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BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF ALAGOAS – PROFISCO II-AL

(BR-L1540)

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

FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

LOAN PROPOSAL

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ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CGE/AL	Controladoria Geral do Estado de Alagoas [Alagoas State Comptroller General's Office]
CIAT	Inter-American Center of Tax Administrations
EFD	Escrituração fiscal digital [Digital tax accounting]
e-PAT	Processo administrativo tributário eletrônico [Online tax administration process]
GHG	Greenhouse gas
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute]
ICB	International competitive bidding
ICMS	Imposto sobre operações relativas à circulação de mercadorias e àprestação de serviços de transporte interestadual e intermunicipal e de comunicação [Goods and services sales tax]
IMF	International Monetary Fund
IPVA	Imposto sobre propriedade de veículos automotores [Motor vehicle ownership tax]
IT	Information technology
ITCD	Imposto de transmissão causa mortis e doação [Inheritance and gifts tax]
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
NCE	Net current expenditure
NCI	Net current income
NF-e	Nota fiscal eletrônica [Electronic tax invoice]
PAF	Programa de Reestruturação e de Ajuste Fiscal [Fiscal Restructuring and Adjustment Program]
PCR	Project completion report
PCU	Project Coordination Unit
PEP	Plan de ejecución plurianual [Multiyear execution plan]
PGE/AL	Procuradoria Geral do Estado [Alagoas State Attorney General's Office]
PROFISCO	Fiscal Management Modernization Program
SEFAZ/AL	Secretaria de Fazenda do Estado [Alagoas State Finance Department]
SEPLAG/AL	Secretaria de Planejamento e Gestão [Alagoas State Planning and Management Department]
SIAFE	Sistema integrado de administração financeira e contábil do estado [State integrated financial management and accounting system]
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
SSS	Single-source selection
STN	Secretaria do Tesouro Nacional [National Treasury Department]

PROJECT SUMMARY

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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility** [a]	
State of Alagoas			**Amortization period:**	25 years
Guarantor:				
Federative Republic of Brazil			**Disbursement period:**	5 years
Executing agency:				
State of Alagoas, through its Finance Department (SEFAZ/AL)			**Grace period:**	5.5 years [b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
IDB (Ordinary Capital):	36,000,000	90	**Credit fee:**	[c]
			Inspection and supervision fee:	[c]
Local:	4,000,000	10	**Weighted average life:**	15.25 years
Total:	40,000,000	100	**Currency of approval:**	U.S. dollar

Project at a Glance
Project objective/description: The project objective is to contribute to the state's fiscal sustainability through the following specific objectives: (i) modernizing fiscal management; (ii) improving tax administration; and (iii) improving public expenditure management. This is the fourteenth individual loan operation under the PROFISCO II CCLIP (BR-X1039) approved by the Board of Executive Directors pursuant to Resolution DE-113/17.
Special contractual conditions precedent to the first disbursement of the loan: (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 will have been established and its members appointed (paragraph 33.4). **Special contractual conditions for execution:** Before stating to execute activities that have outputs intended for the State Planning and Management Department, the State Comptroller General's Office and the State Attorney General's Office, SEFAZ/AL will sign a cooperation instrument with the respective entities, specifying the roles and responsibilities of the parties during execution of the activities in question (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 terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

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

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

A. Background, problem addressed, and rationale

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

1.2 The PROFISCO II CCLIP was approved for US$900 million in 2017, 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. Eligible borrowers will be agencies of the 26 Brazilian states, the Federal District, and the Federative Republic of Brazil that are recommended by the External Financing Commission of the Ministry of Planning for preparation of an individual operation.[1]

1.3 The PROFISCO II CCLIP aims to boost revenue, improve expenditure efficiency and transparency, and enhance the business environment and the country's competitiveness. It was primarily designed to support the following: (i) supplementation of the digital public accounting system (SPED) in the automation of tax auditing and compliance; (ii) improvement of the quality of public expenditures in the adoption of multiyear budgeting and the implementation of public procurement and public investment systems; (iii) introduction of new digital technologies for the audit and management of public expenditures, cybersecurity for data protection, and the use of artificial intelligence for taxpayer services; and (iv) the strengthening of the processes, methodologies and technologies previously promoted by the PROFISCO I CCLIP.

1.4 **Economic and fiscal situation in Brazil**. Brazil is facing challenges in maintaining its economic and fiscal sustainability. Its GDP shrank by 3.2% in 2015 and by 3.3% in 2016. Then, in 2017/2018, it staged a tentative recovery, growing by 1.3% in each of those years[2] and by 1.1% in 2019. The central government posted a primary deficit of 1.22% of GDP in 2019.[3] In 2019, the gross public debt stood at 75.8% of GDP. In recent years, the government sent three constitutional amendments to Congress, addressing situations of fiscal emergency, fiscal federalism, and the rationalization of public funds. The government and Congress are also debating proposals to reform the tax system and public administration that are fundamental for improving the efficiency and sustainability of fiscal policy.

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1 Thus far, 12 projects (Ceará, Piauí, Pará, Maranhão, Pernambuco, Mato Grosso do Sul, São Paulo, Espírito Santo, Amapá, Paraná, Bahía, Rio Grande do Sul, and Paraíba) have been approved by the Bank's Board for a total of US$616.68 million.

2 Brazilian Institute of Geography and Statistics (IBGE), 2019.

3 National Treasury Department (STN), 2020.

1.5 **The COVID-19 pandemic and the economic situation.** The COVID-19 pandemic has caused a significant loss of life in the country.[4] The response package was one of the largest in the world, approximately 8.5% of GDP which, combined with the decline in economic activity, had a major impact on public finances. The primary fiscal deficit and the gross public debt as a percentage of GDP reached 9.49% and 89.3%, respectively at year-end 2020. These measures have weakened the country's fiscal position. The pandemic interrupted the gradual recovery of the economy, causing a decline in GDP of 4.11% in 2020. While activity has rebounded in 2021, the economy remains below the pre-pandemic level. The speed of the economic recovery will largely depend on the country's ability to vaccinate the population.[5] In the long term, the emergency caused by COVID-19 has magnified the structural bottlenecks impacting fiscal sustainability, productivity, and inequality in the country.

1.6 **Macroeconomic and fiscal situation of Alagoas.** In 2020, the state of Alagoas had a population of 3.35 million, representing 1.58% of the national total.[6] The state generated 0.78% of national GDP in 2018,[7] 0.14 of a percentage point more than in 2012. The state's increased share of national GDP is explained by the fact that it grew by an average of 1.3% per year in real terms, between 2012 and 2019, outpacing the nationwide expansion of 0.3%, despite the impact of the 2015-2016 crisis. The state's per capita GDP in 2018 was about half the national level and the fourth lowest of all 27 Brazilian states; and it had the country's lowest level of human development in 2010.[8]

1.7 The state's net current income (NCI) grew by 3.6% per year in real terms over the six-year period (2015-2020), with tax revenues (35% of NCI and 8.75% of statewide GDP in 2020) growing by 2.5%, boosted by tax administration measures; and federal transfers (60% of NCI) increasing by 1%. Net current expenditures (NCE) contracted by 2.5% in the same period, owing to the expenditure control measures implemented since 2015. However, spending has significant rigidities, since outlays on personal services accounted for 57% and 67% of NCI and NCE, respectively, in 2020, and pension growth averaging 4.6% per year in real terms is generating pressures. Public investment represented approximately 9% of NCE in 2020—about half of its share in 2014, when this indicator attained a peak in Alagoas. The consolidated debt is greater than the NCI, although it has been trending down in recent years and has almost halved in the last decade (106% of NCI). Thus, although state's debt level is relatively high, it has been declining gradually, thanks to the public surpluses achieved (the primary balance in 2020 was 1.21% of state GDP) under a policy of expenditure containment, which has enabled revenues to outpace expenditures. See Fiscal analysis of the State of Alagoas.

1.8 The economic and health situation caused by COVID-19 will have impacts on the state's public finances. The pandemic has entailed the prohibition of nonessential

4 As of 19 August 2021, Brazil had more than 20.5 million confirmed cases (9,664 per 100,000 inhabitants) and more than 572,000 deaths (270 per 100,000 inhabitants).

5 As of 19 August 2021, only 24% of the population had been fully vaccinated. IBGE.

6 Population estimates published in the Official Journal of the Union (DOU).

7 IBGE. 2018 is the last year for which statistics are available for all Brazilian states.

8 Human Development Index.

activities for several weeks and social distancing measures during 2020 and 2021, which are expected to impact economic activity and tax revenue. Nonetheless, the NCI for 2020 increased 11.4% over the 2019 level, due primarily to federal transfers.

1.9 **Rationale.** The state's fiscal vulnerability, resulting from high payroll expenditure, the growing pension burden, and the low level of investment relative to needs, in conjunction with the shock to revenue and expenditure resulting from the health crisis, underscore the need to implement new fiscal management modernization initiatives, with the aim of contributing to fiscal sustainability. In addition, new complementary approaches are required to bolster the state's fiscal performance. PROFISCO I-AL (loan 3001/OC-BR)[9] placed special emphasis on improving tax administration and promoted the integration of the state treasury with other levels of government, by implementing the SPED and the electronic tax invoice (NF-e). Thanks to these efforts, Alagoas was able to partially counteract the effects of the 2015-2016 economic crisis, chiefly by maintaining its internally generated revenue and facilitating tax compliance. These initiatives, in conjunction with the fiscal adjustment measures have thus far (December 2020) helped to maintain a "B" rating under the Capacity to Pay (CAPAG) methodology of the National Treasury Department (STN) (paragraph 2.7). This project will provide continuity to the modernization of tax collection and will intensify public expenditure issues, by promoting the following: (i) strengthening of financial administration; (ii) strengthening of the management and quality of public expenditure; (iii) use of digital technologies; and (iv) simplification of tax compliance to improve the business environment.

1.10 The effectiveness and efficiency of public institutions is limited by the restrictions faced by their staff, access to information technology, the availability of financial resources, and the legal framework (Arenas de Mesa, 2016; Finan et al., 2017). Empirical evidence shows the need to establish robust fiscal institutions to consolidate an environment that promotes fiscal sustainability (Poterba,1999).

1.11 In this regard, the state needs to address remaining weaknesses that hinder its fiscal performance. In terms of human resources, although it has a total payroll of 692 employees (638 permanent and 54 contract staff), the fact that 41.8% of them have already reached retirement age could compromise the continuity of work processes. However, the state does not have a management model or procedures for evaluating and determining the size of its workforce, which would make it possible to quantify and be aware of 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 better target training on a skills basis. Furthermore, the resources invested in training represent less than 1% of the budget of the State Finance Department (SEFAZ/AL). In addition, no program of knowledge transfer or competencies-based training has been implemented, which would make it possible to enhance employee skills and also develop new leaders. Lastly, SEFAZ/AL systems are poorly automated, requiring a high manual workload that can result in errors in the records. At the same time, SEFAZ/AL has had a code of ethics and an

[9] PROFISCO I-AL project completion report (PCR).

ethics commission for its staff since 2019 with provisions for sanctions in the event of misconduct.[10]

1.12 As regards technological infrastructure constraints, SEFAZ/AL's technology stock has been partially modernized, with new computers and improved storage and processing capacity provided with support from PROFISCO I-AL. Nonetheless, in recent years, the large-scale digitalization of tax documents (SPED and NF-e) has increased by more than 800%; and this requires ever greater expansion of capacity to store and process information and documents. SEFAZ/AL's technology platform is currently insufficient to meet the need to protect and recover data and information and guarantee its integrity, in order to comply with the General Data Protection Law. There are also shortcomings in network monitoring software, servers, and the nearly 150 systems that cause delays in response times and lengthen service processing times. The technology and capacity available in the data center structure are insufficient and inappropriate for current and future demands. SEFAZ/AL has 347 terabytes of capacity in specialized high-performance equipment, about 50% of which is already committed. It also administers 800 workstations, of which about 90% are over four years old. The tools that support information technology (IT) management and governance processes are precarious and insufficient, which hinders decision-making processes.[11] Lastly, the fact that state-of-the-art technologies are available in the market provides an opportunity for sustainable, secure, and efficient technological expansion, including in terms of energy consumption, which helps to reduce costs and avoid greenhouse gas (GHG) emissions.

1.13 In relation to the legal framework, there are still many regulatory documents that have not yet been catalogued, updated, and consolidated. This adds complexity to the tax administration process and makes it hard for auditors, accountants, and taxpayers to consult the documents in question. There is also no automatic monitoring and control of firms that enjoy tax incentives. Moreover, compliance with tax commitments relating to the goods and services sales tax (ICMS), requires the taxpayer to fill out several tax returns in which the process is duplicated, when it could be done through a single return.[12]

1.14 Climate change and natural disasters can also impact the efficiency of fiscal management by generating economic losses and imposing an additional cost on development and poverty-reduction policies. The fiscal impacts of natural disasters stem from the need for unplanned expenditures and the loss of revenues due to the disruption of economic activities and resulting shrinking of the tax base.[13] See Climate change document.

1.15 In this context, the State of Alagoas sought the Bank's support to mitigate the three main problems affecting its fiscal balance. These were identified through application of the Fiscal Management Maturity and Performance Assessment (MD-GEFIS)

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[10] Technical note – Personnel management.

[11] Technical note – Information technology management.

[12] MD-GEFIS and Technical note – Tax report.

[13] OECD/The World Bank (2019). *Fiscal Resilience to Natural Disasters: Lessons from Country Experiences,* OECD Publishing.

methodology;[14] the institutional capacity assessment with participation by SEFAZ/AL, the State Planning and Management Department (SEPLAG/AL), the State Comptroller General's Office (CGE/AL) and the State Attorney General's Office (PGE/AL); and through the Matrix of problems and solutions, an instrument used to define outputs and activities, based on the problems and challenges identified, as detailed below:

1.16 **In fiscal management and transparency,** SEFAZ/AL's corporate processes in terms of governance, strategic management, staffing, technology, and citizen communications are underdeveloped and poorly integrated,[15] which impairs the department's institutional performance. This is a consequence of: (i) immature state governance, which makes it harder to achieve strategic objectives;[16] (ii) immature risk management;[17] (iii) ineffective use of the workforce to achieve institutional results;[18] and (iv) a high risk of IT services being offline.[19]

1.17 **In tax administration and tax litigation**, revenue intake falls short of potential,[20] owing to: (i) deficient tax policy management;[21] (ii) deficient management of the taxpayer registry;[22] (iii) insufficient control of ICMS taxpayer audits;[23] (iv) inefficient control of other taxes;[24] (v) inefficient tax litigation;[25] (vi) the high cost of taxpayer services;[26] (vii) high tax compliance costs;[27] (viii) inefficient administrative and judicial collection of tax claims;[28] and (ix) inefficient tax management systems.[29]

1.18 **Public expenditure management** suffers from shortcomings that make it hard to achieve better results in terms of fiscal discipline and public expenditure efficiency and effectiveness.[30] The causes are: (i) fragility in the timely monitoring of State

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[14] MD-GEFIS report.

[15] MD-GEFIS report: Four of the six dimensions of fiscal management display an initial level of maturity; and two are rated intermediate.

[16] Technical Note – Governance.

[17] Technical Note – Risks.

[18] Technical note – Personnel management.

[19] Technical note – IT management.

[20] Tax evasion in Brazil represents an estimated 7.6% of GDP (National Union of National Treasury Attorneys, 2016). However, the state-level tax gap, which includes tax benefits, tax avoidance, and declared but unpaid taxes, is greater.

[21] Technical note – Taxation.

[22] Technical note – Taxation.

[23] Technical note – Taxation.

[24] Technical note – Taxation.

[25] Technical note – Taxation.

[26] Technical note – Taxation.

[27] Technical note – Taxation.

[28] Technical note – Taxation.

[29] Technical note – Taxation.

[30] *Better Spending for Better Lives*, IDB: infrastructure cost overruns and delays in Latin America and the Caribbean are estimated to represent 0.7% of GDP.

Treasury resources;[31] [32] (ii) potential loss of financial resources owing to weak governance in the management of public procurement and State assets;[33] (iii) lack of capacity in accounting management and the generation of information for society;[34] (iv) potential risk of financial loss owing to weak control of assets and liabilities;[35] [36] and (v) limited capacity for public cost management.[37]

1.19 **The Bank's experience in the country and complementarity with other operations.** The Bank has supported operations to modernize fiscal management at the three levels of government in Brazil. Over more than 25 years, the programs implemented have achieved major transformations, especially at the state level, through the National Fiscal Administration Program for the Brazilian States (PNAFE) (980/OC-BR), approved in 1996 for US$500 million, the PROFISCO I CCLIP (BR-X1005), approved in 2008 for US$900 million, and the Fiscal Stability Consolidation Programs (PROCONFIS).[38] These projects supported implementation of the NF-e, the system that allows companies to send tax and accounting data to the tax authorities digitally, and the integrated public finance system (SIAF) which is compatible with international accounting standards. They also strengthened technological capacity, allowing for the storage and processing of electronic tax data, and the public procurement system. The main outcomes were an increase in tax revenue, a decrease in informality, and a reduction in transaction costs for tax authorities and taxpayers alike. According to the PROFISCO I CCLIP midterm evaluation,[39] ICMS revenue intake as a share of GDP rose by more in states that had a PROFISCO project in which execution was further advanced, than in those where execution was in the initial stages. This difference in revenue intake averaged 6% between 2009 and 2013. For municípios, the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities,[40] currently in its third phase, supports an increase internal revenue collection, by implementing the electronic invoice for services and updating the real property registry, reducing administrative costs, and expanding taxpayer services. At the federal level, among other actions, the Bank supported implementation of the risk management and anti-fraud intelligence methodology in the Tax Litigation Office, the accounting and tax information system, and the federal government's cost

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31 Technical note – Financial programming.

32 The Fiscal Restructuring and Adjustment Program (PAF) consisted of a process whereby the Union assumed the debts of the states and Federal District. The program's rules and conditions were defined by Law 9,496 of 11 September 1997, subsequently amended by Provisional Measure 2,192-70 of 24 August 2001.

33 Technical note – Property.

34 Technical note – Accounting and Technical note –Transparency.

35 Technical note – Assets and liabilities.

36 Short-term debts with a definitive court ruling against the State.

37 Technical note – Costs.

38 Policy-based loans: 2081/OC-BR (approved in 2008 for US$409 million); 2841/OC-BR (approved in 2012 for US$600 million); 2850/OC-BR (approved in 2012 for US$200 million); 3039/OC-BR (approved in 2013 for US$400 million); 3061/OC-BR (approved in 2013 for US$250 million); 3138/OCBR (approved in 2013 for US$200 million); and 3139/OC-BR (approved in 2013 for US$184 million).

39 Loan BR-X1005: Midterm evaluation, 2014 and PROFISCO I-AL Project Completion Report.

40 Loans 1194/OC-BR (approved in 1999 for US$600 million); 2248/OC-BR (approved in 2009 for US$150 million); and 3391/OC-BR (approved in 2014 for US$150 million).

information system, as part of the tax modernization project in the Federal Revenue Service of Brazil,[41] and the Ministry of Finance's Integrated Modernization Program (PROFISCO/PMIMF).[42] The program will also complement the Alagoas Plus Digital Program, currently in preparation, which will finance the improvement and automation of crosscutting processes of other secretaries of state and of the single digital services portal, and will benefit from the improvement and digitalization of the tax and financial management processes.

1.20 PROFISCO I-AL (loan 3001/OC-BR),[43] approved in 2013 for US$7 million, was implemented in five years without the need to extend the loan contract. Its evaluation concluded that the project had performed successfully (Relevance – excellent; Efficiency – excellent; Sustainability – satisfactory; and Effectiveness – satisfactory). Of the seven planned outcome targets, four (57.1%) were achieved, and two (29%) were partially achieved; and the target to increase the number of violation notices was not considered because it is not compatible with the new tax administration practices that prioritize taxpayer self-regulation. The project also achieved 100% of its seven output targets. In terms of tax revenue, the SPED, including the NF-e, and the implementation of outputs related to ICMS auditing and collection were the actions that contributed most directly to increasing the state's tax revenue. The project also contributed to the partial renovation of SEFAZ/AL's technology stock, with the expansion of data processing and storage capacities. The performance of the executing agency and the Bank were rated as satisfactory.

1.21 **Lessons learned from the Bank's operations in the country.** Lessons learned from the PROFISCO I CCLIP[44] and PROFISCO I-AL include the following:

a. **Design**. The need for an instrument to identify innovative solutions in fiscal management processes. For this reason, MD-GEFIS was developed, which identifies the maturity and opportunities for strengthening fiscal management processes in the states.[45] In addition, the importance of planning ahead to implement complex outputs was highlighted. In this regard, it was agreed with the executing agencies that the technical specifications and terms of reference, mainly for technological innovation outputs, would be prepared as a priority before the start of execution; and there would be support from consulting services specialized in information technology, income, and expenditure.

b. **Development**. Participation by representatives of the Project Coordinating Unit (PCU) from the states in the Network of the Fiscal Management Commission facilitated the exchange of fiscal management modernization experiences and solutions from other states.

c. **Execution**. The Bank created the Execution Acceleration Plan as a monitoring tool that uses the progress monitoring report to identify outputs subject to

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41 SRF, 1996.

42 Loan 3142/OC-BR.

43 PROFISCO I-AL Project Completion Report.

44 BR-X1005: Midterm evaluation, 2014 and PCRs for seven states (Minas Gerais, Rio de Janeiro, Piauí, Mato Grosso, Maranhão, Pernambuco, and Rio Grande do Norte).

45 Inter-American Center of Tax Administrations (CIAT), 2017.

execution delays and prepare mitigation measures until execution is normalized.

d. **Evaluation**. Project evaluation is hampered by the very large number of widely different indicators that are used between individual projects. This issue has been resolved in PROFISCO II, since individual projects have a specific outcome indicator for each component, which is the same for all individual projects.

e. **Results**. The SPED, including the NF-e, digital tax accounting (EFD), and the digital accounting record, was found to be the output that contributed most to increasing the efficiency of the states' fiscal controls.[46] By automating the flow of information between taxpayers and the State, the SPED exponentially increases the information available for auditing. This heightens the taxpayer's perception of risk by increasing the chance of being penalized in the event of committing a tax offense. PROFISCO II will invest in the SPED's further development and will seek to exploit its potential, by expanding the use of the information it generates to automate tax audits[47] and simplify tax compliance, thus leveraging the new technologies of the digital economy.

f. **PROFISCO I-AL**. The PROFISCO I-AL project completion report found that the following factors had a negative impact on project execution: (i) difficulty in developing and executing the outputs, owing to lack of previous experience in project execution; (ii) difficulty in preparing terms of reference and technical specifications; and (iii) complexity in the technical acceptance of the bidding process documents, owing to internal approval flows and insufficient knowledge of the Bank's procurement rules and policies. This project includes actions to: (i) maintain the structure and some of the PCU staff that executed PROFISCO I, with additional measures to improve coordination and communication among output leaders; (ii) hire support for the preparation of terms of reference and for training in project management; and (iii) set up a project governance unit and train key actors on Bank policies. In addition, actions are proposed to: (i) make the IT investments sustainable by planning and prioritizing resources for infrastructure and information security upgrades and maintenance; (ii) strategically plan interdependent outputs; and (iii) anticipate the preparation of complex terms of reference, with support from specialized consulting services.

1.22 **The Bank's experience in region.** The Bank has supported tax administration reforms in Costa Rica (loan 4819/OC-CR), Ecuador (loan 3325/OC-EC), El Salvador (loan 3852/OC-ES), Honduras (loan 3541/BL-HO), Jamaica (loan 2658/OC-JA), and Peru (loan 3214/OC-PE). It has also supported programs for the modernization of financial management systems in Guyana (loans 1550/SF-GY and 1551/SF-GY), Honduras (loan 2032/BL-HO), and Nicaragua (loan 2422/BL-NI); and programs related to public investment management in Argentina (loan 3835/OC-AR), Bolivia (loan 3534/BL-BO), Chile (loan 1281/OC-CH), Ecuador (loan 2585/OC-EC), Mexico (loan 2550/OC-ME),

[46] McKinsey & Company, 2014: NF-e and SPED have made it more likely that evaders will be identified and have helped to reduce employment informality in Brazil (from 55% to 40%) over the last ten years.

[47] Araujo, 2013: The use of SPED and artificial intelligence will enhance the identification of tax fraud.

Paraguay (loan 3628/OC-PR), Panama (loan 2568/OC-PN), and Peru (loan 2703/OC-PE). Experience gained from these operations has been considered in this operation, underscoring the following: (i) the reforms should be focused on improving the entities' business models; (ii) widespread use of artificial intelligence and risk analysis in information processing makes tax auditing more effective; (iii) the use of cutting-edge technology (big data type) makes it possible to process large volumes of data; and (iv) the human capital of the entities in question is the most important asset to be considered in a reform.

1.23 **International evidence.** Empirical evidence shows that fiscal sustainability and discipline are closely associated with strong fiscal institutions.[48] Banerjee et al. (2017) report reductions in program execution costs when the government makes use of technology. Dhaliwal and Hanna (2014) find that automated process-monitoring programs can make more efficient use of public resources and enhance service quality. Arenas de Mesa (2016) shows the relationship between the sustainability of public finance and the institutional framework for fiscal management and transparency.

1.24 On the taxation side, recent evaluations show that tax revenue performance depends significantly on institutional strengthening of the tax administration, through: (i) improved accessibility and quality of the information available;[49] (ii) information-intensive audit models;[50] (iii) simplification of procedures to facilitate tax compliance;[51] and (iv) strategies to ensure the suitability and motivation of staff.[52] Several Latin American tax administrations have strengthened these elements, particularly Brazil and Uruguay.[53]

1.25 In relation to public expenditure, several studies point out the need for actions to improve technical and allocative efficiency, in order to promote fiscal sustainability, equity, and economic growth.[54] In this regard, it is essential to improve public procurement processes[55] through: strategic procurement planning; the use of online systems; systematic monitoring; and information transparency. In addition, strengthening public investment management can increase potential benefits in terms of economic and social development by to 30%.[56][57] In Latin America, countries

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

[49] Evasion rates are up to eight times higher where the tax administration lacks automated tools to verify taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et.al., 2011).

[50] The availability of information complements business audits in Spain (Almunia and López Rodríguez, 2016).

[51] This can increase payment rates by up to 4 percentage points (Hallsworth et al., 2014).

[52] Incentive mechanisms to encourage key tax administration staff to generate additional revenue yielded rates of return of between 35% and 51% (Khan et al., 2016).

[53] PCR of loan 1783/OC-UR. Barreix and Zambrano (2018), IDB. The Nota Fiscal Paulista program increased ICMS revenue intake by US$226 million.

[54] *Better Spending for Better Lives* (2019).

[55] *Better Spending for Better Lives* (2019): inefficiencies in public procurement cost about 1.4% of GDP in Latin America and the Caribbean.

[56] International Monetary Fund (IMF) (2015).

[57] Calderón and Servén (2004); Gupta et al. (2014); IMF (2014).

with more developed national public investment systems report better rates of efficiency.[58] International experience also shows that adoption of the medium-term budgetary framework (MTBF), which links current budgetary decisions to their medium-term implications, has a positive impact on fiscal sustainability.[59] Most countries in the Organisation for Economic Co-operation and Development (OECD) have implemented this tool; and several Latin American countries have also adopted it in recent decades.[60] Countries that have a sound MTBF tend to be more effective in achieving their fiscal targets.[61]

1.26 **Strategic alignment**. The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenge of Productivity and Innovation, since it reduces the cost of tax collection by using information and digital technologies; and with the crosscutting themes of: (i) Institutional Capacity and Rule of Law, by strengthening the tax and public resource management and planning systems, improving the public sector's levels of efficiency and effectiveness, and enhancing transparency and accountability through greater digitalization and automation of processes and services; and (ii) Climate Change, since 16.75% of the operation's resources are invested in climate change mitigation actions, according to the Multilateral Development Banks' joint methodology. These resources contribute to the IDB Group's target of increasing climate change-related lending to 30% of all approvals by 2021. In addition, the program contributes to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12) through the following indicators: (i) Emissions avoided (annual tons of CO_2 equivalent); (ii) Countries with strengthened tax and expenditure policy and management; (iii) Agencies with strengthened digital technology and managerial capacity; and (iv) Agencies with strengthened transparency and integrity practices. It also aligns with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), and is consistent with the sector framework documents on Decentralization and Subnational Governments (document GN-2813-8), and Fiscal Policy and Management (document GN-2831-8) under the dimensions of: (i) improving the efficiency and quality of expenditure and service delivery; (ii) increasing own revenue collection; and (iii) working with greater transparency and accountability. The program is also consistent with the Climate Change Sector Framework (document GN-2835-8) through the reduction of GHG emissions, due to the procurement of efficient equipment.

1.27 **The Bank's country strategy.** The project is aligned with the IDB Group's country strategy with Brazil 2019-2022 (document GN-2973), specifically through the following strategic objectives: (i) reform the structure of public expenditure (Components 1 and 3); (ii) perfect the public investment system (Component 3); (iii) promote e-government and digital solutions to promote transparency, accountability and efficiency in delivering public services to citizens and enterprises (Components 1, 2 and 3); and (iv) build a more effective government

[58] Armendariz and Contreras, 2016.

[59] World Bank (2013).

[60] World Bank (2013). For Latin America and the Caribbean, see IDB (2009).

[61] IMF (2013); World Bank (2013).

(Components 1, 2 and 3). This operation is included in the 2021 Operational Program Report (document GN-3034).

B. Objectives, components, and cost

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

1.29 **Component 1. Fiscal management and transparency (US$16,286,400).** This component seeks to improve management instruments, modernize the technological infrastructure,[62] and increase fiscal transparency with society, by enhancing SEFAZ/AL's institutional performance. It will finance the following activities:

a. **Institutional governance model prioritizing innovation (US$1,288,000)**, including: (i) strategic planning for fiscal management; (ii) process and project management; and (iii) an innovation laboratory.[63]

b. **Risk and compliance management model (US$437,000)**, including: (i) a methodology for identifying institutional risks and creating the baseline for institutional risks in SEFAZ/AL; (ii) a methodology for managing institutional risk and compliance with standards, including a monitoring system; and (iii) assessment of the maturity of risk management processes and systems.

c. **Strategic staff management model (US$1,283,400)**, including: (i) a competencies-based management methodology, defining the profiles of management posts and staff skills mapping and inventory; and (ii) a competencies-based training program for managers and staff, adopting a distance learning program and technological infrastructure for a face-to-face education program.

d. **Information technology management model (US$13,278,000)**, including: (i) development of governance plans and an IT strategic plan; (ii) an information security plan; and (iii) information technology stock updated with processing and storage hardware and IT tools.[64]

1.30 **Component 2. Tax administration and litigation (US$14,783,600).** This component seeks to enhance the efficiency of tax collection, grow revenues, and simplify taxpayer compliance. It will finance the following activities:

a. **Tax policy management model (US$939,200),** including: (i) methodologies for evaluating the impact of tax policies using online tax data; (ii) methodologies for estimating the tax policy and compliance gaps; (iii) a methodology for granting and monitoring tax benefits; and (iv) a methodology

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62 Project equipment procurement will meet energy-efficiency requirements, as described in the climate change document.

63 It is an environment that aims to generate new products, services, or processes through improvements that may be either incremental or disruptive. It also functions as a hub for the dissemination of acquired knowledge, promoting the culture of innovation.

64 IT tools (software licenses) and solutions implemented, applications load balancing and security solution, and microcomputer stock.

for calculating the municipal share in state revenues using information from online tax documents.

b. **Taxpayer registry management model (US$376,000)**, including: (i) a taxpayer registry management system and methodology for classifying taxpayers by size and economic segment; and (ii) a system for validating taxpayer data to be integrated into the national network for the simplification of business registration (REDESIM).

c. **Taxpayer inspection model (US$4,154,400),** including: (i) fiscal action planning system; (ii) new procedures for automatically identifying tax documents that show signs of inconsistency, using the online databank; (iii) procedure and tools for real-time monitoring of goods in transit, including a technological solution for vehicle monitoring integrated with the National States Operator (ONE) system; and (iv) a procedure and technological tools for investigating structured tax fraud, using internal and external databases.

d. **Inspection model for foreign trade and other taxes (US$439,200),** including: (i) a module of integration to the Single Foreign Trade Portal; (ii) a motor vehicle ownership tax (IPVA) management system with a module integrated into the State Transit Department system; and (iii) an inheritance and gifts tax (ITCD) management system.

e. **Tax litigation management model (US$1,204,000)**, including: (i) expansion of the online tax administration process (e-PAT) with a process management system module integrated with the other tax systems and a methodology for managing tax litigation risk; and (ii) a procedure and a technological tool for management of court litigation within PGE/AL integrated with e-PAT.

f. **Taxpayer services model (US$626,000)**, including: (i) new citizen service procedures that consider the various relationship modalities; and (ii) self-services available on the Single Taxpayer Services Portal and mobile platform.

g. **Revenue management and estimation model (US$504,400)**, including: (i) the collection system and methodology for estimating the taxpayer's current account; and (ii) the simplification of tax obligations using EFD data.

h. **Tax collection management model (US$500,000)**, using a methodology and computerized tax collection management system that includes: (i) collection rules according to taxpayer profile; (ii) debt classification according to degree of recoverability; (iii) tax claims portfolio; (iv) specialized call center with strategies for each type of collection; (v) automatic notification of tax debits; and (vi) targets monitoring system, including for adjudicated tax claims.

i. **Tax management system (US$6,040,000)**, including taxpayer registry, current account, collection, tax planning and execution, IPVA, ITCD, taxpayer portal and self-regulation modules.

1.31 **Component 3. Financial administration and public expenditure (US$8,493,000).** This component seeks to increase the efficiency of financial planning and execution and enhance expenditure quality. It will finance the following activities:

a. **Financial programming and execution model (US$1,763,000)**, including the following modules: (i) cash flow and financial programming; (ii) control of federal agreements and transfers; (iii) Fiscal Restructuring and Adjustment Program (PAF) monitoring; (iv) a follow-up to the congressional budget proposal; and (v) online fiscal indicators monitoring panel.

b. **Supply and property management model (US$2,450,000)**, including: (i) a strategic planning methodology, including calculation of procurement demand and a procurement management system module; (ii) procedures and a computerized tool for the management of movable and real property; and (iii) a training plan.

c. **Accounting management model (US$567,000)**, including: (i) revision and automation of accounting processes; and (ii) a new transparency portal.[65]

d. **Asset and liability management model (US$2,561,000)**, including the following modules linked to the federal government's integrated financial management system (SIAFI): (i) asset and liability risk management; (ii) public debt management; (iii) management of judicially recognized debts (precatórios); and (iv) management of tax and nontax receivables.

e. **Cost management model (US$1,152,000)**, including: (i) a public cost management and estimation methodology; and (ii) a public cost estimation system.

1.32 **Project management (US$437,000).** The project will also finance activities to support project management and execution, including costs relating to accounting/financial audits and monitoring and evaluation.

1.33 The project will finance consulting services (individuals and firms) for US$5.9 million (14.6%); nonconsulting services for US$13.1 million (32.9%); goods for US$17.4 million (43.6%); training for US$3.6 million (8.9%).[66]

1.34 **Beneficiaries**. The state's enhanced fiscal sustainability and transparency will benefit its citizens, businesses, taxpayers, and nongovernmental entities. The users will be the public sector entities which, with government support, will provide improved service delivery, tax compliance facilities and lower costs; and more widely available information for statewide management and accountability.

C. Key results indicators

1.35 Achievement of the general development objective will be verified through the following indicators: (i) the ratio between the state's primary fiscal balance and its GDP; (ii) the ratio between the state's tax revenue and its GDP; and (iii) the ratio between the state's net current debt and its GDP. Attainment of the specific development objectives will be verified through the following ratios: (i) strategic planning targets met to total targets planned; (ii) administrative collection cost to tax revenue; and (iii) budget as planned to budget as executed.

[65] The new transparency portal will include all the information provided for in the Access to Information Law; and will facilitate public consultations.

[66] There is no expenditure forecast for works.

1.36 **Cost-effectiveness analysis**. A cost-effectiveness analysis was performed to estimate the project's effectiveness compared to PROFISCO I projects in three other states, for which the results were considered satisfactory, as evaluated through their project completion reports (PCR). The variables used were project costs and the revenue collection efficiency index.[67] This analysis estimates that, in 2025 following project implementation, Alagoas will attain an efficiency index of 18.6%, which is above the 14.94% average of the three comparator states. In terms of sensitivity, if the delays identified in the risk matrix actually occur, it is estimated that Alagoas will attain an effectiveness of 15.05% in 2025, which is still better than the average for the comparator states.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This operation was designed as a specific investment loan under the PROFISCO II CCLIP (BR-X1039). It has a total cost of US$40 million, which will be financed with US$36 million from the Bank's Ordinary Capital and a local counterpart contribution of US$4 million. The distribution of resources by funding source and category is shown in Table 1.

Table 1. Estimated program costs (US$)

Components	IDB	Local	Total	%
A. Direct costs	**35,563,000**	**4,000,000**	**39,563,000**	**98.9**
Component 1. Fiscal management and transparency	**13,536,400**	**2,750,000**	**16,286,400**	**40.7**
1.1 Institutional governance model prioritizing innovation	1,288,000	0	1,288,000	3.2
1.2 Risk and compliance management model	437,000	0	437,000	1.1
1.3 Strategic staff management model	1,283,400	0	1,283,400	3.2
1.4 IT management model	10,528,000	2,750,000	13,278,000	33.2
Component 2. Tax administration and litigation	**13,533,600**	**1,250,000**	**14,783,600**	**37.0**
2.1 Tax policy management model	939,200	0	939,200	2.3
2.2 Taxpayer registry management model	376,000	0	376,000	0.9
2.3 Taxpayer inspection model	2,904,400	1,250,000	4,154,400	10.4
2.4 Inspection model for foreign trade and other taxes	439,200	0	439,200	1.1
2.5 Tax litigation management model	1,204,000	0	1,204,000	3.0
2.6 Taxpayer services model	626,400	0	626,400	1.6
2.7 Revenue management and estimation model	504,400	0	504,400	1.3
2.8 Tax collection management model	500,000	0	500,000	1.3
2.9 Tax management system	6,040,000		6,040,000	15.1

[67] The efficiency index is measured through the ratio between the administrative collection cost and revenue intake. The lower the ratio, the better the result.

Components	IDB	Local	Total	%
Component 3. Financial administration and public expenditure	**8,493,000**	**0**	**8,493,000**	**21.2**
3.1 Financial programming and execution model	1,763,000	0	1,763,000	4.4
3.2 Supply and property management model	2,450,000	0	2,450,000	6.1
3.3 Accounting management model	567,000	0	567,000	1.4
3.4 Asset and liability management model	2,561,000	0	2,561,000	6.4
3.5 Cost management model	1,152,000	0	1,152,000	2.9
B. Project management	**437,000**	**0**	**437,000**	**1.1**
Monitoring	287,000	0	437,000	0.7
Evaluation	150,000	0	437,000	0.4
Total	**36,000,000**	**4,000,000**	**40,000,000**	

Note: Values set forth in the cost table are indicative.

2.2 **Disbursement schedule.** Disbursements will be made over five years as shown in Table 2:

Table 2. Disbursement schedule (US$)

Sources	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	3,366,190	7,742,230	10,152,960	8,806,100	5,932,520	36,000,000
Local	0	650,000	1,050,000	925,000	1,375.000	4,000,000
Total	**3,366,190**	**8,392,230**	**11,202,960**	**9,731,100**	**7,307,520**	**40,000,000**
%	**8.4**	**21.0**	**28.0**	**24.3**	**18.3**	**100**

2.3 **Fulfillment of the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** The project fulfills the eligibility criteria specified in the policy on CCLIPs (document GN-2246-9),[68] for individual loan operations, since: (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 2021 Operational Program Report (document GN-3034); (iii) the state will implement the operation through SEFAZ/AL, which served as executing agency for the first individual operation under PROFISCO I CCLIP (loan 3001/OC-BR); (iv) the state satisfactorily executed the PROFISCO I-AL project; and (v) the institutional analysis found that that SEFAZ/AL's capabilities have not deteriorated, so the same project execution and monitoring tools may be used for this new operation, and the PCU staff will be the same. According to the PROFISCO I-AL PCR: (i) the project objectives were satisfactorily achieved; and (ii) the execution unit complied with the Bank's contractual requirements and disbursement policies, and its financial statements were audited and found to meet the required quality standards.

B. Environmental and social risks

2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this project is classified as a Category "C" operation. The project will support the strengthening of tax and financial processes

[68] This operation has been prepared in accordance with the eligibility criteria defined in document GN-2246-9, following the provisions of paragraph 3.12 of document GN-2246-13.

and will not finance infrastructure works or land purchases, so no socioenvironmental risks are foreseen.

C. Fiduciary risks

2.5 **Goods and services:** Two medium-high fiduciary risks were identified: (i) failure to prepare the terms of reference for project procurement on time will cause delays in the procurement processes, which will affect the project's physical-financial schedule; and (ii) failure by CGE/AL to develop specific auditing or preventive internal control systems may generate nonconformities in the project's financial execution processes, which will give rise to comments in the annual audit reports. These risks will be mitigated, respectively, through: (i) the timely contracting of individual consulting services and training of key executing agency staff (paragraph 1.31b); and (ii) the appointment of PGE/AL and CGE/AL staff to review the project's fiduciary processes and training of key executing agency staff (paragraph 1.29b).

D. Other risks and key issues

2.6 A risk management workshop held following the Bank's methodology rated the operation as medium-risk. The risks identified are:

a. **Economic and financial**. There is a medium-high risk that, if the adverse effects of the COVID-19 pandemic continue to evolve, the impact on the Brazilian economy will be significant, especially at the subnational level. This could impact the state's ability to provide counterpart funding, thereby compromising the achievement of project results. This risk will be mitigated through fiscal measures, adopted both before and during COVID-19, and by reprogramming the physical-financial schedule of the counterpart.

b. **Internal processes**. Two medium-high level risks have been identified, as follows: (i) a lack of alignment between the IT and business areas could compromise the prioritization and delivery of IT-related products, thereby causing delays throughout the project schedule; and (ii) in the absence of adequate definition and integration of the different modules and continuous monitoring of the tax administration system, the output might not be delivered on time with the desirable quality, causing delays in the schedule and compromising project outcomes. The first risk will be mitigated by implementing a new IT governance model in line with the business areas (paragraph 1.29d) and training of SEFAZ/AL technical staff in project monitoring methodologies (paragraph 1.29c). The second risk will be mitigated through: (i) the creation of a governance committee to develop and implement the system (paragraph 1.30i);[69] and (ii) a strategy for training and contracting, definition of specifications and continuous monitoring of outputs (paragraph 1.29c).

2.7 **Fiscal analysis of the state.** The analysis of Alagoas' financial situation identifies the need to improve its fiscal accounts and to expand its payment capacity to service the contracted debt, which represents 16.5% of the state's estimated GDP for 2020 and 95.03% of the NCI in the same year. The state's net current income increased

[69] A committee composed of SEFAZ/AL senior management, meeting monthly, which will be tasked with prioritizing demands for new systems development and monitoring actions to ensure deadlines are met.

by 3.6% in real terms year-on-year over the six-year period 2015-2020, with tax revenues (35% of 2020 NCI) growing by 2.5%, boosted by tax administration measures; and federal government transfers (60% of NCI) increasing by 1.0%. Classified in category B by the STN using the CAPAG payment capacity methodology, the state was rated "B" in the Indebtedness component, "A" in the Net Savings component and "A" in the Liquidity component (see Financial situation of the state of Alagoas).

2.8 **Program sustainability.** In addition to the steps that the government is already taking (paragraphs 1.6 and 1.7), the project includes measures that are conducive to medium- and long-term fiscal sustainability, such as cutting expenditure and reducing tax evasion, which will generate higher revenue. To ensure that the capacities developed by the project are sustainable once execution is completed, PROFISCO II-AL includes actions to generate cost savings in procurement and service provision, as well as increased revenues from enhanced fiscal action and recovery of tax claims. The related outputs include: procurement and property management; management of tax benefits; the use of new tax auditing, intelligence, and collection technologies. In the case of investments in technology, SEFAZ/AL will mainly use its own staff, supported by specialized consulting services, for development and maintenance. The project will finance improved data protection and cybersecurity measures.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The State of Alagoas will be the borrower and will execute the operation through SEFAZ/AL.[70] The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the policy on Guarantees Required from the Borrower (document GP-104-2). For project execution, a PCU will be set up with a general coordinator, a technical coordinator, an administrative and financial coordinator, a planning and monitoring coordinator, and a procurement coordinator. The PCU will coordinate project planning, monitoring, evaluation, and auditing activities.

3.2 The PCU's main functions will be to: (i) plan the execution of activities; (ii) prepare, implement, and update the project's operational tools: the multiyear execution plan, the annual work plan (AWP), the procurement plan, and the monitoring and evaluation plan; (iii) supervise execution and submit status reports; (iv) coordinate and support processes for preparing terms of reference, goods procurement and bidding, and the selection and contracting of services; (v) submit supporting documentation and disbursement requests to the Bank; (vi) prepare the financial statements; and (vii) submit the project evaluation. The borrower will adhere to the program Operating Regulations approved by the Bank for the PROFISCO II CCLIP, which specify the following: (i) criteria for project eligibility and outputs eligible for financing; (ii) functions, procedures, and standards for project execution; and

70 In the event of a change in the government structure, SEFAZ/AL may be replaced by another agency with the same legal authority and powers, with the Bank's prior approval.

(iii) operational and contractual relationships between the parties involved in the project.

3.3 **Interagency coordination mechanism**. SEPFAZ/AL will collaborate with SEPLAG/AL, CGE/AL, and PGE/AL in the execution of activities that will benefit them. Leaders of the corresponding outputs will be appointed in these entities, to coordinate their actions with the PCU and oversee their technical development and implementation. For the coordination of procurement activities related to purchases and property, assets and liabilities, tax litigation, internal control and communication with society, information flows and processes among the beneficiaries will be mapped and defined, identifying roles, responsibilities, and timing. This will be institutionalized through cooperation agreements (paragraph 3.5).

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.** This condition is essential to ensure that the executing agency has detailed regulations on operational and fiduciary considerations, and to mitigate the risks of delays in project execution. This practice was adopted in PROFISCO I and proved successful in consolidating the coordination and guidance issues relevant to the executing agencies in the program Operating Regulations. It also ensured a more efficient distribution of the responsibilities among PCU members, in terms of their authority and in expediting the processing of contracting processes; **and (ii) the project coordination unit will have been established and its members appointed.** This condition is justified because formal establishment of the PCU is essential to mitigate the risk of execution delays and conduct the project's operational and fiduciary processes exclusively and with the experience required.

3.5 **Special contractual conditions for execution.** Prior to the start of the execution of activities with outputs deliverable to SEPLAG/AL, CGE/AL and PGE/AL, SEFAZ/AL will sign a cooperation agreement with these entities, specifying the roles and responsibilities of the parties during the execution of the activities in question. This condition is justified to ensure that the activities' beneficiary entities will extend the necessary cooperation to SEFAZ/AL, which will be responsible for executing them.

3.6 **Procurement**. Project procurement and contracting processes will abide by the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15) and as provided for in the Procurement Plan.

3.7 **Single-source selection.** Pursuant to the policy on the single-source selection of consulting firms specified in paragraph 3.11d of document GN-2350-15, the following institutions will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new IT solutions; and (iii) the data processing firms that are in charge of the states' IT developments. Pursuant to document GN-2350-15, the CIAT is also expected to be contracted, pursuant to paragraphs 3.11 and 3.16, considering its specialization in providing technical

assistance for modernizing tax administrations (See Annex III - Chapter IV and the document justifying direct contracting).

3.8 **Audited financial reports.** The project's financial, budgetary, and accounting execution will be channeled through the state integrated financial and accounting management system (SIAFE). State entities use multiyear budgeting, the budget guidelines law, and the annual budget law (LOA) as planning instruments; and the PROFISCO II budget will be included in the LOA. The loan proceeds will be managed by the SEFAZ/AL treasury through a dedicated account, and will be subject to the state's budgetary and financial execution process. The project's external audit will be performed by a firm of auditors acceptable to the Bank or by the Alagoas State Audit Office; and audited financial statements will be submitted annually.

B. Summary of arrangements for monitoring results

3.9 **Monitoring** will be based on the following instruments: (i) the PEP and AWP; (ii) the Procurement Plan; (iii) the Results Matrix; and (iv) the MEP. The executing agency will submit the updated version of instruments (i) and (ii) to the Bank by 30 November each year. The PCU will prepare semiannual progress reports on the achievement of outcome, output, and financial targets for approval by the Bank, which 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 products specified in the Results Matrix, by comparing results before and after the project. The MEP provides for an independent midterm evaluation, either within 90 days after 36 months have elapsed following the signing of the loan contract or on the date on which 50% of the loan proceeds have been disbursed, whichever occurs first; and for a final evaluation 90 days after the date of the final disbursement. The evaluation reports will serve as inputs for the PCR.

Development Effectiveness Matrix		
Summary	BR-L1540	
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) -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	(i) reform the structure of public spending; (ii) improve the public investment system; (iii) use electronic government and digital solutions to promote transparency, accountability, and efficiency, improving services to citizens and businesses; and (iv) build a more effective government.
Country Program Results Matrix	GN-3034	The intervention is included in the 2021 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	2.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	2.0	
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, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The IDB team developed and applied a methodology (MD-GEFIS), supported by TC BR-T1417, to assess the state of public finances and fiscal mangement processes in the State Alagoas to design the project and to monitor future performance against the baseline.

Evaluability Assessment Note:

The main goal of the operation is to contribute to the fiscal sustainability of the State of Alagoas. To achieve this end, the proposal defines three specific areas on which the project will intervene. The first area is fiscal management. The second area is tax administration. The third area is the administration of public expenditure. Each of these areas is associated to a component. The document includes a description of the process gaps that lead to weaknesses in each of these three areas. The project is the child of a series of operations under the Conditional Credit Line for Investment Projects (CCLIP) parent BR-X1039.

The project proposal diagnoses a primary balance as a share of the State PIB of 1.3 percent and a Current Net Debt as a share of the State PIB of 11.7 Percent in 2019 (STN, 2019). The diagnosis is based on the MD-GEFIS tool which analyzes processes in the three main areas which define the components. The Ministry of Finance provides a diagnosis for a total of 21 sub areas. Each diagnosis identified the main restrictions for the Ministry to increase tax revenue, decrease running costs or improve efficiency in expenditures, and improve service delivery to citizens. Overall, the diagnosis identifies gaps in institutional arrangements (such as weak coordination and outdated legal documents), deficits in personnel management and training, and gaps in capital investments (resulting in outdated technological infrastructure, limited availability of information, and lack of mechanisms to communicate with citizens). The diagnosis provides links to the quantification of these needs for 18 processes.

The economic analysis provides a cost-effectiveness comparison of reducing tax evasion as compared to the states of Maranhão, Pernambuco, and Mina Gerais. The analysis concludes Alagoas has potential to decrease the cost per dollar collected by 19 percent compared to decreases of 17 percent for Maranhão, 14 percent for Pernambuco, and 14 percent for Mina Gerais.

Monitoring relies on reports by the Finance Secretariat. The ex post evaluation plan includes an impact evaluation to identify the effects of a phone call warning or a physical audit on debt recovering. The evaluation relies on a randomized control trial with two arms.

The project identifies seven risks out of which five are classified as medium high and two as medium low. The risks classified as medium high include the adverse effects of COVID-19 on the state economy, weak alignment between the business and technological areas causing delays, delays in contracting, delays in output delivery, and failure to meet requirements regarding internal control and audit processes.

RESULTS MATRIX[1, 2]

Project objective:	To contribute to the state's fiscal sustainability through the following specific objectives: (i) modernizing fiscal management; (ii) improving tax administration; and (iii) improving public expenditure management.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Baseline year	Final target	Means of verification	Comments
General development objective: The program's main objective is to contribute to the state's fiscal sustainability.						
Primary balance/State GDP	%	1.34	2019	1.37	Public Finance Bulletin - National Treasury Department (STN)	The targets associated with the general objective (impacts) will be verified for the project completion report. See monitoring and evaluation plan (MEP)
Tax revenue/State GDP	%	8.75	2019	9.10	Public Finance Bulletin - STN	
Net current debt/State GDP	%	11.67	2019	12.30	Public Finance Bulletin - STN	

1 The results are not cumulative.

2 Given the prevailing COVID-19 context, the figures shown for the impact and outcome indicators may be recalculated during the start-up mission.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Specific development objective 1: Modernize fiscal management											
Number of targets met/Total number of targets planned	%	0	2019	36.8	42.1	47.6	56.5	70.8	70.8	Annual strategic planning report issued by the Alagoas State Finance Department (SEFAZ/AL)	See MEP
Specific development objective 2: Improve tax administration											
Collection cost/Tax revenue[3]	%	5,3	2019	5.9 [4]	5.7	5.6	5.4	5	5	State balance sheet produced by SEFAZ/AL	See MEP
Specific development objective 3: Improve public expenditure management											
Budget as executed/Budget as planned	%	8,6	2019	8.3	8	7.6	7.3	6.9	6.9	State budget balance report produced by SEFAZ/AL	See MEP

[3] The target was set considering the expected impacts of COVID-19 on the state economy. The increase expected in the first few years reflects the existing revenue forecast.

[4] The increase from 5.3% to 5.9% is explained by the decline in GDP in 2020.

OUTPUTS[5, 6, 7, 8]

OUTPUTS	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Fiscal management and transparency											
1.1 Institutional governance model prioritizing innovation implemented.	Model	0	2019	0	0	0	1	0	1	SEFAZ/AL Management Report	See MEP
1.2 Risk and compliance management model implemented.	Model	0	2019	0	0	0	0	1	1		
1.3 Strategic staff management model implemented.	Model	0	2019	0	0	0	0	1	1		
1.4 IT management model implemented.	Model	0	2019	0	0	0	0	1	1		
Component 2: Tax administration and litigation											
2.1 Tax policy management model implemented.	Model	0	2019	0	0	0	0	1	1	SEFAZ/AL Management Report	See MEP
2.2 Tax registry management model implemented.	Model	0	2019	0	0	0	1	0	1		
2.3 Taxpayer inspection model implemented.	Model	0	2019	0	0	0	1	0	1		
2.4 Inspection model for foreign trade and other taxes implemented.	Model	0	2019	0	0	0	0	1	1		
2.5 Tax litigation management model implemented.	Model	0	2019	0	0	0	0	1	1		
2.6 Taxpayer services model implemented.	Model	0	2019	0	0	0	0	1	1		
2.7 Revenue management and estimation model implemented.	Model	0	2019	0	0	0	0	1	1		
2.8 Tax collection management model implemented.	Model	0	2019	0	0	0	0	1	1		
2.9 Tax management system implemented.	System	0	2019	0	0	0	0	1	1		

5 The outputs are annual.

6 Systems, models, or software are only considered implemented once they are in use by public officials.

7 The term “system” means software that provides a set of rules governing how conceptual business models operate.

8 A model is a set of activities that may include the following: (i) diagnostic assessment of the current situation; (ii) methodology and change proposal; (iii) process reengineering; (iv) programming of an IT solution; and (v) training in the new processes and distribution of tools.

OUTPUTS	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 3: Financial administration and public expenditure											
3.1 Financial programming and execution model implemented.	Model	0	2019	0	0	0	0	1	1	SEFAZ/AL Management Report	See MEP
3.2 Supply and property management model implemented.	Model	0	2019	0	0	0	0	1	1		
3.3 Accounting management model implemented.	Model	0	2019	0	0	0	0	1	1		
3.4 Asset and liability management model implemented.	Model	0	2019	0	0	0	0	1	1		
3.5 Cost management model implemented.	Model	0	2019	0	0	0	0	1	1		

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Brazil
Project number:	BR-L1540
Name:	Fiscal Management Modernization Project for the State of Alagoas – PROFISCO II-AL
Executing agency:	State of Alagoas, through its Finance Department (SEFAZ/AL)
Fiduciary team:	Fábia Bueno and David Salazar (VPC/FMP)

I. EXECUTIVE SUMMARY

1.1 The institutional assessment for the project's fiduciary management was based on: (i) the country's current fiduciary context; (ii) the results of an assessment of the main fiduciary risks; (iii) the fiscal management maturity and performance assessment (MD-GEFIS) report; (iv) an institutional analysis; (v) previous experience in PROFISCO I; and (vi) working meetings held with the project team and the State Finance Department (SEFAZ/AL).

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

1.3 SEFAZ/AL has the legal capacity and experience to execute the project activities, since in recent years it has implemented PROFISCO I in conjunction with the Bank, using its own structure, with a project coordination unit (PCU). The structure already implemented and consolidated will be used again, drawing on lessons learned from the implementation of the first phase.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

2.1 The SEFAZ/AL structure consists of: the Office of the Secretary of Finance; the Special Treasury Secretariat; the Special Revenue Secretariat; and the Executive Secretariat for Internal Management.

2.2 The project will benefit the executing agency, as well as the State Planning and Management Department (SEPLAG/AL), the State Comptroller General's Office (CGE/AL), and the State Attorney General's Office (PGE/AL).

2.3 Project activities will be executed by SEFAZ/AL, through its PCU, which is tasked with institutional and technical coordination and is linked to the Executive Coordination Unit for Institutional Development. The PCU was created through PORTARIA/SEFAZ 1.203/2020. In the event of a change in the government structure, SEFAZ/AL may be replaced by another agency with the same legal authority and powers, with the Bank's prior approval.

2.4 The executing agency has experience in conducting procurement processes through

the online reverse auction (*Pregão Eletrônico*) modality, which is acceptable to the Bank for the purchase of goods and nonconsulting services.

2.5 The executing agency is subject to both internal and external oversight. Internal control is maintained by CGE/AL, while external oversight is exercised by the Alagoas State Audit Office (TCE/AL), which audits all government entities in the state.

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

3.1 The evaluation and validation of institutional capacity with SEFAZ/AL staff concluded that the executing agency has experience in executing fiscal programs, and has sufficient and adequate institutional capacity in all the modules analyzed. The main recommendations call for: (i) training in project management; and (ii) the contracting of consulting services for the preparation of terms of reference, and implementation of knowledge management in project management issues.

3.2 Two medium-high fiduciary risks were identified: (i) a failure to prepare the terms of reference for project procurement on time will cause delays in procurement processes, affecting the project's physical-financial schedule; and (ii) if the CGE/AL fails to develop specific audit or preventive internal control systems, noncompliance could occur in the project's financial execution processes, resulting in comments in the annual audit reports. These risks will be mitigated respectively through: (i) timely contracting of individual consulting services and training of key executing agency personnel; and (ii) appointment of PGE/AL and CGE/AL staff to review the project's fiduciary processes and train key executing agency personnel.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

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

4.2 **Selection and contracting of consulting services.** Consulting service contracts will use the standard request for proposals (RFP) issued by the Bank. Selection and contracting will abide by the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15).

4.3 **Use of the national procurement system.** The country procurement (sub)system approved by the Bank (*Pregão Eletrônico*), will be used to procure off-the-shelf goods for up to US$5 million. Any system or subsystem subsequently approved will be applicable to the operation. The procurement plan and its updates will state that procurement will be executed using approved country systems.

B. Single-source selection (SSS)

4.4 **Schools and government entities.** Pursuant to the provisions on the single-source selection of consulting firms set out in paragraph 3.11d of document GN-2350-15, the following entities will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools

that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new IT solutions; and (iii) the data processing companies that are in charge of the states' IT developments.

4.5 **Specialized international agencies.** Pursuant to paragraphs 3.11 and 3.16 of document GN-2350-15, the Inter-American Center of Tax Administrations will also be contracted directly, given its specialization in providing technical assistance for the modernization of tax administrations. The amount of this contract, which includes consulting services for the reformulation of processes, implementation of the integrated tax administration system (ITAS), technical support, maintenance, and licensing, is expected to be US$12.4 million.

Table 1. Thresholds for ICB and international shortlists

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

Table 2. Main procurement items

Procurement item	Selection method	Estimated date	Estimated amount (US$ million)
Goods and nonconsulting services			
SIAT system	SSS	2022-Q1	12.4
Modules for the management of judicially recognized debts (*precatórios*) and active tax debt	Country system	2023-Q1	1.8
Hardware to expand processing and storage capacity	ICB	2022-Q2	7.1
Consulting firms			
Strategic planning processes	Quality- and cost-based selection	2022-Q3	0.5

C. Procurement supervision

4.6 Procurement will be subject to ex post supervision, except in single-source selection and other cases where ex ante supervision is justified. Procurement processed through the country system will also be supervised through that system.

4.7 The supervision method will be identified for each selection process. Ex post reviews will be conducted every twelve months in accordance with the project supervision plan.

Table 3. Thresholds for ex post review

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

D. Records and files

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

V. Financial Management

5.1 **Programming and budgeting.** SEPLAG/AL is tasked with planning PROFISCO II activities; and SEFAZ/AL, through the PCU, is responsible for the execution and oversight of the activities specified in the multiyear execution plan and annual work

plan. State entities use planning instruments such as: (i) multiyear plan; (ii) the Budget Guidelines Law; and (iii) the Annual Budget Law (LOA). The project budget will be included in the LOA.

5.2 The PCU will ensure that the resources for the project (both the Bank loan and the local counterpart) are budgeted annually and secured for execution in accordance with the project schedule. Budgetary resources will be recorded as an external source in the integrated financial and accounting management system for the states (SIAFE) in their year of execution The LOA will include the funds needed to execute both the external loan and the local counterpart.

5.3 **Accounting and information systems.** Public entities in Alagoas use SIAFE, which is an output of PROFISCO I that integrates the State's financial, budgetary, and accounting management. The system is auditable and has access profiles and security guidelines. It also satisfies the Bank's requirements on controls and will be used for the execution of PROFISCO II. In PROFISCO I, the disbursement and external audit financial reports required by the Bank were prepared in Excel, based on data from the integrated financial management system for states and municípios (SIAFEM) (initially) and then from SIAFE. The project should benefit from the experience of other states that have already implemented their financial management system under PROFISCO II to generate these reports for the Bank.

5.4 **Disbursements and cash flow.** The project will use the SEFAZ/AL treasury system. Expenditures will be subject to the budget and financial execution process, and will be duly recorded in SIAFE.

5.5 Bank resources will be managed through an exclusive account that makes it possible to identify the loan proceeds and perform the respective bank reconciliations, in terms of both income and payments.

5.6 Disbursements will be made in U.S. dollars, in the form of advances of funds. Advances will be based on a projection of funding needs for up to 180 days. For future advances, at least 80% of funds previously advanced will need to be accounted for.

5.7 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.

5.8 The exchange rate agreed upon with the executing agency to be used when accounting for expenditures paid from loan advances will be the internalization rate. To determine the equivalence of expenses incurred in the local counterpart, or the reimbursement of expenses charged to the loan, the agreed-upon exchange rate will be the Central Bank of Brazil's buying rate for the effective payment date of the eligible project expenditures.

5.9 The effective exchange rate on the payment date of the expenditure in the local currency of the borrower's country.

5.10 **Internal control and internal audit**. In Alagoas, CGE/AL is responsible for internal state oversight. It carries out its activities through internal audit and control, public hearing, social control, and transparency units. PROFISCO II's activities will be under its control. It will also benefit from the Compliance Advisory Service, implemented by SEFAZ/AL in 2018.

5.11 **External audit and reports.** The external audit will be performed by a firm of external auditors acceptable to the Bank or by the Alagoas State Audit Office.

5.12 Pursuant to the terms of reference agreed upon with the Bank, audited financial reports will be submitted annually within 120 days following each fiscal year-end.

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

Table 4. Supervision plan

<table>
<tr><th rowspan="2">Nature - Scope</th><th rowspan="2">Frequency</th><th colspan="2">Party responsible</th></tr>
<tr><th>Bank</th><th>Executing agency</th></tr>
<tr><td>Ex post review of disbursements and procurement</td><td rowspan="2">Annual</td><td rowspan="3">Fiduciary team</td><td rowspan="4">PCU - External auditor</td></tr>
<tr><td>Annual audit</td></tr>
<tr><td>Review of disbursement requests</td><td>Periodic</td></tr>
<tr><td>Supervisory visit</td><td>Annual</td><td>Fiduciary specialist</td></tr>
</table>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

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

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Alagoas, 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 Alagoas (PROFISCO II AL), which constitutes the fourteenth individual 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 December 8th, 2017. Such financing will be in the amount of up to US$36,000,000, 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 __ ____________ 2021)

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