envisages actions to hasten the execution of public investment projects and to increase revenue through the improvement of tax inspection action; taxpayer audit by economic sector, goods in transit, and the recovery of tax claims. The related outputs are models for each of the following: public service cost management; results-oriented budget planning; fiscal action management; taxpayer audit model; enforced tax collection management; and tax litigation management among others ([project economic analysis](#)). In terms of information technology investments, SEFA/PR will mainly use the staff on its payroll for in-house development, supported by consulting services. The project will also finance the information technology governance and management model and the information security plan, which will specify responsibilities and identify resources for the maintenance and updating of the technology stock and data protection actions, respectively (see paragraph 1.25(c)).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower is the State of Paraná, which will execute the operation through Paraná State Finance Department (SEFA/PR). The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the policy on Guarantees Required from the Borrower (document GP-104-2). SEFA/PR will set up a project coordination unit (PCU), staffed by a general coordinator, a technical coordinator, an administrative/financial coordinator, planning and monitoring advisor, and a procurement advisor. The PCU will coordinate monitoring, evaluation, and audit activities, to monitor project execution and achievement of the objectives

⁶³ [STN report](#).

⁶⁴ For example, with the outputs associated with the public service cost management model under Component 3.

of the operation. The PCU will be staffed by Paraná State civil servants. There are no plans to engage long-term consultants for project implementation.

- 3.2 The PCU's main functions will be to: (i) plan the execution of activities; (ii) implement and update the project's operational tools: [multiyear execution plan](#), [annual work plan](#), and [procurement plan](#); (iii) supervise execution and deliver the following reports: [multiyear execution plan](#), [annual work plan](#), [procurement plan](#), and progress monitoring report (PMR); (iv) support the preparation of terms of reference, goods procurement, and service selection and contracting processes; (v) submit justifications and disbursement requests to the Bank; (vi) prepare 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 specify: (i) the eligibility criteria for projects and output financing; (ii) the functions, procedures, and rules for project implementation; and (iii) the operational and contractual relationships between the parties involved in the project.
- 3.3 **Interagency coordination mechanism.** SEFA/PR will cooperate with the Office of the Paraná State Attorney General (PGE) and Paraná State Planning and Structural Projects Department (SEPL/PR) in the execution of activities benefiting them. The relevant institutions will appoint output leaders, who will coordinate their actions with the PCU and ensure their technical development and implementation. For the coordination of these activities, which relate to tax litigation and budget planning, and mainly for their respective procurement processes, information flows, and processes between the beneficiaries, the PCU and the Special Bidding Committee will be mapped and defined to clarify roles, responsibilities, and timings, which will be institutionalized through cooperation instruments (see paragraph 3.5).⁶⁵
- 3.4 **Special contractual conditions precedent to the first disbursement of the loan proceeds:** (i) the borrower will adhere to the program [Operating Regulations](#) previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit (PCU) has been established, and its members appointed. These conditions are essential to ensure that the executing agency has detailed regulations on operational and fiduciary issues, and to mitigate the risks of delay in project implementation. This practice was adopted in PROFISCO I and made it possible to consolidate coordination and guidance issues relevant to the executing agencies in the project Operating Regulations and ensured the most efficient distribution of responsibilities among PCU members by technical, financial, procurement, and monitoring and planning area.⁶⁶
- 3.5 **Special contractual execution condition.** Before starting to execute activities whose beneficiaries are the Office of the Paraná State Attorney General (PGE) and the Paraná State Planning and Structural Projects Department (SEPL/PR), the executing agency will sign cooperation agreements with those entities, specifying the roles and responsibilities of the parties during project implementation. Activities will be coordinated with the entities as follows: (i) the PGE for the management of tax litigation activities under Component 2, and the management of assets and public debt under Component 3; and (ii) the SEPL/PR for results-oriented budget

⁶⁵ [Model Technical Cooperation Agreement](#).

⁶⁶ [PCU PROFISCO I, 2015](#).

- planning under Component 3. This condition was satisfactorily adopted in PROFISCO I and made it possible to identify specific responsibilities by entity, considering the implementation of the planned outputs under the components. The adoption of this practice is once again justified to underpin the mechanism for coordination between the entities, given that they are independent of SEFA/PR, and to mitigate the risk of delays in output execution (see paragraph 2.6(b)).
- 3.6 **Procurement.** Project procurement and contracting will be in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), and as specified in the [procurement plan](#).
- 3.7 **Direct contracting and single-source selection.** Based on Policies GN-2349-9 and GN-2350-9, the following will be engaged via direct contracting and single-source selection: (i) the [Teradata Corporation](#)⁶⁷ to provide infrastructure services and data warehouse technical support; (ii) [GFT Technologies](#)⁶⁸ to develop process management, adaptation, and assimilation software; (iii) [Companhia de Tecnologia da Informação e Comunicação do Paraná \(CELEPAR\)](#)⁶⁹ to implement the integrated tax management system and modernization of management intelligence systems and solutions; (iv) [Gartner do Brasil Serviços de Pesquisas Ltda.](#)⁷⁰ for analysis, research, and advisory support for information technology buyers. Direct contracting and single-source selection are justified in these cases because the firms in question have already been performing the activities in question satisfactorily (see Annex III, Chapter IV, and [Justification](#)).
- 3.8 **Audited financial reports.** The Borrower will deliver the project's audited financial statements to the Bank annually, no later than 120 days after each fiscal year-end. The external audit will be performed by a firm of external auditors acceptable to the Bank or by the Paraná State Audit Office (TCE/PR).⁷¹ The audit of the entire project will be commissioned by SEFA/PR under terms of reference that will require the Bank's no objection.
- B. Summary of arrangements for monitoring results**
- 3.9 **Monitoring.** This will be based on: (i) the [multiyear execution plan and annual work plan](#); (ii) the [procurement plan](#); (iii) the Results Matrix; (iv) the [monitoring and evaluation plan](#); and (v) the PMR. The PCU will prepare six-monthly reports for the Bank's approval on progress toward the outcomes, outputs, and financial targets; and the Bank will conduct inspection visits and ex post reviews as part of project monitoring.
- 3.10 **Evaluation** The project will be evaluated against the annual impact and outcome targets and indicators contained in the project's Results Matrix by before-and-after

⁶⁷ Paragraph 3.6(b) of document GN-2349-9 for continuity of services.

⁶⁸ Paragraphs 3.10(d) and 3.11 of document GN-2350-9 for continuity of services.

⁶⁹ Paragraph 3.6(b) and (c) of document GN-2349-9 given the need for standardization of the software developed, obtainable from one source.

⁷⁰ Paragraphs 3.10 and 3.11 of document GN-2350-9 for continuity of services and for experience of exceptional worth and qualifications.

⁷¹ The TCE/PR and the Bank signed a memorandum of understanding on the auditing of loan contracts and technical cooperation in Paraná state.

comparison of results. The [monitoring and evaluation plan](#) calls for an independent midterm evaluation, 90 days after the date on which 50% of the loan proceeds have been disbursed, or after 36 months of execution, whichever occurs first; and a final evaluation 90 days after the date of the last disbursement. The evaluation reports will serve as inputs for the project completion report.

Development Effectiveness Matrix		
Summary		BR-L1527
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Reform the structure of public expenditure; (ii) Perfect the public investment system; (iii) Promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises.
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		9.7
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		2.7
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		9.3
5.1 Monitoring Mechanisms		1.8
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. 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 Paraná 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 Paraná. To achieve this end, the proposal defines three specific areas on which the project will intervene. The first area is fiscal management. The second area is tax administration. The third area is the administration of public expenditure. Each of these areas is associated to 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 BX-L1039.

The project proposal diagnoses a primary balance as a share of the State PIB of -0.7 percent in 2017, and a Current Net Debt as a share of the State PIB of 3.3 Percent in 2018 (SEFA, 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 20 processes.

The economic analysis provides a quantification of savings to the State through technological tools which allow for efficiency gains. The quantification of benefits is associated to savings by citizens to file taxes. The costs include investment in technology and fund for its operation. The analysis concludes with a net present value of US\$16 million.

Monitoring relies on reports by the Revenue Secretariat of the State. The ex post evaluation plan includes an impact evaluation to identify the effects of electronic administrative processing on auditor efficiency and on the likelihood a taxpayer will evade. The evaluation relies on a randomized control trial.

The project identifies seven risk and one is classified as high, four as medium, and the rest as low. The risk classified as high is the delay on the acquisition and development of systems due to limited responses by the Technology and Information sectors in the State. The matrix proposes to mitigate the risk by contracting a specialized consultancy.

RESULTS MATRIX

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

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Target year	Means of verification	Comments
Impact 1: Decrease in the state's primary fiscal deficit/GDP ratio												
Primary balance/ GDP/PR	%	-0.67	2017	-0.64	-0.37	-0.31	-0.28	-0.22	-0.22	2024	Paraná State Finance Department (SEFA/PR) Treasury Report	See monitoring and evaluation plan (MEP)
Impact 2: Increase in the state's tax revenue intake/GDP ratio												
Tax revenue/ GDP/PR	%	7.88	2018	7.88	7.89	7.90	7.91	7.92	7.92	2024	SEFA/PR Tax Administration Report	See MEP
Impact 3: Decrease in the state's net current debt/GDP ratio												
Net current debt ¹ / GDP/PR	%	3.25	2018	3.25	3.24	3.23	3.22	3.21	3.21	2024	SEFA/PR Treasury Report	See MEP

¹ Net current debt is defined as consolidated debt less the balance of financial assets (cash and other financial assets). Source: National Treasury Department (STN).

EXPECTED OUTCOMES²

Outcome indicators	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Target year	Means of verification		Comments
OUTCOME 1: Increase in the ratio of strategic planning targets met to total targets planned													
Number of targets met/ Total number of targets	%	36.84	2018	36.84	42.11	47.62	56.52	70.83	70.83	2024	SEFA/PR management contract evaluation report		See MEP
OUTCOME 2: Decrease in the ratio of collection cost to tax revenue intake													
SEFA operating budget/ Total tax revenue	%	1.43	2018	1.43	1.42	1.41	1.40	1.39	1.39	2024	Paraná State summary balance sheet, SEFA/PR		See MEP
OUTCOME 3: Decrease in the discrepancy between the budget as planned and as executed													
Budget as executed/ Budget as planned	%	17.11	2018	17.11	15.89	14.66	12.71	10.00	10.00	2024	Paraná State summary balance sheet and Annual Budget Law, SEFA/PR		See MEP

² Outcomes are progressive annual targets (%), not cumulative.

OUTPUTS^{3 4}

Outputs	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Fiscal management and transparency											
1.1 Institutional governance model implemented ⁵	Model	0	2019	0	0	0	1	0	1	SEFA/PR Management Report	See MEP
1.2 Strategic management model for SEFA/PR staff implemented	Model	0	2019	0	0	0	0	1	1		
1.3 Information technology management model implemented	Model	0	2019	0	0	0	0	1	1		
1.4 Transparency and fiscal citizenship mechanisms implemented	Mechanisms	0	2019	0	0	1	1	0	2		
Component 2: Tax administration and litigation											
2.1 Tax policy management model implemented	Model	0	2019	0	0	0	1	0	1	SEFA/PR Management Report	See MEP
2.2 Cadastre and electronic tax document system implemented	System	0	2019	0	0	0	0	1	1		
2.3 Electronic tax document management system implemented	System	0	2019	0	0	0	1	0	1		
2.4 Enforced tax collection management model implemented	Model	0	2019	0	0	0	0	1	1		

³ Outputs are annual.

⁴ Systems, models, or software will only be considered complete once up and running and in use.

⁵ Model is a set of activities that may include: (i) diagnostic assessment of the current state of affairs; (ii) a methodology and change proposal; (iii) process reengineering; (iv) an information technology solution; and (v) training on new processes and tools.

Outputs	Unit of measure	Base-line	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
2.5 Fiscal action management model implemented	Model	0	2019	0	0	0	0	1	1		
2.6 Taxpayer audit model implemented	Model	0	2019	0	0	0	0	1	1		
2.7 Taxpayer self-regularization system implemented	System	0	2019	0	0	0	0	1	1		
2.8 System for the control of accumulated credits and refund of amounts paid in error implemented	System	0	2019	0	0	0	0	1	1		
2.9 Tax litigation management model implemented	Model	0	2019	0	0	0	0	1	1		
2.10 Taxpayer services model implemented	Model	0	2019	0	0	0	0	1	1		
2.11 Tax management system implemented	System	0	2019	0	0	0	0	1	1		
Component 3: Financial administration and public expenditure											
3.1 Results-based budget planning model implemented	Model	0	2019	0	0	0	0	1	1	SEFA/PR Management Report	See MEP
3.2 Accounting, budgetary, financial, and property management system implemented	System	0	2019	0	0	0	0	1	1		
3.3 Asset management system implemented	System	0	2019	0	0	0	0	1	1		
3.4 Public services cost management model implemented	Model	0	2019	0	0	0	0	1	1		
3.5 Public debt management system implemented	System	0	2019	0	0	0	0	1	1		

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country	Brazil
Project number:	BR-L1527
Project name:	Fiscal Management Modernization Project of the State of Paraná – PROFISCO II/PR
Executing agency:	State of Paraná, acting through the Paraná State Finance Department (SEFA/PR)
Fiduciary team:	David Salazar and Fábila Bueno (VPC/FMP)

I. EXECUTIVE SUMMARY

- 1.1 The institutional evaluation for the project's fiduciary management was based on: (i) the country's current fiduciary context; (ii) the findings of the evaluation of the main fiduciary risks; (iii) the report of the Fiscal Management Maturity and Performance Assessment (MD-GEFIS); (iv) an institutional analysis using the Institutional Capacity Assessment Platform (ICAP); (v) previous experience on the first Program to Support the Management and Integration of Tax Administrations in Brazil (PROFISCO I); and (vi) working meetings with the project team and the team at the Paraná State Finance Department (SEFA/PR).
- 1.2 Brazil has robust country fiduciary systems enabling sound management of administrative, financial, control, and procurement processes in accordance with the principles of transparency, economy, and efficiency. The executing agency's planning and organization, execution, and control systems have a medium level of development and represent a medium risk.
- 1.3 SEFA/PR has the legal capacity and experience to execute the project activities, since in recent years it has implemented projects with the Bank—the National Fiscal Administration Program (PNAF) and PROFISCO I—using its own structure with a project coordination unit (PCU). The structure already implemented and consolidated will be used again, drawing on lessons learned from execution of the first phase.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 SEFA/PR is structured according levels of action: senior management and decision-making, specialized strategic advisory and support, general management, technical management, systematic action, program execution, and sector-level.
- 2.2 The project will benefit SEFA/PR as executing agency, the Paraná State Planning and Structural Projects Department (SEPL/PR), and the Office of the Paraná State Attorney General (PGE/PR).
- 2.3 The project activities will be executed by SEFA/PR, acting through its PCU, responsible for institutional and technical coordination (SEFA/PR Resolution 216/2019) within the Fiscal Modernization Advisory Unit.

- 2.4 Procurement processes will be conducted by the Special Bidding Committee created for PROFISCO I, which will be assigned specifically to the program, with sufficient capacity to meet the demand generated by it. The executing agency utilizes Banco do Brazil's *Licitacões-e* online bidding system, which is acceptable for procurements using the *Pregão Eletrônico* electronic reverse auction system.
- 2.5 The executing agency is subject to both internal and external control. Internal control is exercised by the Office of the Paraná State Comptroller General (CGE/PR), and external control by the Paraná State Audit Office (TCE/PR), which audits all state entities and is eligible to conduct external audits of operations financed with Bank resources.

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

- 3.1 The institutional capacity assessment and its validation with SEFA/PR staff concluded that the executing agency's institutional capacity is sufficient and adequate with specific opportunities for improvement for the execution of operations with the Bank.
- 3.2 Two medium fiduciary risks were identified: (i) inconsistencies in financial reports owing to poor integration between the Integrated Financial Administration System (SIAF) and the Program and Project Management, Monitoring, and Support System (SIGMA.PP); and (ii) delays in procurement processes for goods and services. These risks will be mitigated respectively through: (i) completion of the integration between the SIAF and SIGMA.PP systems, to be done under Component 3; and (ii) strengthening of the planning and monitoring tools for the scaling of processes over the course of the project and training for SEFA/PR technical staff on preparing terms of reference.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

- 4.1 **Procurement of works, goods, and nonconsulting services.** Contracts will be subject to international competitive bidding (ICB) and executed using the standard bidding documents issued by the Bank. Bidding processes 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.** Consulting contracts will be executed using the standard request for proposals (SRP) issued by the Bank. Selection and contracting will follow the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9).
- 4.3 **Use of the country procurement system.** The country procurement (sub)system approved by the Bank, *Pregão Eletrônico*, will be used to purchase of-the-shelf goods in amounts up to US\$5 million. Any system or subsystem that may be approved subsequently will be applicable to the operation. The procurement plan and its updates will identify which procurements are to be executed through the approved country systems.

B. Direct contracting and single-source selection

- 4.4 **Infrastructure services and data warehouse technical support.** The firm Teradata Corporation will be engaged via direct contracting under paragraph 3.6(b) of document GN-2349-9, to continue providing its current services, as well as provide the additional technical support necessary for operation of the infrastructure already installed. The estimated total value of this contract is US\$5.7 million.
- 4.5 **Development of process management, adaptation, and assimilation software.** The firm GFT Technologies will be engaged via single-source selection under paragraph 3.10, particularly subparagraph (d), and paragraph 3.11 of document GN-2350-9, given the advantages of continuity of services and the unique experience demonstrated by this firm in its knowledge of tax administration processes. The estimated total value of this contract is US\$1.7 million.
- 4.6 **Implementation of the integrated tax management system and modernization of management intelligence solutions.** The firm Companhia de Tecnologia da Informação e Comunicação do Paraná (CELEPAR) will be engaged via direct contracting under subparagraphs 3.6(b) and (c) of document GN-2349-9, given the need for standardization of the software previously developed, and this firm's unique technical advantage for ongoing development of the integrated system and the support that will be necessary. The estimated total value of this contract is US\$3 million.
- 4.7 **Analysis, research, and advisory support for information technology buyers.** The firm Gartner do Brasil Serviços de Pesquisas Ltda. will be engaged via single-source selection under paragraphs 3.10 and 3.11 of document GN-2350-9, given the advantages of continuity of services, as well as the firm's has exceptional experience and qualifications to deliver the required consulting services. The estimated value of this contract is US\$750,000.

Table 1. Thresholds for ICB and international short lists

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

Table 2. Main procurements

Procurement item	Selection method	Estimated date	Estimated amount (US\$ million)
Goods and nonconsulting services			
Production of the SIAFIC integrated financial management and control system	Pregão Eletrônico	2020 II	4.9
Development of the tax management system	Pregão Eletrônico	2020-II	3.3
Consulting firms			
Development of the public expenditure management model	QCBS	2020-III	2.6
Process mapping and design	QCBS	2020-III	0.9
Process management methodology with standardization	QCBS	2020-I	0.7

C. Procurement supervision

- 4.8 The ex post supervision method will be used, except where justification is shown for ex ante supervision and direct contracting / single-source selection. Procurements executed using the country system will also be supervised via the country system.
- 4.9 The supervision method will be determined for each selection process. Ex post reviews will be every 12 months in accordance with the project supervision plan.

Table 3. Threshold for ex post review

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

D. Records and files

- 4.10 The PCU will be responsible for process documentation and will retain the necessary documentation for supervision and audit purposes.

V. FINANCIAL MANAGEMENT

- 5.1 **Programming and budget.** SEFA/PR is responsible for planning of the PROFISCO II activities, and the PCU for the execution and oversight the activities, as indicated in the project execution plan and annual work plan. State entities use the following planning instruments: the Multiyear Plan (PPA), the Budget Guidelines Law (LDO), and the Annual Budget Law (LOA). The project budget will be included in the LOA.
- 5.2 The PCU will ensure that the Bank and local contribution resources for the project are properly budgeted annually and earmarked for execution in accordance with the project programming. The budgetary resources will be recorded as an external source in the year of execution in Paraná's Integrated Financial Administration System (SIAF). The LOA will include the necessary funds for execution of both the external loan and the local contribution.
- 5.3 **Accounting and information systems.** Public entities in the state of Paraná work with the SIAF, which integrates the state's financial, budgetary, and asset management. The system is auditable and has access profiles and security protocols. It also meets the Bank's requirements on controls and will be used for the execution of PROFISCO II. In addition, PROFISCO II disbursement and external audit reports for the Bank will be generated by the SIGMA.PP system using SIAF data.
- 5.4 **Disbursements and cash flow.** The project will use the SEFA/PR treasury system. Expenditures will be subject to the budgetary and financial execution process and will be duly recorded in the SIAF.
- 5.5 As in PROFISCO I, the Bank resources will be administered through an exclusive account that enables the loan proceeds to be identified and reconciled in terms of both 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 needs for up to 180 days. Future

- advances will be subject to accounting for at least 80% of the total funds previously disbursed.
- 5.7 Expenditures 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 for use in accounting for expenditures paid from advances of loan funds will be the internalization rate. To determine the equivalence of expenditures incurred at the local contribution or as reimbursement of expenditures chargeable to the loan, the rate agreed upon with the executing agency will be the buying rate of exchange set by the Central Bank of Brazil on the effective date of the request submitted to the Bank.
- 5.9 **Internal control and internal audit.** The Office of the Paraná State Comptroller General (CGE/PR) exercises internal control at the state level through coordination units for internal control, public hearings, transparency and societal oversight, internal affairs, and integrity and compliance. It will oversee the project activities.
- 5.10 **External control and reports.** External control will be exercised by the Paraná State Audit Office (TCE/PR) or by a firm of Bank-eligible external auditors.
- 5.11 The annual audited financial reports will be delivered pursuant to the terms of reference agreed upon with the Bank within 120 days after the close of each fiscal year.
- 5.12 **Financial supervision plan.** The financial supervision plan may be altered during project execution in response to evolving risk levels or additional control needs.

Table 4. Supervision plan

Nature and scope	Frequency	Responsibility	
		Bank	Executing agency
Ex post review of disbursements and procurements	Annual	Fiduciary team	PCU – External auditor or TCE/PR
Annual audit	Annual	Fiduciary team	PCU – External auditor or TCE/PR
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 Paraná. Fiscal Management Modernization Project for the State of Paraná – PROFISCO II – PR. Tenth 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 Paraná, 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 Paraná – PROFISCO II – PR, which constitutes the tenth 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\$50,000,000, 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)