PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF SANTA CATARINA – PROFISCO II-SC

(BR-L1513)

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

FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

LOAN PROPOSAL

This document was prepared by the project team consisting of: André Martínez, Project Team Leader; Ana Lucía Dezolt, Alternate Project Team Leader; and Liza Builes (IFD/FMM); Fabia De Assis Bueno and Davis Salazar (VPC/FMP); Guillermo Eschoyez (LEG/SGO), José Martínez (SPD/SDV); Helio Ferreira (CSC/CBR); and Ricardo Gazel and Rodrigo Speziali (consultants).

CONTENTS

Annexes	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

Electronic Links

Required

1. Multiyear Execution Plan and Annual Work Plan
2. Monitoring and Evaluation Plan
3. Procurement Plan

Optional

1. Economic analysis of the project
2. Itemized budget
3. Matrix of problems, solutions, and results
4. Fiscal diagnostic assessment of Santa Catarina
5. Santa Catarina fiscal management report
6. Program Operating Regulations
7. Midterm evaluation of the Conditional Credit Line for Investment Projects (CCLIP) PROFISCO I (BR-X1005)
8. Final evaluation of PROFISCO I – SC (loan 2172/OC-BR)
9. Detailed diagnostic assessment of Santa Catarina's fiscal management
10. Climate change document
11. Safeguard Policy Filter and Screening Form

ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
DCOG	Direção de Contabilidade Geral [General Accounting Directorate]
DIAT	Direção de Administração Tributária [Tax Administration Directorate]
DIOR	Direção de Planeamento e Orçamento [Planning and Budget Directorate]
DITE	Diretoria do Tesouro Estadual [State Treasury Directorate]
GESIT	Gerência de Sistemas e Informação Tributária [Tax Systems and Information Division]
ICB	International competitive bidding
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [Goods and services sales tax]
ICT	Information and communication technology
IEF	Instituto de Estudos Fiscais [Fiscal Studies Institute]
IFI	Instituição Fiscal Independente [Independent Tax Institution]
IMF	International Monetary Fund
IPEA	Instituto de Pesquisa Econômica Aplicada [Institute of Applied Economic Research]
IRR	Internal rate of return
IT	Information technology
ITCMD	Imposto de Transmissão Causa Mortis e Doação [Inheritance and gifts tax]
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 budget framework
NCB	National competitive bidding
NCI	Net current income
NF-e	Nota fiscal eletrônica [electronic tax invoice]
NPV	Net present value
PCU	Project Coordination Unit
PEP	Multiyear project execution plan
PGE	Procuradoria Geral do Estado [Office of the State Attorney General]
PROFISCO	Fiscal Management Modernization Program in Brazil
SAJ	Sistema de automatização de justiça [Justice automation system]
SAT	Sistema de administração tributária [Tax administration system]
SBC	Standing Bidding Committee
SC	Santa Catarina state
SEA	Secretaria de Estado da Administração [State Administration Secretariat]
SEF	Secretaria de Estado da Fazenda [State Finance Secretariat]
SIGEF	Sistema Integrado de Gestão Financeira [Integrated financial management system]
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
STN	Secretaria Nacional do Tesouro [National Treasury Department]
TCE-SC	Tribunal de Contas do Estado de Santa Catarina [Santa Catarina State Audit Office]

PROJECT SUMMARY

BRAZIL
FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF SANTA CATARINA – PROFISCO II-SC (BR-L1513)
EIGHTEENTH 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: State of Santa Catarina			**Flexible Financing Facility**[a]	
			Amortization period:	25 years
Guarantor: Federative Republic of Brazil			**Disbursement period:**	5 years
Executing agency: State of Santa Catarina, through its State Finance Secretariat (SEF)			**Grace period:**	6 years[b]
			Interest rate:	SOFR-based
Source	**Amount (US$)**	**%**	**Credit fee:**	[c]
IDB (Ordinary Capital)	50,000,000	90	**Inspection and supervision fee:**	[c]
Local	5,600,000	10	**Weighted average life:**	15.25 years
Total	55,600,000	100	**Currency of approval:**	U.S. dollars

Project at a Glance

Project objective/description: The project's general development objective is to contribute to Santa Catarina's fiscal sustainability through the following specific development objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. This project is the eighteenth individual loan operation under the Fiscal Management Modernization Program in Brazil (PROFISCO) II CCLIP (BR-X1039), approved by the Board of Executive Directors through Resolution DE-113/17.

Special contractual conditions precedent to the first disbursement of the loan: (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) will have been established and its members appointed (paragraph 3.4).

Special contractual execution conditions: (i) within 180 days following signature of the loan contract, the SEF will submit evidence to the Bank that it has adopted measures to strengthen the Standing Bid Committee (SBC) so that it can adequately address the bidding processes anticipated in the project plan; and (ii) prior to the start of execution of activities with outputs deliverable directly to the Office of the State Attorney General and the State Administration Secretariat, the SEF will submit evidence that it has signed a cooperation instrument with these agencies, establishing the responsibilities of these institutions during execution of the respective activities (paragraph 3.5).

Exceptions to Bank policies: None

Strategic Alignment

Challenges:[d]	SI ☐	PI ☒	EI ☐
Crosscutting themes:[e]	GE ☐ and DI ☐	CC ☒ and ES ☐	IC ☒

[a] Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes in the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection 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 applicable policies.

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[e] GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Project Description and Results Monitoring

A. Background, problem addressed, and rationale

1.1 This project is the eighteenth individual loan operation under the PROFISCO II conditional credit line for investment projects (CCLIP) Fiscal Management Modernization Program in Brazil (BR-X1039, paragraph 2.3), approved by the Bank's Board of Executive Directors through Resolution DE-113/17, with a view to consolidating the progress made under the PROFISCO I CCLIP (BR-X1005, paragraph 1.19) and to continue modernizing the states' fiscal management.

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) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. The agencies of Brazil's 26 states, the Federal District, and the Federative Republic of Brazil receiving a favorable recommendation from the Ministry of Economy's External Financing Commission for the preparation of an individual operation will be eligible as borrowers.

1.3 The PROFISCO II CCLIP aims to increase tax revenue, enhance the country's business environment and competitiveness, and was designed primarily to support: (i) the supplementation of the Digital Public Accounting System in the automation of tax audits and obligations; (ii) improvement of the quality of public expenditures in the adoption of multiyear budgets and the implementation of public procurement and investment systems; (iii) the introduction of new technologies such as Big Data for oversight and management of public expenditures, Cybersecurity for data security, and the use of robots for taxpayer services; and (iv) strengthening of the processes, methodologies, and technologies already promoted by the PROFISCO I CCLIP.

1.4 **Economic and fiscal considerations in Brazil and the impact of the COVID-19 pandemic.** Brazil is facing significant challenges in keeping its economy on a sustainable growth path. Its GDP contracted by 3.55% in 2015 and by 3.28% in 2016, and grew by just 1.32% in 2017, 1.78% in 2018, and 1.22% in 2019.[1] With the COVID-19 pandemic, GDP declined by 3.88% in 2020, with a cyclical recovery of 4.62% in 2021, while in 2022, Brazil's economy grew by 2.90%. Nonetheless, growth is projected at 0.90% in 2023 and 1.44%% in 2024.[2]

1.5 The decline in economic activity caused consolidated public-sector income to fall significantly. As a percentage, it has remained at around 40% of GDP since 2013, albeit of a lower GDP. Public expenditure, however, climbed steadily during this period from 42.47% of GDP in 2013 to 46.69% in 2019, reaching 50.75% in 2020 due to the extraordinary expenditures related to the pandemic and the lower GDP, then falling back to 44.05% in 2021. The primary balance deteriorated from an average primary surplus of 2.53% of GDP in 2010-2013, to a primary deficit of 0.92% between 2014 and 2019. In 2020, the primary deficit reached 8.01% of GDP, while improving in 2021 and 2022 with surpluses of 0.7% and 1.3% of GDP, respectively.[3] Still, the consolidated public sector posted budget deficits throughout the period,

---

1 Brazilian Geography and Statistics Institute (IBGE), 2022.

2 Focus, Central Bank of Brazil, 11 April 2023).

3 Institute of Applied Economic Research (IPEA), *Panorama Fiscal: Destaques de 2022 e perspectivas*.

since 2010, reaching 12.1% of GDP in 2020.[4] Gross public debt increased substantially since the 2015 recession, from 56.3% of GDP in 2014 to 86.94% in 2020, falling to 72.87% in 2022.[5] The National Treasury estimated a reduction in gross debt over time, reaching 76.6% of GDP in 2030.[6]

1.6 The years of recession and the low growth have impaired fiscal performance in the Brazilian states. Total revenue and tax revenue remained relatively stable as a percentage of GDP in recent years, again with a lower GDP.[7] As state revenues faltered, current expenditure climbed, driven by rising personnel expenditures, which went from 15.3% of GDP in 2012 to 18.8% in 2019.[8] In contrast, investment fell from 0.92% of GDP in 2012 to 0.36% in 2017, then improving slightly to 0.54% in 2019 and 0.79% in 2020. As a result, the budgetary balance deteriorated, posting deficits every year between 2010 and 2017 for all states. The primary balance also deteriorated from a surplus of 0.76% of GDP in 2011 to 0.07% in 2017. Adjustments in 2018 and 2019 and federal transfers to the states for the COVID-19 pandemic resulted in surpluses in all states.[9]

1.7 **Fiscal situation in the State of Santa Catarina.** The crisis in 2015/2016 affected Santa Catarina's economy and fiscal balance. The share of Santa Catarina's GDP in Brazil's GDP, which was as high as 4.20% in 2014, fell to 4.15% and 4.10% in 2015 and 2016, respectively. Santa Catarina's economy grew more quickly than Brazil's in the subsequent period, showing gains in its share of Brazil's GDP, reaching 4.37% in 2019. In 2020, Santa Catarina's economy was impacted by the pandemic, with a shrinkage of 2.86%, less than the decline of 3.88% for the country as a whole. Santa Catarina's GDP growth for 2021 was 8.3%, significantly higher than the national GDP growth, which was 4.62%, and in 2022, Santa Catarina's GDP growth was estimated at 3%.[10]

1.8 The economic recovery in 2021 translated into an improvement in Santa Catarina's fiscal position, with nominal growth of 16.6% in net current revenue, although the growth in federal transfers was below inflation, at 7.05% versus 10.6%. Santa Catarina has the third lowest share of transfer revenue in primary revenue, at around 18% compared to the median level of 33% for all states. Personnel expenditures as a percentage of net current revenues, between 2019 and 2021 went from 55.45% to 54.24% for all branches of government, and from 45.75% to 44.92% for the executive branch. In 2021, these percentages fell to 51.54% for the consolidated government and to 43.14% for the executive branch. The high social security deficit remains a concern. It reached 17.5% and 18.5% of net current revenue in 2020 and 2021, respectively, while in 2021, the cost of the state pension systems fell from

---

4 *Estatísticas Fiscais do Governo Geral - 2021 - 4° Trimestre — Tesouro Transparente*.

5 IFI, 2017.

6 *Relatório de Projeções da Dívida Pública 2021 - 2*.

7 *Estatísticas Fiscais do Governo Geral - 2021 - 4° Trimestre — Tesouro Transparente*.

8 *Estatísticas Fiscais do Governo Geral - 2021 - 4° Trimestre — Tesouro Transparente*.

9 *Estatísticas Fiscais do Governo Geral - 2021 - 4° Trimestre — Tesouro Transparente*.

10 IBGE, National and regional accounts. Santa Catarina's GDP, after 2020, was estimated by the State Secretariat for Sustainable Economic Development.

18.5% to 15.7%. At the same time, investment grew, reaching 6.30% of net current revenue in 2021.[11]

1.9 Earnings on revenue and limitations on spending resulted in an improved fiscal position. Santa Catarina posted a primary balance of R$2.68 billion, 60% higher than the fiscal target established for 2020, and the nominal balance reached R$1.54 billion, 77.24% above the established fiscal target. In 2021, the primary and nominal balances were R$3.65 billion and R$1.35 billion, 169% and 209% above the established fiscal target, respectively. Consolidated public debt declined from 92.9% of net current revenue in 2019 to 89.8% in 2020, and fell even further to 74% in 2021.[12]

1.10 In 2022, all the constitutional minimum fiscal indicators and targets for the Fiscal Adjustment and Restructuring Program were met. Santa Catarina's ability to pay score remained at a B after improving from a C to a B in 2021. The partial B scores on the debt indicator (consolidated public debt/net current revenue = 74%), a B in current savings (weighted average of current expenditure/adjusted current income = 90.45%), and an A in liquidity (financial obligations/cash on hand = 4.1%), made the state eligible for loan operations with a guaranteed by the Federative Republic.[13]

1.11 **Rationale.** Brazil's slow economic recovery and the state's vulnerability highlight the urgent need to implement new fiscal management modernization initiatives in Santa Catarina, with the aim of balancing the public accounts and consolidating fiscal sustainability. New complementary approaches are required to bolster the state's fiscal performance. PROFISCO I-SC placed a heavy emphasis on improving tax administration and promoting integration of the state treasury with other levels of government through the Digital Public Accounting System (SPED). This project will take these lines of modernization further and will also promote: (i) the strengthening of public expenditure management; (ii) the use of SPED and digital technologies; and (iii) simplification of tax compliance to improve the state's business environment.

1.12 The effectiveness and efficiency of public institutions is constrained by the restrictions faced by their constituent public employees, access to information technology (IT), availability of financial resources, and the legal framework (Arenas de Mesa, 2016; Finan et al., 2017). In this regard, Santa Catarina needs to address remaining weaknesses that limit its fiscal performance. The State Finance Secretariat (SEF) has a permanent payroll of about 832 and an additional 44 contract employees.[14] For the planning and management of its workforce, however, the SEF does not have evaluation methodologies or procedures for determining the size of the workforce which would make it possible to quantify and identify the profiles and composition of its staff. As a result, the allocation of civil servants does not meet current and future needs and does not make it possible to target training on the basis of competencies.[15]

---

[11] *Tesouro Nacional. Boletim de Finanças dos Entes Subnacionais. Novembro 2022.*

[12] Ibid.

[13] *Tesouro Nacional Transparente. Capacidade de Pagamento (CAPAG) Estados e Municípios*.

[14] Santa Catarina Fiscal Management Report – Technical Note – Human Resource Management.

[15] In 2021, all competitive staff hiring processes were conducted without considering the managerial information and competencies required for the positions.

1.13 In terms of technology constraints, the SEF has sought to upgrade its IT infrastructure with the procurement of new computers, improved telecommunications, strengthened security, and the evolution of corporate portals.[16] Nonetheless, digitization of the large volume of tax documents (SPED, electronic tax invoice (NF-e), and the Tax Coupon Issuer) requires increasing expansion of the system's capacity. Moreover, to implement new projects like the use of analytics to enhance fiscal enforcement, the automation of the fiscal benefit calculation and the use of the NF-e for public procurement, the SEF's IT infrastructure needs to be expanded, since 95% of the main repository and 70% of servers are full. Furthermore, the investments made in the contingency site were targeted to the Tax Administration System (SAT), but there is not enough capacity to support the growth of this and other corporate systems. Lastly, technological developments and changing security threats create the need, not only to upgrade infrastructure, but also to review the technology strategy, to make it possible to expand the IT infrastructure in a sustainable, secure, and efficient manner over the short and medium terms.

1.14 Lastly, in relation to the legal framework,[17] it has not yet been possible to catalogue, update, and consolidate many regulatory documents; and this makes the tax administration more complex and harder for auditors, accountants, and taxpayers to consult. In addition, to comply with good and services sales tax (ICMS) obligations, taxpayers have to complete two tax returns, in which some of the information is duplicated, when this could be done through a single return.

1.15 A diagnostic assessment of the state's fiscal management[18] reveals three specific problems:[19]

1.16 **In fiscal management,** the SEF's corporate processes related to governance; strategic, personnel, and technology management; and communication with citizens, are underdeveloped and poorly integrated,[20] which limits its institutional performance. The underlying causes of this problem are:

a. Difficulty for the various SEF areas to prioritize their targets.[21][22]

b. Inefficient use of human resources.[23]

c. Vulnerability of the technology environment.[24]

---

16 Technical Note – ICT Management.

17 Technical Note – Tax Policy.

18 Santa Catarina Fiscal Management Report.

19 For further details, see the Detailed diagnostic assessment of Santa Catarina's fiscal management.

20 Four of the six dimensions of fiscal management display an initial level of maturity, while the other two are only intermediate (MD-GEFIS).

21 The SEF authorities are unaware of the targets planned and achieved by the institution.

22 Technical Note GF1 – Public Governance: A 2015 evaluation of the development level of the Internal Audit (IA-CM) by the International Bank for Reconstruction and Development, rated it at the lowest performance level.

23 The competencies of the state workforce are not properly mapped or defined (Technical Note – Human Resource Management).

24 Only 10% of ICT procedures are properly defined and documented (Technical Note – ICT Management).

d. Loss of financial resources because of weak management of the state's movable, immovable, and intangible assets.[25]

e. Failure to take advantage of potential savings in public procurement.[26]

f. The information available to society is insufficient and difficult to understand; and communication with citizens is ineffective.[27] [28] [29]

1.17 **In the tax administration**, revenue performance is below potential.[30] This is the result of:

a. The ineffectiveness of current management instruments to support tax policy-making.[31]

b. Inefficiency in the taxpayer registry and complexity in the payment of taxes.[32] [33]

c. Inability to perform (ex ante) audits and (ex post) inspections covering all state taxpayers in an effective and timely manner.[34] [35] [36]

d. Inefficiency in the recovery of tax claims and slowness in the management of tax litigation.[37]

e. High rates of face-to-face dealings with taxpayers.[38]

---

[25] The amounts recorded in the fiscal and storage systems and the value of assets diverge by 68%. Moreover, only 22.8% of real estate is properly identified and only 42.4% was revalued (Technical Note – Procurement Management).

[26] Items acquired with prior planning represented only 0.95% of total procurement in 2016. In addition, for a sample of 11,371 product procurements in 2017, the average difference between the benchmark value and the amount awarded was 127% or US$330. The price discrepancy for fuel in different departments was 12.3% in 2017, or US$3.2 million (Technical Note – Procurement Management).

[27] For example, it is impossible to compare the fiscal performance data with sector results because the portal does not collect data on economic and social indicators (Technical Note – Transparency).

[28] The program has been made official in just 10 of the 295 municípios (Technical Note – Transparency).

[29] The average response time is approximately 34 days (Technical Note – Transparency).

[30] The ICMS revenue gap was 28% of potential collection in 2017 (SC, optional link 4).

[31] It takes too long to consolidate information that is dispersed across the various sectors, and it is impossible to accurately calculate the revenue gain or loss associated with a tax exemption (Technical Note – Tax Policy).

[32] In 2016, 53,460 man-hours were required to manage and maintain the registry (Technical Note – Registry).

[33] A different consultation is needed for an import process in each of the 27 states of the federation (Technical Note – Registry).

[34] The audit covers 100% of firms in the "National Simple" category, which represents just 5% of the total revenue collected. In the "Normal" segment, coverage is only 30%.

[35] It is estimated that roughly 40,000 vehicles circulate on Santa Catarina's roads every day without proper oversight (Technical Note – Inspection).

[36] An evaluation conducted by the SEF in 2016 found that the ITCMD was calculated on a tax base of US$2.6 million, generating revenue of US$168,000, when the base value should have been be US$7 million, generating revenue of US$468,000 (Technical Note – Inspection).

[37] In 2017 the stock of adjudicated tax claims reached the level of US$4.3 billion but annual recovery is only 1%. The average case processing time is two years (Technical Note – Litigation).

[38] In 2017, 520,000 consultations averaging 1.5 hours each were attended in person. A SEF study estimated that over 50% of face-to-face services at the taxpayer Service Center could be done on-line via the SAT, but most on-line applications need to be improved. At the same time, the average call lasts 2.5 hours (Technical Note – Taxpayer Service).

f. Inefficiency in the processes for collecting and controlling tax and nontax claims.[39]

1.18 **Public expenditure management** suffers from deficiencies that cause major discrepancies between the priorities defined in the planning instruments, the budget programmed at the beginning of the fiscal year, and the budget actually executed.[40] This situation reflects an environment that makes it hard to achieve better results in terms of fiscal discipline and efficiency, and in the effectiveness of public spending. The causes are:

a. Lack of coordination between strategic planning and budget formulation over a multiyear horizon.[41]

b. Inefficiency in state cash management associated with the prevalence of manual processes and the dispersion of financial data.[42]

c. Inefficiencies in the management of public investment due to deficiencies in the procedures in the stages of the investment cycle.

d. Accounting information is insufficient and not made available in a timely manner for decision-making and accountability purposes.[43]

e. Deficient management of public debt, since there is no medium-term strategy to guide relevant actions.[44]

f. Inefficient allocation and use of public resources.[45]

1.19 **The Bank's experience in the country.** The Bank supported the modernization of fiscal management on all three levels of government in Brazil, with significant transformations over the more than 25 years of implemented programs, particularly at the state level, under the National Fiscal Administration Program for the Brazilian States (PNAFE) (loan 980/OC-BR, approved in 1996 for US$500 million, closed) and the PROFISCO I CCLIP (loan BR-X1005, approved in 2008 for US$500 million), as well as the fiscal stability consolidation projects through policy-based loans.[46]

[39] There are approximately 1,200 processes per month (Technical Note – Revenue Collection).

[40] In 2016, the deviation between the planned and the executed budget was 18% (Technical Note – Planning and Execution), while the international standard defined as a good practice in the Public Expenditure and Financial Accountability program recommends a maximum of 5%.

[41] In 2016, 44% of programs in the multiyear plan showed financial execution of less than 50% (Technical Note – Planning and Execution),

[42] In 2016, 1,038 hours/month were spent preparing reports and nonautomated activities, and 200 hours/month were spent on consultations with sector-level financial administration units, as well as manually processing US$175 million in bank orders related to the state's assets and liabilities (Technical Note – Treasury).

[43] Just 10% of tax revenues are processed automatically in the accounting system. Only 30% of the Brazilian Accounting Standards and 8% of international standards are implemented (Technical Note – Accounting).

[44] In 2016, the value of lawsuits was approximately US$720 million. In the health area alone about US$75 million were spent without programming (Technical Note – Debt).

[45] It is estimated that US$300,000 was wasted in the purchase of air fares in 2016, owing to the lack of control between the different units and secretariats (Technical Note – Public Costs).

[46] These include loans 2081/OC-BR (approved in 2008 for US$409 million, closed), 2841/OC-BR (approved in 2012 for US$600 million, closed), 2850/OC-BR (approved in 2012 for US$200 million, closed), 3039/OC-BR (approved in 2013 for US$400 million, closed), 3061/OC-BR (approved in 2013 for US$250 million, closed), 3138/OC-BR (approved in 2013 for US$200 million, closed), and 3139/OC-BR (approved in 2013 for US$184 million, closed).

These projects supported the implementation of the NF-e, the system that allows the sending of fiscal and accounting data from companies to the tax authorities by digital means and the Integrated Public Finance System, which is compatible with international accounting standards; and the strengthening of technological capacity, enabling the storage and processing of electronic fiscal data and the public procurement system. The main outcomes were the increase in tax revenues, the reduction of informality, and the reduction of transaction costs for tax authorities and taxpayers. According to an evaluation, the program helped the states participating in the PROFISCO I CCLIP to increase their total revenues by 11.7% and the number of formal business units by 1.7% with respect to states that did not have the program.[47] For municípios, the Fiscal Modernization Program and the Fiscal Management Program for Brazilian Municipalities, now in its third phase, supports increased own revenue with the implementation of the NF-e for services and the update of the property registry, the reduction of administrative costs, and increased taxpayer services.[48] [49] At the federal level, the Bank supported actions including the implementation of the risk management and artificial intelligence methodology at the Office of the Attorney General for Tax Matters, the Accounting and Fiscal Information System, and the Federal Government Cost Information System, in the context of the Finance Ministry Integrated Modernization Program[50] (loan 3142/OC-BR, approved in 2013 for US$19.8 Million, closed).

1.20 Moreover, a final evaluation of PROFISCO I-SC (loan 2172/OC-BR, approved in 2009 for US$30 million, closed) rates the project's performance as satisfactory, with the planned outcome and output targets being attained. Of the ten outcome targets, nine were fully achieved (90%), and the values for one are pending disaggregation. In terms of outputs, of the 22 planned targets, only one was not fully achieved. The project's achievements include increases in tax revenue between 2009 and 2016 as follows: Inheritance and Gifts Tax (ITCMD), up from US$16 million to US$85 million; ICMS in retail trade, up from US$312 million to US$530 million; ICMS on firms, up from US$2.5 billion to US$4.6 billion. Moreover, revenue from the recovery of tax claims increased from US$24 million to US$43 million. It was also possible to develop fiscal management systems that became a national reference, such as the SAT and the financial management system (SIGEF), the latter being the most advanced financial management system in the country.

1.21 **Lessons learned from IDB operations in the country.** The main lessons learned from previous programs, including those of PROFISCO I-SC (paragraph 1.20) include:

a. The need to address the issue of fiscal management through comprehensive actions and the need for a tool to identify these innovative solutions,

---

47 See Martínez Fritscher, André; Maria Cristina Mac Dowell; Soraya Ferreira; and Ricardo Gazel (2022) https://publications.iadb.org/pt/modernizacao-fiscal-dos-estados-brasileiros-e-seu-impacto-arrecadatorio-e-economico-o-caso-do.

48 By means of the following loan operations: 1194/OC-BR (approved in 1999 for US$300 million, closed), 2248/OC-BR (approved in 2009 for US$150 million, closed), 3391/OC-BR (approved in 2014 for US$150 million, in execution with 67.54% disbursed), and 2078/OC-BR (approved in 2008 for US$10 million, closed).

49 For further details, see the completed project completion reports.

50 *Secretaria da Receita Federal*, 1996.

considering best practices, which can support the design of fiscal modernization operations. To address this lesson, the methodology for evaluating the Maturity and Performance of Fiscal Management (MD-GEFIS). was developed. Based on this evaluation, it is possible to identify the areas that need strengthening activities. The results of its application will be used as a baseline for the monitoring and evaluation of the project.

b. In terms of the achievement of outcomes, it was identified that the SPED, including the NF-e, Digital Tax Accounting, and Digital Bookkeeping, were the outputs making the biggest contribution to increasing the efficiency of the states' tax audits.[51] This operation will make a major investment in SPED's development and seek to maximize its potential by expanding the use of the information it generates to automate tax auditing, simplify tax obligations, and improve public procurement, etc. by leveraging the new digital technologies.

c. Executing operations required tools to compensate for the delays observed. For this purpose, under the PROFISCO I CCLIP (paragraph 1.19), the Bank developed a tool for monitoring and mitigating delays, called the Implementation Acceleration Plan,[52] which will be used to support this project as a supplement to the Bank's formal instruments.

d. Specifically, PROFISCO I-SC (paragraph 1.20) found that the following factors hampered the project's pace of execution: (i) difficulty in planning the execution of outputs, due to lack of relevant experience; (ii) difficulty in preparing terms of reference, especially the quantification of activities and delivery deadlines; and (iii) difficulty in executing a large number of outputs. Accordingly, the project included actions to: (i) maintain the structure and personnel of the project coordination unit (PCU) that executed PROFISCO I-SC, with additional measures to strengthen processes and execution capacities; (ii) hire support to prepare terms of reference; and (iii) reduce the number of components and outputs and consolidate procurement processes.

1.22 **The Bank's experience in the region.** Recent Bank experience with tax administration reform in Costa Rica (4819/OC-CR, approved in 2019), Honduras (3541/BL-HO, approved in 2015), and Peru (3214/OC-PE, approved in 2014); modernization of financial administration systems in Honduras (2032/BL-HO, approved in 2008), and Nicaragua (2422/BL-NI, approved in 2010); and management of public investment in Argentina (3835/OC-AR, approved in 2016), Bolivia (3534/BL-BO, approved in 2015), Mexico (2550/OC-ME, approved in 2011), Paraguay (3628/OC-PR, approved in 2015), and Peru (2703/OC-PE, approved in 2012) has been considered in this operation and emphasize: (i) the focus of the reforms should be centered around the improvement of the entities' business models; (ii) the massive use of digital intelligence and risk analysis in the processing of information increases the effectiveness of tax oversight; (iii) the use of cutting-edge technology (such as Big Data) enables the processing of large volumes of data; and

[51] McKinsey & Company, 2014: NF-e and SPED have increased the risk for tax evaders of being identified; and have also helped reduce informal employment in Brazil over the past ten years (from 55% to 40%).

[52] The Acceleration Plan seeks to prioritize the actions needed to improve the project's performance and increase the level of disbursements so the outputs are executed within the planned timeframe.

(iv) the entities' human capital is the most important asset to be considered in a reform.

1.23 **International evidence.** The empirical evidence shows the need to establish strong fiscal institutions to enable an environment promoting fiscal sustainability to take hold.[53] Banerjee et al. (2017) find reductions in public program execution costs when the government is supported by an electronic platform for the distribution of benefits. Dhaliwal and Hanna (2014) find that automated programs for monitoring processes associated with onsite staff can improve the efficiency with which public resources are used and enhance the quality of public services. Arenas de Mesa (2016) summarizes the evidence showing that management, coupled with transparency and fiscal responsibility, contributes to strengthening the fiscal institutional structure, one of the four dimensions of public finances that contribute to fiscal sustainability.

1.24 In terms of tax, recent evaluations show that tax-collection performance is highly dependent on institutional strengthening in tax administration and its organizational structure, processes, and supporting tools: (i) improving access and quality of the information available;[54] (ii) implementing compliance models supported by intensive use of information;[55] (iii) simplifying procedures to facilitate tax compliance;[56] and (iv) defining strategies to ensure the suitability and motivation of human resources.[57] Several Latin American tax administrations have strengthened these elements, particularly Brazil and Uruguay.[58]

1.25 In addition, with regard to expenditure efficiency and effectiveness, several studies point to the need to set up an expenditure management system that adopts multiyear budgeting, such as the Medium-Term Budget Framework (MTBF).[59] Countries that have a robust MTBF tend to be more effective in achieving their fiscal targets.[60]

1.26 **Strategic alignment.** The project is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenge of productivity and innovation, by reducing tax collection costs through the use of information and digital technology, and with the crosscutting area of: (i) institutional capacity and rule of law, through the strengthening of tax systems and public resource management and planning systems and by improving transparency and accountability through greater digitalization and automation of processes and services; and (ii) climate change, since according to the multilateral development banks' joint methodology, it is estimated that the project includes 15.11% of climate finance, due to the planned actions with climate impact (optional link 10).

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

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

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

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

57 Incentive structures for key tax administration staff can result in additional revenue intake, yielding rates of return of between 35% and 51% (Khan et al., 2016).

58 PCR 1783/OC-UR. Barreix and Zambrano. (2018). *Electronic Invoicing in Latin America*. IDB.

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

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

These resources contribute to the IDB's climate finance target (30% of annual approval volumes). The project also contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) via the indicators for: (i) emissions avoided (tons of CO_2 equivalent); (ii) countries with strengthened tax and expenditure policies; (iii) agencies with strengthened digital technology and managerial capacity; and (iv) agencies with strengthened transparency and integrity practices. The project is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) and consistent with the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8) and the Fiscal Policy and Management Sector Framework Document (document GN-2831-10), in the following dimensions: (i) improving the efficiency and quality of expenditure and service delivery; (ii) improving own revenue collection; and (iii) working with greater transparency and accountability. The project is also consistent with the Climate Change Sector Framework Document (GN-2835-8) through the reduction of greenhouse gas emissions, due to the procurement of efficient equipment and the digitalization of services.[61]

1.27 **The Bank's country strategy with Brazil.** The project is aligned with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973),[62] specifically though the following strategic objectives: (i) reform the structure of public expenditure (Components 1 and 3); (ii) improve the public investment system (Component 3); (iii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises (Components 1, 2, and 3); and (iv) build a more effective government (Components 1, 2, and 3). Lastly, the operation is included in the 2023 Operational Program Report (document GN-3154-1).

B. Objectives, components, and cost

1.28 The project's general development objective is to contribute to Santa Catarina's fiscal sustainability through the following specific development objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management.

1.29 **Beneficiaries.** Enhancing the performance of public finance, increasing tax revenue intake, increasing the efficiency of public expenditure, and strengthening Santa Catarina's fiscal sustainability will benefit its citizens, corporate and individual taxpayers, and entities of the public and nongovernmental sectors, through better service delivery and infrastructure, easier and less costly tax compliance, and greater availability of information and data for public management and public account transparency. The operation will finance the following components:

1.30 **Component 1. Fiscal management and transparency (US$20.8 million).** This component seeks to improve management instruments and modernize the technological infrastructure, and also increase the transparency of the SEF's relationship with society and improve its institutional performance. The component will finance the following activities:

---

61 The procurement of equipment for the project will follow energy efficiency requirements with labeling such as Procel Clase A, Energy Star, or the equivalent thereof.

62 The country strategy is in effect and in a transition period.

a. **Implementation of the strategic financial management model,** including: (i) new procedures for identifying and mitigating fiscal and corporate risks; (ii) new IT system and procedures for SEF strategic planning; (iii) improvement and automation of internal audit procedures; and (iv) new procedures to improve the state's governance structure for activities to attract new investments.

b. **Implementation of the competencies-based human resource management model** through: (i) a methodology for the evaluation and scaling of human resources, covering hiring based on competencies, and a development and training regime; (ii) an integrated IT system to support the state's human resource management; and (iii) a continuous staff development and training plan.

c. **Strengthening of the Information and Communication Technology (ICT) governance model,** through: (i) updating of the strategic ICT management plan over the short and medium terms; and (ii) updating of the IT infrastructure in terms of support hardware and software, including infrastructure for the use of big data/data analytics and expansion of the contingency environment.

d. **Strengthening of the management of state goods, services, and assets** through: (i) new management procedures for goods, services, and assets; and an asset use strategy; (ii) a survey and update of the state's goods and services register; and (iii) a new integrated IT system for goods, services, and asset management.

e. **Strengthening of procurement management,** including: (i) a new public procurement model with emphasis on planning, supported by a computerized procurement management system; and (ii) a methodology for using benchmark prices in public procurement based on information obtained from electronic tax documents, including an IT tool to operate it.

f. **Strengthening of the model for transparency and communication with society,** through: (i) a strategy, new procedures, and technological tools involving integrated databases to improve fiscal transparency and communication with society, including improvement of the transparency portal; (ii) reformulation and expansion of the tax education program; and (iii) modernization of procedures for receiving and dealing with complaints, suggestions, compliments, reports and information from citizens, including upgrading of the corresponding IT support system.

1.31 **Component 2. Tax administration and litigation (US$21.4 million).** This component seeks to make tax collection more efficient, grow revenues, and simplify tax compliance. It will finance the following:

a. **Implementation of the management model for tax policy support tools.** This includes: (i) review, updating, and consolidation of current legislation, supported by a consultation tool; (ii) a methodology and a technological tool for estimating tax evasion; and (iii) a review of management procedures for granting tax breaks and updating the computer support system.

b. **Improvement of the registry (cadastre) and simplification of tax obligations,** through: (i) implementation of the IT system for the Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e

Negócios (National Network for the Simplification of Registration and Legalization of Enterprises and Businesses); (ii) integration of the computerized registry system with information from the Transportation Department's vehicle management system; (iii) consolidation of tax obligations in a single tax return, reflected in the consolidation of SPED/EFD accessory obligations; and (iv) integration into the Single Foreign Trade Portal.

c. **Strengthening of the audit and inspection model,** including: (i) review and improvement of ex ante procedures and technological tools for auditing and large-scale tax intelligence; (ii) review and improvement of ex post inspection procedures and technological tools; (iii) implementation of new procedures to control merchandise in transit; (iv) review and improvement of ITCMD inspection and audit procedures; and (v) improvement of the IT system and procedures used to control transactions involving end consumers.
d. **Strengthening of tax litigation management,** through: (i) review and adjustment of procedures for the management of adjudicated tax claims, including a strategy to reduce the outstanding stock; and (ii) review and improvement of the tax litigation IT system, integrating it with the SAT and PGE.Net.
e. **Strengthening of the taxpayer service model.** The following steps will be taken: (i) review of the procedures and SAT applications to improve digital service; and (ii) upgrading of the physical and technological environments for taxpayer services in regional offices.
f. **Implementation of the revenue management and administrative collection system,** through: (i) an increase in SAT auditing, registration, and collection functions, integrating it with PGE.Net and the Judiciary IT system (SAJ); and (ii) improvement of the management of tax claims, including a review of the competency of the regional offices and extension of the SAT's functionality.

1.32 **Component 3. Financial administration and public expenditure (US$11.8 million).** This component aims to enhance fiscal discipline and increase the efficiency and effectiveness of public expenditure. It will finance the following:

a. **Improvement of the budget planning and execution model,** including: (i) review and improvement of procedures, integrating planning, fiscal programming, and budget formulation actions into a medium-term framework; and (ii) implementation of results-based budgeting and the supporting IT system.

b. **Strengthening of financial programming and execution,** through: (i) review and improvement of treasury procedures and the integrated IT system; (ii) improvement of cash flow procedures and the respective technological support tool; (iii) implementation of a dashboard consolidating the state's fiscal data for treasury decision-making; (iv) implementation of the IT system and new procedures for managing financial credits related to the state's financial assets and liabilities; and (v) implementation of a program of training and certification on financial issues, complemented by internal and external communication actions.

c. **Implementation of the public investment management model,** including: (i) new procedures and instruments for the investment programming and

prioritization phase; (ii) tools, methodologies, and training for project preparation; and (iii) a physical and financial management system to support investment projects.

d. **Strengthening of the state's integrated IT system for accounting management,** through the implementation of accounting procedures, aligned with Brazilian accounting norms and converging on international public-sector accounting standards; also including upgrading of the IT system integrated with SIGEF, the official state planning, budget, finance, and accounting system.

e. **Strengthening of the public debt management model,** including: (i) development of a medium-term strategy, including adjustments to the organizational structure of the Diretoria de Captação de Recursos e Dívida Pública [Directorate of Borrowing and Public Debt] (DCID); (ii) upgrading of procedures for evaluating credit operations using financing scenarios supported by an IT system; and (iii) strengthening of contingent liabilities management and the supporting IT system.

f. **Implementation of the public cost management model,** through: (i) a methodology for estimating public costs supported by an IT system integrated into the state's corporate systems; and (ii) implementation of procedures to manage expenditure quality, including business intelligence tools and the supporting technological infrastructure.

1.33 **Project management (US$334,167).** The project will also finance the activities supporting the administrative management and execution of the project, including the costs of accounting and financial auditing and monitoring and evaluation.

1.34 For all the components, the project will finance the following investment categories: (i) training, US$2,511,333.66 (4.6%); (ii) consulting services, US$19,149,033.34 (35.1%); (iii) goods, US$12,804,000.00 (23.5%); (iv) other nonconsulting services for an amount of US$20,030,973 (36.8%).

C. Key results indicators

1.35 The achievement of the general development objective will be verified through the following indicators: (i) a decrease in the ratio of the state's primary fiscal deficit to GDP; (ii) an increase in the ratio of the state's tax revenue intake to GDP; and (iii) a decrease in the ratio of the state's net current debt to GDP. The achievement of the specific development objectives will be verified through the following indicators: (i) an increase in the ratio of strategic planning targets met to total planned targets; (ii) a decrease in the ratio of administrative cost of tax collection to total revenue intake; and (iii) a narrowing of the gap between the budget as planned and as executed.

1.36 **Economic evaluation.** An economic analysis of the project was conducted, based on the results obtained from more efficient management of both public revenues and expenditures, including: (i) a decrease in the ratio of administrative cost of tax collection to total revenue intake; and (ii) a reduction of the discrepancy between the planned budget and the executed budget. At the end of the tenth year following the start of execution of the project's activities, the project will generate an estimated net present value (NPV) of US$11.68 million, with an internal rate of return (IRR) of 25%. A sensitivity analysis was also performed for a scenario involving execution delays,

in which the three results mentioned above would start generating benefits no later than the second year of the project. In this case the IRR would be 12% after 10 years, and the NPV would be US$317,967. The economic analysis remains valid since, with the devaluation of the Real, the benefits in U.S. dollars are also lower, which is offset by inflation, increasing the benefits in Reais.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This operation was designed as an investment loan for specific projects with an estimated total cost of US$55.6 million, to be financed with up to US$50 million from the Bank's Ordinary Capital resources, and a local counterpart contribution of US$5.6 million. The distribution of resources by source of financing and categories is described in the table below:

Table 1. Total budget (US$)[63]

Categories	Bank	Local contribution	Total	%
A. Project management	**334,167**	**-**	**334,167**	**0.6**
A1. Monitoring and evaluation	334,167	-	334,167	0.6
A2. Audit	-	-	-	0.0
B. Direct costs	**48,561,173**	**5,600,000**	**54,161,173**	**97.4**
Component 1 - Fiscal management and transparency	**20,592,406**	**225,000**	**20,817,406**	**37.4**
Implementation of the strategic financial management model	1,037,673	-	1,037,673	1.9
Implementation of the compenticies-based human resources management model	2,563,400	-	2.563.400	4.6
Strengthening of the ICT governance model	8,570,666	-	8,570,666	15.4
Strengthening of the state's goods, services, and assets management	4,985,667	225,000	5,210,667	9.4
Strengthening of procurement management	1,748,333	-	1,748,333	3.1
Strengthening of the model for transparency and communication with society	1,686,667	-	1,686,667	3.0
Component 2 - Tax administration and litigation	**18,181,667**	**3,300,000**	**21,481,667**	**38.6**
Implementation of the management model for tax policy support tools	1,776,000	-	1,776,000	3.2
Improvement of the registry (cadastre) and simplification of tax obligations	1,760,000	-	1,760,000	3.2
Strengthening of the audit and inspection model	10,263,333	-	10,263,333	18.5

63 See itemized budget in optional link 2.

Strengthening of tax litigation management	1,262,500	-	1,262,500	2.3
Strengthening of the taxpayer service model	2,184,167	3,300,000	5,484,167	9.9
Implementation of the revenue management and administrative collection system	935,667	-	935,667	1.7
Component 3 - Financial administration and public expenditure	**9,787,100**	**2,075,000**	**11,862,100**	**21.33**
Improvement of the budget planning and execution model	1,736,000	-	1,736,000	3.1
Strengthening of financial programming and execution	2,767,667	-	2,767,667	5.0
Implementation of the public investment management model	833,333	-	833,333	1.5
Strengthening of the state's integrated IT system for accounting management	1,200,000	2,075,000	3,275,000	5.9
Strengthening of the public debt management model	733,333	-	733,333	1.3
Implementation of the public cost management model	2,516,767	-	2,516,767	4.5
Subtotal	**48,895,340**	**5,600,000**	**54,495,340**	**98.0**
%	90	10	100	
C. Contingencies	**1,104,660**		**1,104,660**	**2.0**
Total	**50,000,000**	**5,600,000**	**55,600,000**	**100**
%	**90**	**10**	**100**	

Note: The values envisaged for outputs/activities in the cost table are indicative.

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

Table 2. Disbursement schedule (US$)

Sources	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	5,264,540	12,519,829	14,498,827	9,012,737	8,704,067	50,000,000
Local	1,075,000	1,075,000	1,075,000	1,187,500	1,187,500	5,600,000
TOTAL	**6,339,540**	**13,594,829**	**15,573,827**	**10,200,237**	**9,891,567**	**55,600,000**
%	**11.4**	**24.5**	**28.0**	**18.3**	**17.8**	**100**

2.3 **Compliance with the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** This project is the eighteenth individual loan operation under the PROFISCO II CCLIP (BR-X1039, approved in 2017 for US$900 million, paragraph 1.1). The project complies with the eligibility criteria envisaged in the

policy applicable to CCLIPs (document GN-2246-9)[64] and its guidelines (document GN-2246-11) for individual loan operations, given that: (i) it pertains to the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) the operation is included in the 2023 Operational Program Report (document GN-3154-1); (iii) the state will implement the operation through the SEF, which was the executing agency for the first individual operation under the PROFISCO I CCLIP (paragraph 1.20); (iv) the findings of the institutional analysis show that the SEF's capabilities have not deteriorated, and the same project execution and monitoring tools may be used for this new operation as for the previous project. The project coordination unit (PCU) staff will also be the same. According to the final report of loan 2172/OC-BR (paragraph 1.20): (i) the objectives of the project were achieved satisfactorily; (ii) 100% of the resources were disbursed and the operation is now closed; and (iii) the project execution unit complied with the contractual requirements and Bank's policies, and its accounts were audited and meet the required quality standards.

B. Environmental and social risks

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

C. Other project risks and key issues

2.5 Two medium-high level risks were identified. In economic and financial matters, there is a risk that the outcome targets planned for the project may not be achieved, because of the major challenges facing Brazil in keeping its economy on a sustainable growth path. This could adversely impact the state's economic and fiscal performance, particularly in terms of expected revenue intake. This is expected to be mitigated by the state's adoption of a series of preventive measures to ensure the fiscal balance: (i) reduction of the pension deficit; (ii) streamlining of administrative costs; and (iii) restructuring of the state's debt. With respect to the governance system, there is a risk of delays occurring in project execution due to insufficient knowledge to prepare the terms of reference for planned procurement. This risk will be mitigated by: (i) preparing an action plan that prioritizes critical processes and technical assistance needs; and (ii) hiring consultants to support and coordinate the preparation of terms of reference and technical specifications.

2.6 **Fiscal analysis of Santa Catarina.** The analysis of the financial position of Santa Catarina confirms its ability to pay to service the debt contracted under this loan, which represents approximately 0.0035% of the state's GDP in 2021 and 0.043% of the net current revenue from 2021. The state also received a grade of B in 2021, which it maintained in 2022 from the National Treasury Department, using the CAPAG methodology, with a grade of B in debt, an A in liquidity, and a B in net savings. In addition, Santa Catarina is in compliance with the Fiscal Responsibility Law and with the conditions of the Fiscal Adjustment Program (see the Santa Catarina fiscal management report).

[64] This operation was prepared in accordance with the eligibility criteria established in document GN-2246-9, following the provisions of paragraph 3.12 of document GN-2246-13.

2.7 **Project sustainability.** To ensure that the capacities generated by the project are sustainable after execution, the project includes outputs which, in conjunction with the expected improvements in the economy and in Santa Catarina's fiscal situation, will help make tax administration and public expenditure more efficient, resulting in a larger revenue intake and savings in state procurement (see economic analysis of the project). The outputs in question include: (i) tax auditing and intelligence; (ii) use of emerging technologies to control merchandise in transit; (iii) utilization of fiscal documents to define benchmark prices for public procurement; and (iv) strategic management of state assets. As regards technology investments, the SEF will mainly use its permanent staff, supported by consulting services, for in-house development. The project will also finance the improvement of data protection and cybersecurity measures.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 The borrower will be the State of Santa Catarina, which will execute the project through the SEF, with the Federative Republic of Brazil guaranteeing the financial obligations related to the loan. The SEF will establish a PCU for project execution, staffed by a coordinator and specialists in procurement, financial administration, monitoring, and planning (with experience in project management). The PCU will coordinate activities related to the project's planning, monitoring, evaluation, and audit.

3.2 The main functions of the PCU will include: (i) planning activity execution; (ii) preparing, implementing, and updating the project's operational tools, including the multiyear execution plan, annual work plan, procurement plan, and monitoring and evaluation plan; (iii) supervising execution and submitting status reports; (iv) coordinating and conducting the processes for the preparation of terms of reference, procurement of goods, and selection and contracting of services; (v) submitting supporting documentation and disbursement requests to the Bank; (vi) preparing the financial statements; and (vii) submitting the project evaluation. The borrower will adhere to the program Operating Regulations approved by the Bank for the PROFISCO II CCLIP (paragraphs 1.1 and 2.3), which establish: (i) eligibility criteria for projects and outputs; (ii) project execution functions, procedures, and rules; and (iii) operational and contractual relationships between the parties involved in the project.

3.3 **Interagency coordination mechanism.** The SEF will collaborate with the Office of the State Attorney General (PGE) and the State Administration Secretariat (SEA) in the execution of activities benefiting them. These institutions will appoint leaders for the corresponding outputs, who will coordinate their actions with the PCU and oversee their technical development and implementation. For the coordination of activities involving tax litigation, public procurement and expenditures, communication with society, and management of the state's property and human resources, and mainly for their respective procurement, information and process flows among the beneficiaries, the PCU, and the Standing Bidding Committee (CPL) will be mapped and defined, to clarify roles, responsibilities, and timeframes, which will then be formalized through cooperation agreements.

3.4 **Special contractual conditions precedent to the first disbursement of the loan: (i) The borrower will adhere to the program Operating Regulations previously approved by the Bank for all individual operations under the PROFISCO II CCLIP (paragraphs 1.1 and 2.3).** This condition is justified by the need for rules governing aspects of operational, fiduciary, and institutional responsibility in order to launch and execute the project in an orderly way. The program Operating Regulations will be a dynamic document subject to periodic review and may be modified with the Bank's express approval; **and (ii) the PCU will have been established, and its members appointed.** This condition is justified by the fact that formal establishment of the PCU is fundamental for mitigating the risk of execution delays and for conducting the project's operational and fiduciary processes exclusively and with the required experience.

3.5 **Special contractual conditions of execution:** (i) within 180 days following signature of the loan contract, the SEF will submit evidence to the Bank that it has adopted measures to strengthen the Standing Bid Committee (SBC) so that it can adequately address the bidding processes anticipated in the project plan. This condition is warranted given the greater complexity of the project in terms of amount and number of procurement processes, and the SBC's currently limited capacity; and (ii) prior to the start of execution of activities with outputs deliverable directly to the PGE and the SEA, the SEF will submit evidence that it has signed a cooperation instrument with these agencies, establishing the responsibilities of these institutions during execution of the respective activities. This condition is justified by the need to ensure that the entities benefitting from the activities will provide the necessary cooperation with the SEF, which will be responsible for executing them.

3.6 **Procurement.** Project procurement and contracting will comply with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and Policies for the Selection and Contracting of Consulting Services Financed by the IDB (document GN-2350-15), together with the provisions of the procurement plan.

3.7 **Single-source selection:**[65] Based on the policy set forth in document GN-2350-15, single-source selection is planned for: (i) government schools and entities, due to their unique and exceptional nature as government teaching and research centers, since they have broad experience and adequate infrastructure to train civil servants, and government data processing entities, as well as federal and state universities that provide technical assistance in new IT solutions (government educational and research institutions of a unique and exceptional nature pursuant to paragraphs 1.11(c) and 3.10); (ii) the Inter-American Center of Tax Administrations (CIAT), as a specialized agency with exceptional value for technical assistance in modernizing the region's tax administrations; (iii) the Institute of Applied Economic Research (IPEA), the country's most important research center, and the Fiscal Studies Institute (IEF), internationally recognized for the training of civil servants in Latin America, for their exceptional qualifications and experience; and (iv) Indra Brasil for an estimated US$2.8 million, to develop international accounting standards and the contingent liabilities management module for the SIGEF, and also to make improvements in its planning and budget system and upgrade its structural systems. This firm was

---

65 See Annex III, Chapter III.

competitively contracted originally to develop SIGEF, and hiring a different firm would jeopardize the integration of state systems and the synergy developed thus far; it would also imply a longer implementation time. Accordingly, single-source selection based on its exceptional qualifications and experience pursuant to paragraph 3.11(d) of document GN-2350-15 is also appropriate in this case, as the need to maintain the technical approach and sole responsibility for the solution already started is considered to be of strategic importance.

3.8 **Audited financial statements.** The borrower will submit audited financial statements to the Bank annually within the first 120 days following the close of each fiscal year. The audit will be performed by a Bank-eligible independent audit firm or the State of Santa Catarina Audit Office (TCE/SC).

B. Summary of arrangements for monitoring results

3.9 **Monitoring.** Monitoring will be based on: (i) the multiyear execution plan and annual work plan; (ii) the procurement plan; (iii) the Results Matrix in Annex II; and (iv) the monitoring and evaluation plan. The PCU will prepare semiannual reports on progress toward the outcome, output, and financial targets, for the Bank's approval. The Bank will conduct inspection visits and ex post reviews as part of project monitoring.

3.10 **Evaluation.** The project will be evaluated against the annual targets and indicators for outcomes and outputs specified in the project Results Matrix. The monitoring and evaluation plan calls for midterm and final independent evaluations. The borrower will prepare and deliver a midterm evaluation report to the Bank 90 days following the date on which 50% of the loan proceeds have been disbursed or 36 months after the loan contract enters into effect, 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.

3.11 **Impact evaluation.** The project plans to implement an automated mass audit system. The system will enable the cross-referencing of multiple data sources associated with commercial transactions and compare tax obligations with tax returns. Through the use of software with Big Data/data analytics capacity, the system will issue alerts to auditors on conflicts between obligations and returns and on atypical movements, and will offer indications of potential evasion risks. The evaluation aims to assess the introduction of mass audits with the ultimate objective of evaluating the impact of this methdology on the ICMS revenue intake. Therefore, a controlled random experimental methodology is proposed.

Development Effectiveness Matrix		
Summary	**BR-L1513**	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Emissions avoided (annual tons CO2 equivalent) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2973**	**Reform the structure of public expenditure, perfect the public investment system, promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises and build a more efficient government.**
Country Program Results Matrix	**GN-3154-1**	**The intervention is included in the 2023 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	**9.8**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**3.5**	
3.3 Results Matrix Quality	**3.8**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**1.5**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.5**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**0.0**	
5. Monitoring and Evaluation	**10.0**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
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.**
Non-Fiduciary	**Yes**	**Strategic Planning National System, Statistics National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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 management processes in the State of Santa Catarina, to design the project and to monitor future performance against the baseline.**

Evaluability Assessment Note:

The project is part of the CCLIP PROFISCO-II operation. The specific objectives for this operation will be: (i) the modernization of fiscal management; (ii) improving tax administration; and (iii) improving the management of public expenditure. The achievement of these objectives will contribute to the overall objective of contributing to the fiscal sustainability of the State of Santa Catarina in Brazil. The diagnosis has been carried out based on evidence collected in the project missions, as well as based on the conclusions of the MD-GEFIS application, an IDB tool that evaluates the performance of fiscal management in the States of Brazil. The main specific problems that will be worked on are: (i) the corporate processes of the Ministry of Finance related to its governance, personnel and technology management, and its communication with citizens present an insufficient level of development and integration; (ii) collection performance is limited in relation to its potential; and (iii) expenditure management is deficient in terms of fiscal discipline, efficiency and effectiveness.

The results matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. The project appropriately addresses monitoring and evaluation requirements. The PME includes an evaluation proposal that seeks to estimate the impact of the introduction of the automated system of massive electronic audits. Making smart use of electronic invoice data, the system will generate automatic alerts between obligations to be paid and tax declarations for the ICMS tax. The proposed methodology is a randomized controlled experiment.

The project presents a cost-benefit analysis. The benefits of the project come from (i) the reduction of the cost of tax compliance for taxpayers, (ii) productivity gains in tax control processes, and (iii) savings in public procurement generated by taking advantage of economies of scale. An Internal Rate of Return (IRR) of between 12% and 25% was estimated.

RESULTS MATRIX[1,2]

PROJECT OBJECTIVE:	The specific development objectives of the project will be: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. Achieving these objectives will contribute to the attainment of the project's general objective of contributing to the fiscal sustainability of Santa Catarina.

General Development Objective

Indicator	Unit of measure	Baseline	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: The project's general development objective is to contribute to Santa Catarina's fiscal sustainability							
Primary balance/Santa Catarina state GDP (GDP-SC)	Percentage	0.61	2019	2027	0.41	Annual balance and budget execution report, submitted by the Directorate of Accounting and Fiscal Information (DCIO)	See monitoring and evaluation plan It will be possible to verify the targets associated with the general objective (impacts) for the project completion report
Tax revenue intake/GDP-SC	Percentage	5.62	2019	2027	7.25		
Net current debt (NCD)/GDP-SC	Percentage	6.23	2019	2027	3.11		

Specific Development Objectives

Indicator	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Specific development objective 1. Modernization of fiscal management											
Number of targets met/Total number of targets	Percentage	0	2021	0	0	40	60	70	70	Management report, submitted by the Planning and Budget Directorate (DIOR)	See monitoring and evaluation plan
Specific development objective 2. Improvement of tax administration											
State Administration Secretariat (SEF) operating budget/Total tax intake	Percentage	1.92	2021	1.55	1.49	1.44	1.35	1.27	1.27	Annual balance and budget execution report, submitted by the General Accounting Directorate (DCOG)	See monitoring and evaluation plan

1 The results are not cumulative.

2 The figures included for the impact and results indicators may be recalculated as part of the startup mission, taking into account the time elapsed and the effects of the COVID-19 pandemic.

Specific development objective 3. Improvement of public expenditure management											
Budget executed/Planned budget[3]	Percentage	14	2021	13	11	10	8	7	7	Annual Budget Law and General State Balance Sheet, DIOR	See monitoring and evaluation plan

Outputs[4,5,6]

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Component 1. Fiscal Management and transparency											
1.1 Strategic financial management model implemented[7]	Model	0	2021	0	0	0	1	0	1	Report, General Audit Directorate (DIAG)	See monitoring and evaluation plan
1.2 Skills-based human resource management model implemented	Model	0	2021	0	0	0	1	0	1	Report, State Administration Secretariat (SEA)	See monitoring and evaluation plan
1.3 Information and communication technology (ICT) governance model strengthened	Model	0	2021	0	0	0	0	1	1	Report, Financial Administration Directorate/ Information Technology Division (GETEC)	See monitoring and evaluation plan
1.4 State goods, services, and property management system strengthened	System[8]	0	2021	0	0	0	0	1	1	Report, SEA	
1.5 Procurement management strengthened	System	0	2021	0	0	0	0	1	1	Report, SEA	
1.6 Transparency and communication with the public model strengthened	Model	0	2021	0	0	0	0	1	1	Report (website generated), Accounting and Transparency Information Management Office	

3 The target in the early years of project execution is high, given the uncertainty surrounding how the pandemic will evolve, which is reflected in future levels of revenue and spending. At the end of the project, the target is to maintain performance withing a five-percent range , which is the recommendation of the Public Expenditure and Financial Accountability (PEFA) methodology.

4 Outputs are annual.

5 The outputs, systems, and models will only be considered fulfilled once they are made operational by public officials.

6 The procurement of project equipment will observe energy efficiency requirements through Procel Clase A, Energy Star, or equivalent labeling.

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

8 System means software that includes a set of rules to support the operationalization of the conceptual business models.

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Component 2. Tax administration and litigation											
2.1 Tax policy support tools management model implemented	Model	0	2021	0	0	0	1	0	1	Management report, submitted by the State Administration Secretariat (SEF)	See monitoring and evaluation plan
2.2 Computerized registration system (cadaster) improved	System	0	2021	0	0	0	0	1	1		
2.3 Audit and inspection model strengthened	Model	0	2021	0	0	0	0	1	1		
2.4 Integrated tax litigation management IT system strengthened	System	0	2021	0	0	0	1	0	1		
2.5 Taxpayer assistance model strengthened	Model	0	2021	0	0	0	0	1	1	Management report, SEF	See monitoring and evaluation plan
2.6 Integrated computer system for administrative tax revenue collection implemented	System	0	2021	0	0	0	0	1	1		
Component 3. Financial administration and public expenditure											
3.1 Budget execution and planning model improved	Model	0	2021	0	0	0	1	0	1	Management report, SEF	See monitoring and evaluation plan
3.2 Programming and financial execution strengthened	System	0	2021	0	0	0	0	1	1		
3.3 Public investment management model implemented	Model	0	2021	0	1	0	0	0	1		
3.4 Integrated computerized accounting management system strengthened	System	0	2021	0	0	0	0	1	1		
3.5 Public debt management model strengthened	Model	0	2021	0	0	0	0	1	1		
3.6 Public cost management model implemented	Model	0	2021	0	0	0	0	1	1		

Country: Brazil **Division:** IFD/FMM **Operation number:** BR-L1513 **Year:** 2023

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The State of Santa Catarina (SC) through its State Finance Secretariat (SEF).

Operation title: Fiscal Management Modernization Project for the State of Santa Catarina – PROFISCO II-SC.

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in operation

☒ Budget	☒ Reporting	☒ Information system	☐ National competitive bidding (NCB)
☒ Treasury	☒ Internal audit	☒ Price comparison	☐ Other (goods and services)
☒ Accounting	☒ External control	☐ Individual consultants	

2. Fiduciary execution mechanism

☒	Special features of fiduciary execution	Since 2009, the public entities of the Brazilian State have been working with the third generation of the integrated financial management system (SIGEF), financed by PROFISCO I and administrated by the accounting division of SEF. This system integrates budget, treasury, and accounting activities, performing all State financial and accounting execution. The state's external control is exercised by the Santa Catarina State Audit Office (TCE-SC), which has conducted a number of project audits financed with IDB resources.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The SEF has the necessary legal capacity and experience to execute the project activities for this second phase of the PROFISCO. The consolidated structure already implemented will be leveraged, taking into account any lessons learned. In this regard, the conclusions of the institutional capacity assessment remain in force and its validation with SEF staff found that it maintains a high level of institutional capacity and experience in executing IDB-financed operations.

4. Fiduciary risks and response

Risk type	Risk	Level	Risk response
Goods and services	Lack of clarity on internal flows and responsibilities for procurement processing.	Medium-low	This risk will be mitigated by mapping and raising awareness of the internal flows of the procurement and contracting process.
Goods and services	Lack of trained personnel to conduct the bidding processes (Standing Bid Committee (SBC).	Medium-low	This risk will be mitigated by assigning and training SBC staff, the strengthening of which is expected to be special contractual execution condition in the loan proposal (paragraph 3.5).

5. Policies and guidelines applicable to the operation: Project procurement and contracting will be carried out in accordance with the Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document GN-2349-15), the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-15), and the provisions of the procurement plan.

6. Exceptions to policies and guidelines: Not applicable.

II. Considerations for the Special Conditions of the Loan Contract

Exchange rate: Disbursements will be made in U.S. dollars, using the advance of funds modality. The exchange rate to be used will be the internalization rate and the "buy" rate (set by the Central Bank of Brazil) for the local counterpart.
External audit: The PROFISCO II-SC operation will be audited annually by the Audit Office of the State of Santa Catarina (TCE/SC) or by a Bank-eligible independent audit firm that, pursuant to the procedures agreed upon with the IDB, will submit an audit report on the reasonability of the financial statements, within 120 days after the end of each fiscal year of the SEF.

III. Financial Management Agreements and Requirements

☒	Bidding documents	The Bank's standard bidding documents will be used for works, goods, and nonconsulting services contracts subject to international competitive bidding (ICB). Bidding processes subject to national competitive bidding (NCB) will use the country's standard bidding documents agreed upon with the Bank, whereas the Bank's standard bidding documents will be used for consulting services contracts.
☒	Use of country systems	The country subsystem approved by the Bank, *Pregão Eletrônico* [reverse auction] will be used to procure commonly used goods and services for up to US$5 million. Any system or subsystem subsequently approved will be applicable to this operation. The procurement plan and its updates will indicate which hiring process are to be executed using approved country systems.
☒	Contracting and single-source selection	Government entities and schools: Considering the organization of finance secretariats in Brazil, some entities are tasked with the development of knowledge, skills, and competencies. At the federal level, the Ministry of Economy's National School of Public Administration. At the level of the states: (i) government schools for training civil servants; and (ii) data processing companies, the latter being responsible for the states' information technology development. Considering paragraphs 1.13(c) and 3.11 of document

<table>
<tr><td></td><td></td><td>GN-2350-15 and for purposes of ensuring the sustainability of the outputs developed and financed by the project, single-source selection is envisaged for the federal and state entities devoted to the training of civil servants, due to their unique and exceptional nature as government teaching and research centers; (ii) specialized international agencies: pursuant to paragraphs 3.11 and 3.16 of document GN-2350-15, the contracting of the Inter-American Center of Tax Administrations is also envisaged, as a specialized agency with exceptional value, since it is an international agency, considering its specialization in technical assistance for updating and modernizing tax administrations; (iii) research and study institutes: Pursuant to paragraph 3.11(d) of document GN-2350-15, the contracting of the Institute of Applied Economic Research (IPEA) and the Fiscal Studies Institute (IEF) is also envisaged, given their exceptional qualifications and experience. The IPEA is considered the most important research center in Brazil and is internationally recognized for the production of scientific data and studies. The IEF, an entity associated with the Ministry of Finance and Public Administration of Spain, offers training activities that will help the state civil servants improve their skills to fulfill their functions; and (iv) SIGEF: the single-source selection of Indra Brasil is planned for an estimated amount of US$2.8 million para to develop international accounting standards and the contingent liabilities management module for the SIGEF, and also to make improvements in its planning and budget system and upgrade its structural systems. This firm was competitively contracted originally to develop SIGEF, and hiring a different firm would jeopardize the integration of state systems and the synergy developed thus far; it would also imply a longer implementation time. Accordingly, single-source selection based on its exceptional qualifications and experience pursuant to paragraph 3.11(d) of document GN-2350-15 is also appropriate in this case, as the need to maintain the technical approach and sole responsibility for the solution already started is considered to be of strategic importance.</td></tr>
<tr><td>☒</td><td>Procurement supervision</td><td>The procurement supervision method will be ex post, except in cases where ex ante supervision is warranted. For procurement executed using the country system, supervision will be conducted using the country supervision system. The supervision method will be determined for each procurement process. Ex post reviews will be conducted in accordance with the project supervision plan.

<table>
<tr><th>Works</th><th>Goods/services</th><th>Consulting services</th></tr>
<tr><td>NCB and shopping</td><td>NCB and shopping</td><td>< US$1 million</td></tr>
</table></td></tr>
<tr><td>☒</td><td>Records and files</td><td>The project coordination unit (PCU) will be responsible for records and files and will maintain the documentation necessary for supervision and audits.</td></tr>
</table>

<u>Main procurement items</u>

Procurement description	Selection method	Estimated date	Estimated amount (US$ thousands)
Goods			
Oracle servers	Country system	2025 (Q4)	1,500
Consulting services			
Design and critical processes, DITE	QCBS	2024 (Q1)	163
Cost management model with big data support	QCBS	2026 (Q2)	160
Nonconsulting services			
Tax administration system (SAT)	Country system	2026 (Q4)	3,300

Integrated planning and management system	Country system	2024 (Q1)	2,075
SIGEF development and evolutive maintenance	Single-source selection	2025 (Q2)	2,100

For more information, see the procurement plan.

IV. Financial Management Agreements and Requirements

☒	Programming and budget	The borrower is the State of Santa Catarina, which will execute the project through the State Finance Secretariat (SEF), and the Federative Republic of Brazil will guarantee the financial obligations associated with the loan. As regards the planning and organization of project activities, the SEF will use the following national instruments:[1] (i) multiyear plan, which establishes government guidelines, objectives, and targets; (ii) Budgetary Guidelines Act; and (iii) Annual Budget Law, which estimates and sets government spending for the current fiscal year. The SEF Will coordinate the budget and will record it in the SIGEF. The project coordination unit (PCU) will directly coordinate with the Budget Division of the SEF to ensure that the budget resources of the project (IDB and local counterpart) are allocated each year in the Annual Budget Law, and are ensured for execution in accordance with the project's planning. The resources will be recorded in the year of execution in the SIGEF as an external source.
☒	Treasury and disbursement management	As in PROFISCO I, the state's national treasury system will be used. Expenditures will be subject to the state's budgetary and financial execution process, recorded in SIGEF. Bank resources will be managed through an exclusive account enabling the proceeds from the Bank's loan to be independently identified and reconciled. Disbursements will be made in U.S. dollars in the form of advances of funds. The exchange rate used will be the internalization rate in the case of Bank resources, and the presentation rate to the Bank in the case of the local counterpart. Advances will be based on a projection of financial resources for up to 180 days. For future advances it will be necessary to account for at least 80% of the previously advanced funds. Expenditures considered ineligible by the Bank will be repaid from the local contribution or other resources, as the Bank sees fit, depending on the nature of the ineligibility.
☒	Accounting information systems and reporting	Since PROFISCO I, the SEF has been using SIGEF, a system with 24 integrated modules that monitor internal control activities, funding, public debt, budgetary and financial execution. The system has made it possible to gradually adopt international standards. For project execution, SIGEF allows for transactions to be recorded in reais, with identification by component and by financing source (Bank or local). It also uses a data extractor, external to the system, to produce financial reports and statements in dollars. This process was audited by the TCE/SC. For this new operation, SIGEF is expected to automate financial reports and statements in dollars.
☒	Internal control and internal audit	The SEF Audit Department will be responsible for internal control. It manages most internal control activities through the SIGEF internal audit module. There are also several other oversight bodies such as the State and Federal Public Prosecution Departments (Minstério Público), TCE/SC, the Federal Audit

[1] Planning and budget instruments.

		Office, the Offices of the State Attorney General, and the Office of the Comptroller General of the Union.
☒	External control and financial reporting	External oversight of projects in Santa Catarina, including those with external financing, is done by the TCE/SC, which has a trained team of auditors for this purpose. The PROFISCO II-SC operation will be audited annually by the TCE/SC or by a Bank-eligible audit firm which, pursuant to the procedures agreed upon with the Bank, will deliver an audit report on the reasonableness of the financial statements, no later than 120 days following the close of each SEF fiscal year.
☒	Financial supervision of the operation	This plan may be amended during execution, depending on how the risk levels develop, or the need for additional oversight.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/23

Brazil. Loan ____/OC-BR to the State of Santa Catarina. Fiscal Management Modernization Project for the State of Santa Catarina – PROFISCO II – SC. Eighteenth 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 Santa Catarina, 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 Santa Catarina – PROFISCO II – SC, which constitutes the eighteenth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II, approved by Resolution DE-113/17 on 8 December 2017. Such financing will be in 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 __ ____________ 2023)

LEG/SGO/CSC/EZSHARE-620307903-34186
BR-L1513