

TC Document

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Support for the Digital Transformation of the Tax Administration in Brazil
▪ TC Number:	BR-T1515
▪ Team Leader/Members:	Maria Cristina Mac Dowell (IFD/FMM) Team Leader; Calijuri, Monica (IFD/FMM) Alternate Team Leader; Aguiar, Fernando Amaral De (CSC/CBR); Astudillo, Karen (IFD/FMM); Avila, Krysia A (LEG/SGO); De Freitas Severino, Ligia (CSC/CBR); Liza Builes (IFD/FMM); Valente Lins, Paula (CSC/CBR)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	13 May 2022
▪ Beneficiary:	Brazil through its <i>Secretaria Especial da Receita Federal</i>
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$250,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	Disbursement period 24 months and execution period 24 months
▪ Required start date:	
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CSC/CBR-Country Office Brazil
▪ TC included in Country Strategy:	Yes
▪ TC included in CPD:	Yes
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Institutional capacity and rule of law; Productivity and innovation

II. Objectives and Justification of the TC

- 2.1 **Objective.** Support the Federal Revenue Agency of Brazil (*Receita Federal do Brasil*, RFB) in its efforts to strengthen and modernize its institutional capacity, specifically the digital transformation of the tax administration.
- 2.2 In the last years, tax administration in Latin America and the Caribbean has undertaken substantial fiscal reforms and adopted modern management models to improve its performance. Nevertheless, despite the advances, several challenges remain to be solved, mainly related to digital and data analysis technologies and systems, that could lead to the digital transformation of activities and processes, such as tax litigation processes and taxpayers' risk management.

- 2.3 At the beginning of 2020, an assessment using the Tax Administration Assessment Tool (TADAT) was conducted at the RFB with the participation of the Inter-American Development Bank (IDB), which identified four main areas to be developed to reach good international standards, as follows: (i) Performance Outcome Area (POA) 2 – Effective Risk Management; (ii) POA 5 – Timely Payment of Tax; (iii) POA 6 – Accurate Reporting in Declarations; and (iv) POA 7 – Effective Tax Dispute Resolution.
- 2.4 Attending to the RFB request, the Bank, through the Technical Cooperation (TC) [ATN/OC-18099-BR](#) (¶2.9) has provided technical assistance to improve these weaknesses. In order to continue strengthening these areas, the RFB has requested a new technical cooperation, mainly focusing on the administrative tax litigation process, risk management, and assessment of the computer system of the RFB, which includes technology and the state of digitalization.
- 2.5 Moreover, in January 2022, Brazil received the official invitation from OECD to start the formal accession process, bringing up new challenges to adapting tax legislation and RFB procedures to the OECD guidelines, which also will need implementation support.
- 2.6 **Strategic alignment.** This TC is consistent with the Second Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is strategically aligned with the development challenge of Productivity and Innovation by improving revenue management through the intensive use of digital tools. The TC is also aligned with the cross-cutting issue of Institutional Capacity and the Rule of Law by strengthening the tax systems, making the public sector more efficient and effective, and improving transparency and accountability.
- 2.7 The TC is also aligned to the Ordinary Capital Strategic Development Program (GN-2819-14), through Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C), which includes among its expected results: (i) strengthen institutional and policy quality and service delivery and policy implementation to improve public sector management and promote private sector development; and (ii) leverage digital transformation to promote more effective, efficient, and transparent governments, better and more equal opportunities for citizens, and more productive and innovative firms; which aims at strengthening the RFB and promoting the digital transformation of the tax administration. The operation contributes to the Corporate Results Framework (CRF) 2020-2023, (GN-2727-12) through the following indicators: (i) countries with strengthened tax and expenditure policy and management; and (ii) agencies with strengthened digital technology and managerial capacity; by improving the capacity of the public sector in Brazil. It is also aligned with the Fiscal Management Sector Framework (GN-2831-10) through strengthening the knowledge and technical capacities of the RFB in key areas including taxpayers' registers, cadastral bases and tax litigation processes. Finally, the TC is also aligned to IDB's

Vision 2025 (AB-3266) through its strategic opportunities for the digital economy and its medium-term objectives of reactivating the productive sector and strengthening good governance and institutions, through the digital transformation of the RFB.

2.8 Moreover, this TC is aligned to the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973) through the following strategic objectives: (i) building a more effective government; and (ii) promoting e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises.

2.9 **Contribution to the Bank's operational program.** The present TC will support the Bank's operational agenda in Brazil, making the federal tax administration more efficient through the institutional strengthening and digital transformation of the RFB. This TC intends to enhance the Bank's work regarding public finance with Brazil in the last 25 years since it complements the [ATN/OC-18099-BR](#) (approved in 2020 for US\$300,000, in execution, with 83.78% disbursed) with the RFB, which aims to improve the tax administration and the litigation that allows the reinforcement of public income. Furthermore, the [ATN/OC-18956-BR](#) (approved in 2021 for US\$300,000, in execution, with 21.54% disbursed), with the National Treasury Secretariat, strengthens the Federal Government's public finance management, improving expenditure efficiency and tax transparency. Moreover, this TC aligns with the TCs approved in 2021, [ATN/OC-18750-BR](#) (approved in 2021 for US\$300,000, in execution, with 5.21% disbursed) and [ATN/OC-18813-BR](#) (approved in 2021 for US\$200,000, in execution, with 42.86% disbursed), which approach, respectively, the refinement of tax policies and Brazilian federalism themes. In addition, on a federal level, the Bank supported the Tax Modernization Project of the RFB ([3142/OC-BR](#), approved in 2013 for US\$19.8 millones, closed). With the states, the Bank contributed to the modernization of tax management: National Program in Fiscal Administration for Brazil States (PNAFE, [980/OC-BR](#), approved in 1996 for US\$500 million, closed); the CCLIP-PROFISCO I ([BR-X1005](#), approved in 2008 for US\$500 million, in execution) and II ([BR-X1039](#), approved in 2017 for US\$900 million, in execution); Fiscal Modernization Project of the State of São Paulo ([1543/OC-BR](#), approved in 2004 for US\$20 million, closed); Fiscal Management in the State of Bahia ([1727/OC-BR](#), approved in 2006 for US\$12 million, closed); and the projects for the Fiscal Balance Consolidation of the states of Amazonas ([3139/OC-BR](#), approved in 2013 for US\$184 million, closed), Alagoas ([3061/OC-BR](#), approved in 2013 for US\$250 million, closed) Bahia ([1727/OC-BR](#), approved in 2006 for US\$12 million, closed), Pernambuco ([3039/OC-BR](#), approved in 2013 for US\$400 million, closed) and Rio Grande do Sul ([2850/OC-BR](#), approved in 2012 for US\$200 million, closed). Finally, with the municipalities, the Bank supported their Administrative and Fiscal Management Modernization Program (PNAFM I [1194/OC-BR](#), approved in 1999 for US\$300 million, closed; II [2248/OC-BR](#), approved in 2009 for US\$150 million, closed; and III [3391/OC-BR](#), approved in 2014 for US\$150 million, in execution, with 67.54% disbursed). While the experience centered mostly on fiscal management

modernization, which enhanced public resource efficiency at all levels of government, the current TC complements said work by providing innovative solutions in risk management, technological modernization, macro data usage and digitalization in the tax administration.

III. Description of Activities/Components and Budget

- 3.1 **Component I: Technological modernization of IT (US\$120,000).** The objective of this component is to provide technical assistance to assess the current digital maturity and studies to improve the use of digitalization in the RFB activities through the following activities: (i) access the current digital maturity; (ii) develop a cross-country comparative studies of systems that tax administrations in the region use; (iii) provide technical assistance that serve as an input for developing a quantitative model for monitoring and forecasting the impact of changes in the tax policy; and (iv) disseminate studies. Expected results include: (i) one assessment of the current technological and digital situation; (ii) one comparative study on the IT systems used by the tax administration in the region delivered; (iii) technical assistance provided to develop one quantitative model for monitoring and forecasting the impact of changes in the tax policy; and (iv) one seminar held to disseminate the results.
- 3.2 **Component II: Risk and registration management (US\$60,000).** The objective of this component i is to provide technical assistance to strengthen RFB capacity to improve the accuracy of taxpayers registers and cadastral bases, as well as the use of risk management methodologies daily basis, through the following activities: (i) improving tax and customs registries and their integration with public registries, private individuals and other cadastral bases, including mechanisms, procedures and good practices; (ii) updating the registries managed by the RFB: individuals, legal entities, urban and rural properties, and customs agents; (iii) developing methodologies for institutional and risk management compliance; and (iv) dissemination of results. Expected results include: (i) a plan to improve tax and customs registries and their integration with public registries, private individuals, and other cadastral bases, including mechanisms, procedures, and good practices delivered; (ii) a plan to update the taxpayer registries (individuals and legal entities), urban and rural properties, and customs agents managed by the RFB developed; (iii) methodology to the management of institutional and compliance risks developed; and (iv) workshop to disseminate the results organized.
- 3.3 **Component III: Tax litigation (US\$70,000).** The objective of this component is to provide technical assistance to improve the effectiveness of the tax litigation process through the following activities: (i) preparing comparative studies on administrative and judicial tax litigation models of other tax and customs administrations and proposals for improvement of the model currently in use; and (ii) preparing a study containing analysis (quantitative and qualitative), recommendations and specification of tools for digital monitoring of themes; and (iii) dissemination of results. Expected results

include: (i) a comparative report on administrative and judicial tax litigation models developed; (ii) a study containing an analysis, specification and recommendations report on digital monitoring tools delivered; and (iii) report and blog published.

- 3.4 **Indicative budget.** The budget of the operation is US\$250,000 which will be financed by the Bank through Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Strategic Program for Development financed with Ordinary Capital (OC-SDP).

Indicative Budget (US\$)

Component	Description	IDB / OC SPD-W2	Count. Funding	Total Funding
Component I: Technological Modernization of IT	Diagnosis, comparative study on the IT systems used by the tax administration in the region, proposal to develop a quantitative model for monitoring and forecasting the impact of changes in the tax policy and workshop	120,000.00	0.00	120,000.00
Component II: Risk and Registration Management	Plan to improve tax and customs registries, plan to update the registries managed by the RFB, methodologies for institutional and risk management compliance and workshop	60,000.00	0.00	60,000.00
Component III: Tax Litigation	Comparative report on administrative and judicial tax litigation models, study containing quantitative and qualitative analysis, recommendations, and specifications of tools for digital monitoring, and report and blog	70,000.00	0.00	70,000.00
Total		250,000.00	0.00	250,000.00

- 3.5 **Monitoring and evaluation.** The TC Monitoring and Reporting System (TCM) (OP1385-4) will indicate the degree of achievement of the objectives and financial execution of the project. The products and results achieved with TC will be communicated and disseminated in a timely manner with all stakeholders.

IV. Executing Agency and Execution Structure

- 4.1 **Executing Agency.** Upon the beneficiary's request, the IDB, through the Fiscal and Municipal Management Division (IFD/FMM), will execute the TC in accordance with the Banks Policy for Technical Cooperation (GN-2470-2) in addition to the corresponding Operational Guidelines (OP-619-4). In line with the criteria established in Annex II of the Procedures for Processing TC Operations (OP-619-4), execution by the Bank is justified because: (i) compliance with internal requirements (signing of a formal technical cooperation agreement, which on average takes six months) would delay the execution of the TC, jeopardizing the achievement of its objectives; and (ii) the requesting entity does not have the necessary technical, operational and institutional capacity to duly and timely execute the activities provided in the respective project. In addition, the Bank's execution is justified by the fact that most consultancies are expected to be international. The Bank's execution will allow for a rapid response and implementation of the activities for the RFB.
- 4.2 **Supervision.** The sector specialist responsible for executing this TC is based in Brazil's Country Office (CBR). For all technical aspects, the team leader will be supported by the project team, including several sector specialists in the policy areas covered by the TC, based in Brazil and at Headquarters. For administrative aspects, CBR's TC management team will provide support as part of its regular activities. No additional costs in the transactional budget are expected for execution. Annual monitoring reports and the final execution report will be prepared in the context of the Bank's TC monitoring and evaluation cycle.
- 4.3 **Procurement.** The activities to be executed under this operation will be included in the procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods for the hiring of individual consultants, as established in the Complementary Workforce (CW) (AM-650); and the contracting of logistics services and other services other than consulting, in accordance with the IDB Corporate Procurement Policy, GN-2303-28. In addition, as stipulated in Annex II of OP-619-4, we confirm that individual consultants will not (i) perform functions like those of Bank staff or the Beneficiary; and (ii) will not be engaged to act as a counterparty to the Bank on behalf of the Beneficiary. If the need arises, the hiring of consulting firms for services of an intellectual nature must be carried out according to the updated version of the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and its associated operational guides (OP-1155-4).

V. Project Risks and Issues

- 5.1 The main risk associated with this TC is: (i) demand for technical assistance or workshops may exceed existing TC resources; and (ii) delays in execution in the context of a possible change of federal government authorities in 2023. However, considering the high interest and active engagement of the competent entities to be beneficiaries of this TC, the risk will be mitigated by: (i) prioritization by the RFB of the different activities under this project and online meetings and remote consulting to

decrease costs; and (iii) focusing on technological and operational aspects that will help reduce possible delays.

- 5.2 **Sustainability.** To contribute to the sustainability of the products financed by this TC among the Brazilian public institutions, all activities will be carried out with the support of public servants in the Ministry of Economy, *Secretaria Especial da RFB* and tax administration officials. This project will provide methodological guidelines and recommendations, and it will substantially support the training of human resources to increase the efficiency of the RFB. This TC is included in the Strategic Plan of the RFB to ensure sustainability and continuity as part of the strategic actions.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 This TC will not finance feasibility or pre-feasibility studies of investment projects or associated environmental and social studies; therefore, it does not have applicable requirements of the Bank's Environmental and Social Policy Framework (MPAS).

Required Annexes:

Request from the Client - BR-T1515¹

[Results Matrix - BR-T1515](#)

[Terms of Reference - BR-T1515](#)

[Procurement Plan - BR-T1515](#)

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¹ La información contenida en este Anexo es de carácter deliberativo, y por lo tanto confidencial, de conformidad con la excepción relativa a "Información Deliberativa" contemplada en el párrafo 4.1 (g) de la "Política de Acceso al Información" del Banco (Documento GN-1831-28).