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BRAZIL

PROFISCO – RIO GRANDE DO SUL FISCAL MANAGEMENT STRENGTHENING PROJECT OF THE STATE OF RIO GRANDE DO SUL (PROFISCO/RS - BR-L1251)

INDIVIDUAL LOAN UNDER THE CCLIP FOR THE PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION OF TAX ADMINISTRATIONS IN BRAZIL (PROFISCO – BR-X1005)

LOAN PROPOSAL

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REQUIRED TECHNICAL REFERENCES	Link
1. Program plan of action and investment plan (PAI) - 4 years, and Annual Work Plan (AWP) - 18 months	IDBDocs35056841
2. Monitoring and Evaluation System	IDBDocs35056842
3. Procurement Plan - 18 months (descriptive)	IDBDocs35056856
OPTIONAL TECHNICAL REFERENCES	Link
1. Institutional-fiscal macro diagnostic assessment	IDBDocs35056961
2. Problems, solutions, and outcomes matrix	IDBDocs35056962
3. Indicators table	IDBDocs35056843
4. Operating Regulations of the PROFISCO CCLIP Annex I - Frame of Reference of the PROFISCO CCLIP	IDBDocs35056964 IDBDocs35056963
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6. Institutional arrangements and implementation mechanism	IDBDocs35056966
7. State law authorizing the loan operation	IDBDocs35056967
8. Fiscal Restructuring and Adjustment Program (PAF) 2009-2011	IDBDocs35056968
9. 2008-2011 Multiyear Plan	IDBDocs35058697
10. Summary presentation of the PROFISCO CCLIP	IDBDocs35056969
11. Project completion report (PCR) on the National Fiscal Administration Program for Brazilian States - PNAFE (980/OC-BR)	IDBDocs35056970
12. Project completion report (PCR) on the PNAFE subproject in the State of Rio Grande do Sul (980/OC-BR)	IDBDocs35056971
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15. Decree creating the PROFISCO/RS program coordination unit (PCU)	IDBDocs35056960
16. Comparative indicators table	IDBDocs35113387
17. Environmental classification and social safeguard	IDBDocs35163536

ABBREVIATIONS

ABNT	Brazilian Technical Standards Association
AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CECOM	Central de Compras do Estado [State Procurement Office]
COGEF	Comissão de Gestão Fazendária [Finance Management Commission]
CONARQ	Conselho Nacional de Arquivos [National Archives Council]
CONFAZ	Conselho Nacional de Política Fazendária [National Financial Policy Council]
ECD	Escrituração Contábil Digital [digital bookkeeping]
EFD	Escrituração Fiscal Digital [digital tax accounting]
ESAF	Escola de Administração Fiscal [School of Public Finance Administration]
GDP	Gross domestic product
HDI-UNDP	Human Development Index of the United Nations Development Programme
ICB	International competitive bidding
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [Goods and services sales tax]
IPVA	Imposto sobre a propriedade de veículos automotores [motor vehicle ownership tax]
ITMCD	Imposto sobre transmissão causa mortis e doação [inheritance and gifts tax]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NCB	National competitive bidding
NCI	Net current income
NF-e	Fatura Fiscal Eletrônica [Electronic tax invoice]
PAF	Programa de Reestruturação e Ajuste Fiscal [Fiscal Adjustment and Restructuring Program for the Brazilian States]
PAI	Plan of action and investment plan
PC	Price comparison (shopping)
PCU	Project coordination unit
PGE/RS	Procuradoria Geral do Estado de Rio Grande do Sul [Office of the State Attorney General of Rio Grande do Sul]
PMAE/BNDES	Programa de Modernização da Administração das Receitas e da Gestão Fiscal, Financeira e Patrimonial das Administrações Estaduais [Program for the Modernization of Revenue Administration and Fiscal, Financial, and Asset Management in State Administrations]
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for Brazilian States]
PRODEV	Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness

PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Tax Administrations in Brazil]
PROFISCO/RS	Proyecto de Fortalecimiento Fiscal a la Gestión del Estado de Rio Grande do Sul [State of Rio Grande do Sul Fiscal Management Strengthening Project]
RS	State of Rio Grande do Sul
SEFAZ/RS	Secretaria de Estado de Fazenda do Rio Grande do Sul [State of Rio Grande do Sul Finance Department]
SIRE	Sistema integrado da receita estadual [Integrated state revenue system]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
STN	Secretaria do Tesouro Nacional [National Treasury Department]
UNDP	United Nations Development Programme
WB	World Bank

PROJECT SUMMARY

BRAZIL PROFISCO – RIO GRANDE DO SUL FISCAL MANAGEMENT STRENGTHENING PROJECT OF THE STATE OF RIO GRANDE DO SUL (PROFISCO/RS - BR-L1251)

INDIVIDUAL LOAN UNDER THE CCLIP FOR THE PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION OF TAX ADMINISTRATIONS IN BRAZIL (PROFISCO – BR-X1005)

Financial Terms and Conditions					
Borrower: State of Rio Grande do Sul Guarantor: Federative Republic of Brazil Executing agency: Finance Department of the State of Rio Grande do Sul (SEFAZ/RS)			Amortization period:	20 years	
			Grace period:	5 years	
			Disbursement period:	5 years	
Source	Amount	%	Inspection and supervision fee:	*	
IDB (Ordinary Capital)	US\$ 60,000,000	89	Interest rate:	LIBOR	
Local	US\$ 6,666,000	11	Credit fee:	*	
Total	US\$ 66,666,000		Currency:	U.S. dollars from the Single Currency Facility of the Ordinary Capital	
Project at a glance					
Project objective/description: The general objective of the project is to help strengthen fiscal management in the state of Rio Grande do Sul (RS), with a view to attaining sustainable fiscal targets and thus higher levels of investment to improve the state’s economic growth rates. Its specific objective is to make fiscal management in the RS more efficient and transparent, in order to: (i) increase the state’s own revenue; (ii) enhance efficiency and control of public expenditure; and (iii) provide better services to citizens. The project comes under the conditional credit line for investment projects (PROFISCO CCLIP - BR-X1005), approved by the Bank’s Board of Executive Directors on 5 November 2008. It has the following four components: 1. Integration of fiscal management: (i) organizational development and integration of finance management; and (ii) national and international interagency cooperation. 2. Tax administration and tax litigation: (i) more efficient and effective tax administration (ii) better management of the taxpayer master file and installation of the digital public accounting system (SPED); and (iii) more efficient and effective management of tax litigation. 3. Financial and property management and internal oversight of fiscal management: (i) more efficient and effective financial administration; (ii) more efficient and effective management of materials and property in the finance area; and (iii) better internal control and audit mechanisms. 4. Management of corporate resources: (i) enhancement of transparency mechanisms in fiscal management and communication with society; (ii) stronger information and communication technology services in SEFAZ/RS; (iii) better human resource management and (iv) strengthening of knowledge management in the finance area.					
Special contractual clauses: Audit period: A period of 180 days will be provided for annual audits and the audit following final disbursement (see paragraph 3.11). Exceptions to Bank policies: The borrower has requested authorization to use Brazilian federal legislation on procurement, as described in paragraphs 2.2 and 2.3.					
Project qualifies as: Not applicable. SEQ [] PTI [] Sector [] Geographic [] Headcount []					

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

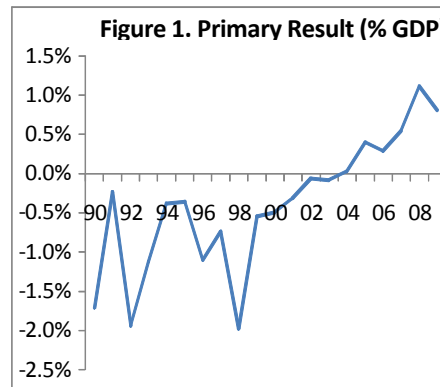
I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 This program forms part of the PROFISCO CCLIP (BR-X1005), approved by the Bank's Board of Executive Directors on 5 November 2008. One of the PROFISCO objectives is to build upon actions taken under the Bank-financed National Fiscal Administration Program for Brazilian States (PNAFE), which is regarded as a major source of support for the federal government's Fiscal Adjustment and Restructuring Program for the Brazilian states (PAF).

- 1.2 **Socioeconomic context.** The gross domestic product (GDP) of the state of Rio Grande do Sul, estimated at R\$202 billion in 2009 (6.4% of national GDP), makes the state Brazil's fourth largest economy, behind São Paulo (35%), Rio de Janeiro (10.5%), and Minas Gerais (9%). The sum of goods and services produced in the state generates a per capita income of R\$18,700 per year, compared to a national average of R\$13,700. Its economic structure is dominated by services (61.6% of GDP), followed by industry (20.7%), and agriculture (9.6%). The latter sector generates burgeoning exports of soybean, wheat, and rye. In 2009, the volume of exports rose to R\$15.2 billion, equivalent to 9.9% of the national total. The United Nations Development Programme's human development index (HDI-UNDP) for 2008 ranked RS fourth in terms of quality of life (0.814), compared to a national average of 0.766.

- 1.3 Despite its strong position in relation to other states, in recent years the RS economy has slipped in terms of growth and competitiveness. Annual average GDP growth between 1994 and 2008 was 2.3%, compared to 3.2% nationally. The rate of public investment is the lowest among all Brazilian states and has been trending downward. Whereas in the 1980s it accounted for 22% of net current income (NCI), in the 1990s it accounted for 15% and by 2000-2008, just 5%.



- 1.4 **Fiscal context.** The state's fiscal situation in 1990-2003 was weak (see Figure 1), resulting from the borrowing policy implemented in that period, which led to deteriorating public finances as total debt grew from 15.5% of GDP in 1990 to 23.5% in 2002. This was compounded by pay adjustments for civil servants which, since 1995, have been indexed to revenue from the goods and services sales tax (ICMS) and the consumer price index.
- 1.5 Implementation of the Fiscal Responsibility Law (LRF) in 2001 limited the state's capacity to take on additional debt, since the ratio of consolidated net debt to NCI was already 9.5% above the permitted limit. As from 2003, RS began a sharp adjustment in its public finances, mainly affecting payroll expenses, which were cut

from 79.1% of NCI in 2002 to 65% in 2009, and renegotiated 55% of its excess debt.¹ These actions combined to help improve the state's public finances, which posted a primary surplus averaging 0.6% in the last five years and a slight overall surplus in 2009—the first in over 40 years.

- 1.6 Although the state's public finances have improved in recent years, there are still structural barriers affecting their sustainability. On the income side, collection levels are low mainly because of: (i) a tax policy that grants numerous tax credits and exemptions — accounting for about 38% of potential revenue in the case of ICMS and 26% in the case of the motor vehicle ownership tax (IPVA); (ii) lower tax revenue resulting from Federal Law 87/96 (September 1996), which exempts goods and services destined for export from payment of the ICMS;² and (iii) continuous losses of tax revenue arising from inefficiencies in collecting the ICMS, estimated to represent 30% of potential revenue from this tax.³ On the expenditure side, although in recent years it has been possible to reduce payroll expenses in relation to NCI, there is a latent risk attributable to higher social security spending, which has risen from 41% of total payroll expenditure in 1994 to 52% in 2008.
- 1.7 Items (i) and (ii) of the previous paragraph are problems relating to tax policy at both the federal and state levels, in areas where PROFISCO does not directly act, since it is a program to strengthen fiscal management in the states, mainly in relation to tax administration and public expenditure control. Although it has no actions to directly strengthen tax policy measures, this project's actions as a whole aim to improve the state's macroeconomic scenario.
- 1.8 **Institutional analysis.** Fiscal management in Rio Grande do Sul is undertaken by: (i) SEFAZ/RS, which is responsible for revenue collection from state taxes, taxpayer compliance-monitoring, distribution of resources among public agencies as specified in the fiscal budget exercise, payment of state suppliers, and accounting and control of public resources; and (ii) the State Attorney General's Office (PGE/RS), which is responsible for defending the interests of the state by providing legal advice and both judicial and out-of-court representation of public agencies. In the tax administration domain, the PGE/RS is responsible for recovering adjudicated tax debt.
- 1.9 **Progress and outstanding tasks in RS fiscal management.** In 2008 the state's fiscal indicators performed poorly compared to those of other Brazilian states (see [electronic link](#)). The following stands out: expenditure on wages and other

¹ Excess debt, equivalent to R\$2.3 billion, is the portion of total state debt not guaranteed by the federal government.

² According to SEFAZ/RS data, in the period 1998-2005, Law 87/96 caused net losses averaging around US\$459 million per year to the State.

³ For further information see the message accompanying the presentation of the 2009 budget (www.seplag.rs.gov.br).

remuneration, the larger share of expenditure on social security, the higher financial liability recorded, and the high level of commitment to debt service — all of which contribute to the deterioration of public finances. On each of these indicators, RS was among the lowest ranked Brazilian states.

- 1.10 In relation to the main indicators that measure the effectiveness of a tax administration, SEFAZ/RS obtained the following results: (i) the nominal level of total ICMS collection grew from R\$4 billion in 1997 to R\$14.8 billion in 2008, placing RS fourth among states in terms of nominal collection. Nonetheless, when the ICMS collection level is compared to GDP, the indicator places RS 18th out of the 27 Brazilian states; (ii) in the last four years, revenues from the IPVA and the gifts and inheritance tax (ITMCD) have decreased in relation to GDP;⁴ and (iii) tax revenue in 2008 accounted for 73.9% of the state's total income, distributed as follows: ICMS (85%); IPVA (5.9%); ITCMD (0.4%) and others (8.7%).
- 1.11 Between 1997 and 2007, fiscal management in Rio Grande do Sul embarked on a process of institutional strengthening partly financed by the Bank through the PNAFE. The main progress included: (i) preparation of an organizational strategic plan setting fixed targets for each SEFAZ/RS unit; (ii) creation of the state fiscal education program; (iii) partial implementation of electronic invoicing (NF-e) and digital tax accounting (EFD); (iv) establishment of a fiscal intelligence system; (v) definition of targets for reducing public expenditure and defining expenditure quality indicators; (vi) computerization and better control of public debt; and (vii) implementation of a single account system for controlling financial flows. The PROFISCO/RS program complements actions already undertaken on state fiscal management.
- 1.12 **Main challenges in SEFAZ/RS fiscal management.** The state needs to strengthen its fiscal management to achieve sustainable fiscal targets and thus raise investment levels to improve its economic growth rates. The two main fiscal management challenges for SEFAZ/RS are to: (i) improve levels of tax revenue collection; and (ii) strengthen its financial administration and public debt management capacity.
- 1.13 These challenges reflect the following constraints on SEFAZ/RS administration: (i) difficulties in comprehensively coordinating finance management processes; (ii) shortcomings in the inspection of goods in transit and audit processes; (iii) difficulties in the processes of inspecting micro and small enterprises in the primary production sector; (iv) low recovery rates on tax claims and shortcomings in the administration of legal liabilities; (v) loss of tax revenue owing to shortcomings in the management and control of payment flows from legal liabilities; (vi) management decision-making without a knowledge base cost; (vi) difficulty in controlling the administrative appeals process; and (vii) lack of transparency in reporting budgetary allocations and expenditures to the public at large.

⁴ Between 2005 and 2008, IPVA revenue fell from 6.7% to 6.1% of GDP, and ITCMD revenue dropped from 8.4% to 5.6% of GDP.

- 1.14 An analysis of the conditions imposed by the LRF for contracting loans shows that RS fulfils all requirements under the law. The state has also been fulfilling the commitments assumed with the federal government under the PAF. The targets reviewed by the National Treasury Department (STN) currently show the following results:

Table 1.1: Fiscal Targets (Article 4 of the LRF) - Evaluation and Attainment of Targets*

Specification	Forecast 2009	% GDP	Achieved 2009	% GDP	Variation
Primary income	23,077	10.92	23,159	11.41	82
Primary expenditure	21,257	10.06	21,532	10.61	-299
Primary result	1,820	0.86	1,628	0.80	-192
Nominal result	2,961	1.40	-888	-0.44	-2.073
Consolidated public debt	N/A	N/A	39,645	19.53	N/A
Net consolidated debt	40,112	18.98	38,170	18.81	-1.942

* Values in thousands of reais. Source: SEFAZ/RS

B. Objective, components, and cost

- 1.15 **Objectives and expected outcomes.** The project's general objective is to help strengthen fiscal management in the State of Rio Grande do Sul, to help achieve sustainable fiscal targets and thus raise investment levels to improve the state's economic growth rates. Its specific objective is to improve the efficiency and transparency of fiscal management in RS, in order to: (i) increase the state's own revenue; (ii) improve the efficiency and control of public expenditure; and (iii) provide better services to citizens.
- 1.16 The program involves substantial investment in the development of training programs and systems to support the process of strengthening SEFAZ/RS management.⁵
- 1.17 **Program structure.** The program has four components with their respective subcomponents. Its activities are the direct responsibility of SEFAZ/RS and PGE/RS.
- 1.18 **Component I - Integration of fiscal management (US\$1,029,000).** This component seeks to strengthen working methods and strategic management support tools, and to improve the generation and quality of information for the decision-making process. It consists of the following two subcomponents:
- a. **Organizational development and integration of finance management.** The activities to be funded include: (i) implementation of the finance planning model; and (ii) implementation of work processes and adjustment of SEFAZ/RS organizational structures.

⁵ The training programs and systems are included in the comprehensive plans.

- b. **National and international interagency cooperation.** The activities to be funded in this subcomponent involve the implementation of an interagency exchange program to encourage the identification and dissemination of innovative finance management solutions being implemented in other states or countries.
- 1.19 **Component II - Tax administration and litigation (US\$31,017,000).** This component seeks to improve the performance of tax administration and increase collection levels, through :
- a. **More efficient and effective tax administration.** The activities to be financed are: (i) improvement of the goods-in-transit inspection model, particularly at the inspection posts handling the largest flows; (ii) modernization of the SEFAZ/RS and PGE/RS communication structure; and (iii) development and implementation of a new integrated model for managing state revenue.
 - b. **Better management of the taxpayer master file and implementation of the SPED.** Funding will be provided for implementing the EFD, digital bookkeeping (ECD), and electronic documentation (*Nota Fiscal Gaucha* [state tax invoice], *NF-e Produtor* and SPED) systems.
 - c. **More efficient and effective management of tax litigation.** This subcomponent will finance implementation of the following: (i) a new model for managing and controlling tax litigation and legal advisory services; and (ii) development and implementation of an ongoing training plan for PGE/RS employees.
- 1.20 **Component III - Financial and property management and internal oversight of fiscal management (US\$19,436,000).** This component seeks to improve financial management performance and strengthen oversight of public expenditure through:
- a. **More efficient and effective financial administration.** Funding will be provided to develop and implement: (i) a new liabilities management system; (ii) a new comprehensive budget programming model with strengthened monitoring and evaluation areas; (iii) an information portal, including the creation of new management cubes, which are dynamic tables based on the Structured Query Language (SQL) system, and the use of better analytical tools; (iv) an enhanced state human resource management system; and (v) the implementation of new modules and functions for the state public finance system.
 - b. **More efficient and effective management of materials and property in the finance area.** This subcomponent will finance: (i) the development of a new system of property and contract management; (ii) centralization of and adaptation to the rules of the National Archives Council (CONARQ) for storing SEFAZ/RS's physical and digital files; (iii) the institutional security

plan; and (iv) upgrading of the physical facilities for civil servants and to provide taxpayers services.

- c. **Better audit mechanisms and internal control of fiscal management.** The activities to be financed include: (i) implementation of a new audit model based on risk analysis; (ii) adoption of a new chart of accounts; (iii) development and implementation of a cost accounting system; and (iv) establishment of an electronic system for processing administrative procedures.

1.21 **Component IV - Management of corporate resources (US\$14,257,000).** This component aims to strengthen the support system processes and instruments that help to improve institutional performance and interaction with society. It has the following subcomponents:

- a. **Upgrading of mechanisms for transparency in fiscal management and communication with society.** Funding will be provided for the new design and implementation of the Internet transparency portal.⁶
- b. **Strengthening of information and communication technology services in SEFAZ/RS.** This subcomponent aims to increase planning and technological management capacity to adapt its technological platform to the new user information and mobility requirements, increasing levels of integration and information security of its systems. The following activities will be financed: (i) implementation of a plan for strategic alignment and medium-term investments in communication and information technology; (ii) preparation and adoption of a security policy; and (iii) implementation of a Datacenter.
- c. **Improvement of human resource management.** This subcomponent will finance the following activities: (i) development and implementation of a skills-based management policy; and (ii) adoption of a permanent training plan in accordance with the skills matrix.
- d. **Strengthening of knowledge management in the finance area.** This subcomponent will finance a new systemized knowledge management model.

1.22 **Project budget:** The total cost of the project is estimated at US\$66,666,000, of which the Bank will finance up to the equivalent of US\$60,000,000, charged against the Single Currency Facility of the Bank's Ordinary Capital. Counterpart funding of US\$6,666,000 will be provided by the State of RS. Program financing is structured as follows:

⁶ Training, equipment, expansion of information services, improvements to the taxpayer services quality model, design and development of a fiscal communication and education policy for the community, and strengthening of the taxpayer service program by telephone and self-service kiosks.

Table 1.2: Financial Structure (US\$000)

CATEGORIES*	IDB	Local	TOTAL	%
1- Project administration	327		327	0.5
1.1 Project management	45		45	
1.2 Monitoring and evaluation and audits	282		282	
1.2.1 Monitoring and evaluation	105		105	
1.2.2 Audits	177		177	
2- Direct costs	59,073	6,666	65,739	98.61
2.1 Integration of fiscal management	1,029		1,029	
2.2 Tax administration and tax litigation	31,017		31,017	
2.3 Financial and property management, and internal oversight of fiscal management	12,770	6,666	19,436	
2.4 Management of corporate resources	14,257		14,257	
3- Unallocated	600		600	0.9
TOTAL	60,000	6,666	66,666	100
PERCENTAGE	90%	10%	100%	

*Financial costs will be paid by the borrower outside the program.

- 1.23 **Disbursement programming.** Disbursements will be made over a period of five years from the date of signature of the loan contract, according to the disbursement schedule shown in Table 1.3.

Table 1.3: Disbursement Schedule (US\$000)⁷

SOURCE	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	9,928	13,772	14,908	12,110	9,282	60,000	90%
LOCAL	2,884	2,498	642	642	-	6,666	10%
TOTAL	12,812	16,270	15,550	12,752	9,282	66,666	100%
%	19%	25%	23%	19%	14%	100%	

- 1.24 **Financial analysis.** The project team compared the incremental financial costs and benefits from implementation of four of the project's highest-impact outputs. The financial analysis considered: (i) the increase in ICMS collection arising from implementation of the integrated state revenue system (SIRE); (ii) increase in ICMS collection arising from full implementation of the electronic tax invoice (NF-e); (iii) increased legally enforced tax collection; and (iv) lower telecommunications costs arising from savings produced by the implementation of INFOVIA.* The parameters used in the calculation were: (i) a 10-year horizon; (ii) annual GDP growth of 3.5% per year; (iii) a 12.5% annual discount rate; and (iv) an average interest rate of 5.6% per year.

⁷ The amounts shown in this table include only direct costs and administration costs of the project.

* System of digital lines through which data from electronic networks are transmitted.

- 1.25 The financial analysis document contained in the additional technical references estimates that the project will have produced a cumulative net financial return of US\$8 million in the seventh year of execution (2016) in present value terms and US\$44 million by the end of the 10th year. The project is therefore financially justified based only on the estimated benefits of just two of the outputs to be financed.

C. Key indicators of the project's results framework

- 1.26 The most important outputs expected at the end of project execution are as follows: (i) an increase in legally enforced collection from R\$70.8 million to R\$114.0 million per year; (ii) an increase in ICMS collection as a result of implementation of the SIRE and NF-e of approximately R\$75 million per year; (iii) 70% of direct administration expenses identified through the new cost accounting system; (iv) taxpayer access to timely online information on the income and expenditure of state public administration; (v) at least 10% of retail trade firms are using the RS state tax invoice [*Nota Fiscal Gaucha*]; (vi) 100% of tax procedures performed through the integrated state income system; and (vii) lower SEFAZ/RS and PGE/RS telecommunication costs thanks to the implementation of INFOVIA, with annual savings equivalent to R\$6.4 million.
- 1.27 As part of its efforts to improve its public finance profile, in 2008 RS contracted a loan from the World Bank (WB) for US\$1.1 billion, to support the state in the following areas: (i) fiscal sustainability based on the PAF; (ii) public debt restructuring; (iii) social security strengthening; and (iv) more efficient public administration. Both PROFISCO/RS and the WB loan aim to make revenue collection more efficient and improve the quality of public expenditure. Table 1.4 shows the similarity of the projects' objectives and how they complement each other in terms of outcomes.

Table 1.4: Actions proposed in the PROFISCO and WB projects

Area	PROFISCO		WB	
	Objectives	Actions	Objectives	Actions
Income	Raise levels of tax revenue. Strengthen processes of tax management and identification and suppression of illegal practices.	Increase ICMS collection by implementing the SIRE and NF-e. Increase the productivity and effectiveness of finance administration. Increase levels of legally enforced tax collection.	Increase collection to improve public finances and expand the fiscal headroom available for new investments.	Reduce tax expenditure in relation to tax income. Improve transparency by explicitly including tax expenditure in the State budget.

Area	PROFISCO		WB	
	Objectives	Actions	Objectives	Actions
Expenditure	Strengthen capacities in financial administration, public expenditure, and management of the public debt.	Implement the new cost accounting system. Make financial administration more efficient and effective. Improve mechanisms for audit and internal oversight of fiscal management.	Improve the makeup of expenditure, reduce the pressure of current income on the state's finances, maximize the monetary value of state procurement.	Reduce payroll expenses as a proportion of state income. Reduce the share of current expenditure in total expenditure. Improve the quality of the procurement system.

II. FINANCING STRUCTURE AND MAIN PROJECT RISKS

A. Financing, procurement, and contractual conditions

- 2.1 **Procurement.** Procurement for goods, works, and nonconsulting services, and the contracting of consulting services will be undertaken in accordance with the respective Bank policies (documents GN-2349-7 and GN-2350-7) approved in July 2006. International competitive bidding (ICB) will be used for goods and nonconsulting services costing an estimated US\$5 million or more, and for works valued at US\$25 million or more. National competitive bidding (NCB) will be used for the procurement of goods and nonconsulting services with an estimated cost of between US\$100,000 and US\$5 million. For amounts below US\$100,000, the price comparison (shopping) method can be used. In the case of works, NCB will be used for amounts ranging from US\$500,000 to US\$25 million; below this value, shopping procedures will be used. An international call for proposals will be required to select consulting services costing US\$200,000 or more. For contracts below US\$1 million the shortlist of consulting firms may consist entirely of national consultants.
- 2.2 **Federal legislation.** As noted above, the borrower may use Brazilian federal legislation for works not exceeding US\$25 million per contract, and for goods and nonconsulting services not exceeding US\$5 million per contract, provided the principles of competency, economy, transparency, equality, publicity, and due process are respected, as established in the Bank's procurement policies and in the federal legislation of the borrowing country. In addition, participation by bidders from other eligible member countries of the Bank will be permitted, and no minimum and/or maximum price ranges may be established. The borrower will indicate in the corresponding procurement plan whether it will use Brazilian federal legislation or abide by the Bank's policies.

- 2.3 The Bank may also recognize as financing the purchases of generic goods and services made through the procurement modalities provided for under federal legislation, provided the corresponding standard bidding document is used, in: (i) electronic procurement; and (ii) the price registration list for procurements that have previously not been objected to by the Bank. At any time during the execution period, the Bank may review the use of one or more of the modalities described in this paragraph.
- 2.4 **Bank review.** The first three contracts for the procurement of goods, contracting of services, or works execution will be subject to prior review (ex ante), irrespective of their amount or whether Bank procurement policies or federal legislation are used, as well as the first three processes for selecting program consulting services; thereafter, all direct contracting and procurements in amounts above US\$250,000 for consulting firms and US\$200,000 for individual consultants will also be reviewed on the same basis.
- 2.5 **Recognition of expenses and reimbursement from the financing.** The Bank may recognize up to US\$4 million as a charge against the loan and up to US\$2 million against the local counterpart, in respect of expenditures incurred by the borrower in preparing the project. Expenses will only be recognized if they were incurred up to 18 months before the date on which the Board of Executive Directors approved this operation, and not prior to the date of approval of the project profile by the Bank's Management (4 February 2010).⁸ Retroactive expenses have been incurred by the state to improve the quality of the project and make headway before its approval. These included preinvestment activities, such as preliminary consulting services, equipment purchase orders and the contracting of civil works to upgrade SEFAZ/RS physical facilities, to ensure availability in line with the project's execution schedule and the possibility of obtaining a significant economic advantage. These procedures are consistent with the provisions contained in the Bank's policy on retroactive expenses (OP-504).
- 2.6 **Direct contracting.** The borrower may directly contract the School of Public Finance Administration (ESAF) of the Federative Republic of Brazil's Ministry of Finance, to provide training for state government personnel, and ACECO TI Organização, Segurança, e Continuidade Ltda, for the protection of data, equipment, and information services of SEFAZ/RS.
- 2.7 For the engagement of such services, the borrower will submit to the Bank, before the proceeds of the loan are transferred, appropriate legal instruments binding the borrower: (i) to apply the procurement and contracting policies set out in the respective loan contract between the state and the Bank; and (ii) to allow the Bank and project auditors access to documentation supporting such procurement and contracting processes.

⁸ The procurements to be considered for this purpose are indicated in the procurement plan and in the Annual Work Plan for the first 18 months of the project.

- 2.8 The direct contracting of ESAF is justified by the specific nature of the services to be provided (training and knowledge management), which will contribute to project sustainability. The engagement of ACECO TI is justified by the need for the company to comply with the Brazilian Technical Standards Association (ABNT), Brazilian National Standard (NBR) 15,247 Assurance Mark. This is the most comprehensive form of certification and the world's highest vault protection standard. The only company in the country with ABNT NBR 15247 certification for the installation of vault-strong rooms is ACECO TI (Organização, Segurança, e Continuidade Ltda.) The direct engagement of this company is justified in accordance with Bank policy (document GN-2349-7, paragraph 3.6c).
- 2.9 **Specialized agency.** The borrower may use its own resources to directly contract a specialized agency to provide technical support services, exclusively for goods procurement and the selection of consulting firms and individual consultants to undertake activities related to project execution, subject to the following conditions: (i) the Bank must previously approve the contract to be signed between the borrower and the specialized agency in question; (ii) the specialized agency will undertake to abide by the Bank's policies and procedures on procurement and contracting, without this reducing the borrower's responsibility and that of the executing agency to ensure such policies are complied with; (iii) authorization will not be given to contract consulting services to perform routine project execution activities; and (iv) should the specialized agency be the United Nations Development Programme (UNDP), the contract must fulfill the provisions indicated in the letter of agreement signed between the Bank and the UNDP on 20 June 2003.
- 2.10 **State financial system.** In cases where there is proven experience, the Bank encourages the use of country systems to avoid expenditure on parallel systems and contracting of additional staff, thus ensuring the integrity of data and the strengthening of preexisting systems. Projects developed under the PROFISCO CCLIP are evaluated by fiduciary specialists from the Bank's Country Office in Brazil, which, in many cases support the adoption of financial systems used by the states. In the case of RS, the evaluation recommends using the state system, which it considers to be a modern accounting system with a systematic process for quickly and efficiently creating reports on request from SEFAZ/RS. For those purposes, the state accounting system is being made compatible to incorporate the project components.
- 2.11 **Dissemination and technical cooperation.** The borrower may participate in domestic and international fiscal integration and cooperation activities, particularly in the areas of sharing technical solutions, information exchange, knowledge transfer, formation of thematic networks, and interagency cooperation.

B. Environmental and social safeguard risks

- 2.12 On environmental issues, the program obtained a B.13 rating under the criteria of the Bank's sustainable finance toolkit. This is consistent with the evaluation made by the project team, since the operation involves institutional modernization. It is

therefore not considered necessary to prepare an environmental strategy for the project.

C. Fiduciary risks

2.13 The main risks are:

- a. Insufficient capacity in the executing agency to manage a significant increase in contracting compared to previous programs, and familiarity with the Bank's new procurement processes. This risk will be mitigated by providing training on those policies to the SEFAZ/RS team, and by adopting standardized procurement models. The mitigation plan is contained in the descriptive procurement plan.
- b. Poor project management capacity. This risk will be mitigated by providing training to the SEFAZ/RS team on project management and monitoring and by implementing a project monitoring and evaluation system that will systematically track its outcome indicators. These actions support those being undertaken by the technical assistance provided under the program to implement the external pillar of the medium-term action plan for development effectiveness (PRODEV) (BR-T1145) to support implementation of the PROFISCO CCLIP.
- c. Poor integration of the information technology systems to be developed with participation by various areas of SEFAZ/RS, and various training programs to support the implementation of new administrative procedures and functions. This risk will be mitigated by defining and monitoring comprehensive system and training plans that have been developed to harmonize the various areas, and through a management model coordinated by six project managers and project leaders duly trained and coordinated under the proposed institutional scheme.
- d. Poor integration of RS fiscal management at the national level. This risk is being mitigated by the state's affiliation to the Finance Management Commission (COGEF), created within the National Financial Policy Council (CONFAZ) to coordinate and harmonize the technical aspects of state-level fiscal management modernization programs, promote the development of cooperation and integration actions among tax authorities, share solutions and products, and exchange experiences and technical solutions under PROFISCO.

2.14 Fiduciary risk was analyzed by the specialized team from the Bank's Country Office in Brazil, which awarded a moderate-to-low risk rating with no additional recommendations (see technical reference). A detailed description of the results of the analysis and risk matrixes are in the project's technical files.

III. PROJECT IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of the institutional implementation agreement

- 3.1 The borrower in this operation will be the State of Rio Grande do Sul, with the Federative Republic of Brazil serving as guarantor of the financial obligations arising from the loan. The project executing agency will be the state of RS acting through its Finance Department, through the Office of the Secretary. The project coordination unit (PCU) has been set up in that office for the purpose of coordinating and monitoring all actions related to state tax administration modernization programs, under the credit line for the Modernization of Revenue Administration and Fiscal, Financial, and Asset Management in State Revenue Services (PMAE/BNDES) and the PROFISCO CCLIP.
- 3.2 The basic structure of the PCU consists of permanent staff from the State Finance Department and is comprised of: (i) a general coordinator; (ii) a technical deputy coordinator; an administrative-financial deputy coordinator; and (iv) a technical monitoring and evaluation assistant. In addition to this basic structure, six area managers are responsible for the outputs of the subcomponents and components, five from SEFAZ/RS and one from PGE/RS; and the project will be implemented under these project leaders.
- 3.3 The PCU will have the following responsibilities: (i) submit disbursement requests to the Bank with the appropriate supporting documents; (ii) supervise processes for goods tendering and procurement, works tendering and contracting, and the selection and contracting of services for the project, pursuant to the corresponding procurement plan and the Bank's policies on the subject; (iii) properly maintain a financial accounting system for the project that complies with the applicable Bank policies; (iv) file project execution reports; (v) present annual work plans (AWPs) and update the procurement plans; (vi) keep the respective invoices, contracts, and payment orders and present them to the Bank and project auditors when requested; and (vii) ensure that the works and goods procured with project funding are maintained in accordance with generally applicable technical standards.
- 3.4 All processes for the procurement of goods and services and selection of consulting services will be the responsibility of the State Procurement Office (CECOM) attached to the State Human Resource and Administration Department (SARH), working in close coordination with the PCU. CECOM has already fulfilled this role in bidding processes in the national program to support modernization and planning of the Brazilian states and federal district (PNAGE).
- 3.5 **Operating Regulations.** The project will be implemented under operating regulations previously approved by the Bank as part as the PROFISCO CCLIP.

These Operating Regulations⁹ include eligibility criteria for the borrower, the project, and the outputs eligible for financing.

B. Summary of results monitoring arrangements

- 3.6 The project will be evaluated on the basis of the outcome evaluation and measurement plan, which will use the reflective evaluation methodology to measure achievements in relation to the situation prior to the project. Technical reference 3 (Monitoring and evaluation system) contains details of the proposed arrangements. A specific budget will be assigned for these activities (see Table 1.2), which will be the responsibility of the PCU, supported by specialized consulting services.
- 3.7 The project will be evaluated in terms of the targets, frame of reference, and respective annual output and outcome indicators contained in the project's Results Framework. This defines two indicator levels relating to annual targets and the corresponding frame of reference. At the output level, the Results Framework defines a frame of reference, a target, and respective annual stages. Outputs will be evaluated periodically as described in the Table of Indicators (see [electronic link](#)).
- 3.8 The borrower will deliver semiannual status reports to the Bank, with copies to the Executive Secretariat of the Ministry of Finance of the Federative Republic of Brazil. These reports will contain information on the current implementation status of the state's national integration actions, as envisaged in Component II of this project.
- 3.9 **Plan of action and investments (PAI) and AWP for the first 18 months.** The borrower has delivered and the Bank has validated the PAI for the whole project execution period, and a draft AWP for the first 18 months, counted from the date on which the loan contract was signed.
- 3.10 **Procurement plan for the first 18 months.** The borrower has delivered and the Bank has validated the procurement plan for the first 18 months of project execution.
- 3.11 **Audited financial statements.** The borrower will submit the project's audited financial statement to the Bank within 180 days of the close of each fiscal year, audited by an independent firm of public accountants accepted by the Bank or by the RS Auditor General's Office, provided it has been accredited by the Bank. The 180-day period is justified because of the use of the state's financial system, accepted by the Bank for project accounting management, which encourages the use of a single accounting system; and because the state has until 15 April of the following fiscal year to close its books. That date is provided for in paragraph XII of Article 87 of the State Constitution. **As a special contractual condition on the**

⁹ The Operating Regulations have been adopted through State Decree 47,193 of 22 April 2010, published on 23 April 2010.

audit period, a period of 180 days will be granted to conduct annual audits and the audit that follows the last disbursement.

Development Effectiveness Matrix Summary

Indicator	Score	Maximum Score
I. Strategic Relevance	Low	
1. IDB Strategic Development Objectives	0.7	10
Country Diversification	0.7	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.0	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	0.4	10
Country Strategy Sector Diagnosis	0.0	6
Country Strategy sector objective & indicator	0.4	4
II. Development Outcomes - Evaluability	Satisfactory	
3. Evidence-based Assessment & Solution	5.5	10
4. Evaluation & Monitoring Plan	5.3	10
5. Cost-Benefit or Cost-Effectiveness	7.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
III. IDB's Role - Additionality		
7. Additionality	4.0	10
Technical Assistance provided prior to the project	0.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	0.0	3

I. Strategic Relevance: This operation is being executed in Brazil, considered a Group A country, through the "CCLIP " modality. Its objective is not connected to the Bank's current corporate initiatives. The use of country systems is not established. The country strategy is not current for the project approval period.

II. Evaluability: The project has a good diagnostic assessment with identification of the significant deficiencies encountered. For some subcomponents, no outcomes have been identified, because these would be qualitative and are difficult to predict. In any case, in view of the fact that clear outputs are identified, the project's vertical logic is sound. The indicators are all SMART and the project has identified the measurable results well. Monitoring mechanisms have been identified and a budget has been allocated for that purpose. However, there is no specific evaluation plan with the main activities to be carried out and the parties responsible for each of them. There is a cost-effectiveness analysis for the financial component. The project has been classified as a Category C operation. The main social and environmental risks have been identified as well as the mitigation measures required. There are no indicators available to monitor the implementation of such mitigation measures.

III. Additionality: Through the project, the integrated financial administration system of Rio Grande do Sul is expected to improve together with the generation of capacity for results-based planning and management.

	PROGRAM RESULTS FRAMEWORK ¹						
PROJECT OBJECTIVES:	The project’s general objective is to help strengthen fiscal management in Rio Grande do Sul (RS), with a view to attaining sustainable fiscal targets and hence higher investment rates to improve the state’s economic growth rates. Its specific objective is to improve the efficiency and transparency of fiscal management in RS, in order to: (i) increase the state’s own revenue; (ii) improve the efficiency and control of public expenditure; and (iii) provide better services to citizens. ²						
COMPONENT I: Integration of fiscal management							
Subcomponent 1: Organizational development and integration of finance management							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P1.1. Implementation of a new model for work process planning and adjustment of SEFAZ/RS organizational structures	Current planning system (SISPLAN) needs a target prioritization process and a project management module. ³	Review of current strategic planning model.	New strategic planning model approved.		New version of SISPLAN operating in all SEFAZ/RS units.		SISPLAN adapted to the new SEFAZ /RS strategic planning model.
Subcomponent 2: National and international interagency cooperation							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P2.1 SEFAZ/RS participation in programs for interagency exchange of experience and information on fiscal management.	Workshop held to disseminate best fiscal management practices.	At least one dissemination workshop held in the year.	At least one dissemination workshop held in the year.	At least one dissemination workshop held in the year.	At least one dissemination workshop held in the year.	At least one dissemination workshop held in the year.	Disseminate best fiscal management practices among SEFAZ/RS staff. Forums: ENAT, ENCAT, and CIAT.

¹ The indicators used to monitor the project were obtained from the following government information sources: Fiscal adjustment and restructuring program for the Brazilian states (PAF) and the Budget Law (LDO).

² The state projects included in the PROFISCO CCLIP received special authorization from the National Treasury Department of the Ministry of Finance, to sign loan contracts with the Bank outside borrowing limits. It was agreed that, throughout the execution of PROFISCO projects, the states would attain the fiscal targets established with the federal government under the PAF, within the limits of the Fiscal Responsibility Law (LRF).

³ SISPLAN is a computerized system for control and monitoring of SEFAZ/RS strategic planning. It incorporates annual targets relating to the SEFAZ/RS budget.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P2.2 Improvement of the evaluation and feedback system on annual actions and activities related to the strategic plan, by introducing the problems, solutions, and results matrix.	No SEFAZ/RS department or supervision area evaluates the performance of strategic objectives based on the problems, solutions, and results matrix.		Formulation of methodology and evaluation indicators.	One supervision area evaluating the performance of its strategic objectives based on the problems, solutions, and results matrix.		Three departments and three supervision areas evaluating the performance of their strategic objectives based on the problems, solutions, and results matrix.	Three SEFAZ/RS departments (revenue, public expenditure, and CAGE) and three supervision areas (administrative, information technology, and organizational development) evaluating the performance of their strategic objectives based on the matrix.
COMPONENT II: Tax administration and tax litigation							
Subcomponent 3: More efficient and effective administration of tax litigation							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P3.1 Modernization of the SEFAZ/RS - INFOVIA communication structure.	10% of the communication structure is technologically adequate (saturation of communication and data transmission lines, as well as impossibility of implementing new multimedia circulation technologies).				60% of PGE/RS and SEFAZ/RS units and headquarters with modernized and interconnected communication channels.	100% of units with modernized and interconnected communication channels.	100% of decentralized state revenue and PGE/RS units with adequate, modernized, and interconnected communication channels.
P3.2 Development and implementation of a new integrated state revenue management model.	0% of taxpayers with a record in the integrated state revenue system (SIRE) (330,000 taxpayers in July 2009 - potential universe).		Preliminary project and analysis of SIRE.	Analysis and development of SIRE.	Development and piloting of SIRE.	100% with a record in the SIRE.	100% of taxpayers integrated into the SIRE.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
Outcomes							
R3.1 Reduction of budgeted current expenditure as a result of savings in the SEFAZ/RS telecommunication system.	R\$6.4 million telecommunications budget in 2009.					R\$640,000 budget assigned to telecommunications (10% of the annual cost in the base year).	R\$640,000 of cost assigned to telecommunications (10% of the annual cost in the base year).
R3.3 Increase in ICMS collection. ⁴	ICMS collection from the fuel, drinks, perfume, machinery, and electrical material and machine tools segments: R\$6.473 billion					Increase in nominal revenue from the ICMS from R\$6.473 billion to R\$6.548 billion.	Increase in nominal revenue from the identified economic segments to R\$6.548 billion, following the introduction of the SIRE.
Subcomponent 4: Improvements in the management of the taxpayer registry and implementation of the public tax registry and digital accounting system (SPED)							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P4.1 Development and implementation of the electronic accounting and documentation system: RS tax invoice (<i>Nota Fiscal Gaúcha</i>) and Producer electronic tax invoice (<i>NF-e Produtor</i>).	0% of producers authorized to transport livestock using the electronic tax invoice (NF-e).				NF-e pilot scheme implemented.	100% of producers authorized to transport livestock using NF-e.	100% of producers authorized to transport livestock using the NF-e.
P4.2 Better enforcement of tax obligations in the retail trade.	0 Retail trade firms integrated into the <i>Nota Fiscal Gaúcha</i> .					5,000 retail trade firms controlled through the <i>Nota Fiscal Gaúcha</i> .	At least 10% of retail trade firms controlled through the <i>Nota Fiscal Gaúcha</i> .

⁴ ICMS: Goods and services sales tax.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
Outcomes							
R2.1 Increase the collection of the state's own income through better taxpayer control.	ICMS revenue of R\$14.8 billion in 2008.	Increase ICMS revenue to at least R\$14.875 billion.	Increase ICMS revenue to at least R\$14.950 billion.	Increase ICMS revenue to at least R\$15.025 billion.	Increase ICMS revenue to at least R\$15.100 billion.	Increase ICMS revenue to at least R\$15.175 billion.	Increase annual revenue by 2.53% in real terms
Subcomponent 5: More efficient and effective administration of tax litigation							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P5.1 Implementation of the new model for monitoring and managing litigation and legal advisory services.	There is no integrated system between PGE/RS and the judiciary.				New model for monitoring and managing tax litigation implemented.	100% of tax execution processes made available electronically.	Model for monitoring and controlling litigation implemented, with 100% of judicial enforcement proceedings available electronically in the PGE/RS and the judiciary.
Outcomes							
R5.1 More effective legally enforced tax collection.	Legally enforced tax collection = R\$70.8 million in 2008.		Legally enforced tax collection increases to at least R\$80.0 million.	Legally enforced tax collection increases to at least R\$90.0 million.	Legally enforced tax collection increases to at least R\$100.0 million.	Legally enforced tax collection increases to at least R\$114.0 million.	Increase the amount of legally enforced tax collection to at least R\$114 million by the end of project execution.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
COMPONENT III: Financial and property management and internal oversight							
Subcomponent 6: More efficient and effective financial administration							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P.6.1 New comprehensive budget programming model, with evaluation and monitoring.	Programming model out of sync and poorly integrated. The six expenditure quality management tools — expenditure matrix management, ⁵ cost base zero, ⁶ public expenditure offices, ⁷ SIST, ⁸ ROP, ⁹ and monitoring and evaluation ¹⁰ —not integrated and therefore not used to best advantage.	New budget programming model designed.	New budget programming model implemented.				New budget programming model implemented with the six expenditure quality management tools integrated.

⁵ Expenditure matrix management (*Gerenciamento Matricial de Despesas -GMD*): Methodologies that analyze the main expenses of state bodies, identifying opportunities for streamlining and reducing similar expenses.

⁶ Cost base zero: Methodology for streamlining and strategic alignment of public expenditure.

⁷ Public expenditure downsizing offices: special mechanism for promoting change of culture in relation to public expenditure.

⁸ Outsourced services system (SIST): Support tool for state administration bodies in contracting business services.

⁹ Organizational and process restructuring (ROP): Aims to maximize potential gains from cost reductions, through organizational and process restructuring.

¹⁰ Monitoring and evaluation of public policies: Aims to evaluate public actions to make service delivery more efficient.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
Outcomes							
R6.1 Improvement of state public expenditure management by implementing an integrated costing system in the financial administration system to calculate the cost of public services.	Budget-based expenditures not restricted to revenue growth— average over the last three years equal to 7.6%. (2006 - 2008).			Net budget-based expenses, under SEFAZ/RS management control, limited to 6.5% of NCI. ¹¹			Net budget-based expenditures, under SEFAZ/RS management control, limited to 6.5% of NCI beginning in 2012.
Subcomponent 7: More efficient and effective management of materials and property in the finance area							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P7.1 Better control of access and internal circulation.	Lack of control of access and internal circulation in the headquarters building and annexes.			100% of accesses and internal circulation in the headquarters building and annexes controlled.			100% of accesses and internal circulation in the headquarters building and annexes controlled.
Subcomponent 8: Improvement of mechanisms for internal control of fiscal management							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P 8.1 Implementation of the new audit model based on risk analysis.	0 state government agencies with a risk matrix.			5 state government agencies using the audit model based on risk analysis.	5 state government agencies using the audit model based on risk analysis.	10 state government agencies using the audit model based on risk analysis.	20 state government agencies using the audit model based on risk analysis.

¹¹ NCI = Net current income.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
Component IV: Management of corporate resources							
Subcomponent 9: Development of mechanisms for transparency in fiscal management and communication with society							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P 9.1 New functionalities in the transparency portal available to citizens.	Income and expenditure of general government (direct and indirect administration) not available on the portal.					100% of state general government income and expenditure	100% of state general government income and expenditure available to the citizen in an accessible language
Outcomes							
R9.1 Increase in the transparency of state government data.	Average of 400 portal hits/day					Average of 500 portal hits/day	Average of 500 portal hits/day
Subcomponent 10: Strengthening of SEFAZ/RS information and communication technology services							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P10.1 Preparation and implementation of an information technology (IT) security policy including implementation of the Datacenter.	Lack of an IT security policy		Security policy prepared.			Sites 1 and 2 operating within the security guidelines, norms, and procedures defined for SEFAZ/RS IT.	Security policy implemented and incorporated into annual SEFAZ/RS budgets, including implementation of the Datacenter.
Subcomponent 11: Strengthening of human resource management							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P11.1 Implementation of the ongoing training plan, including the skills matrix.	Lack of an ongoing training plan based on the skills matrix.			100 finance civil servants trained under the ongoing training plan.	200 finance civil servants trained under the ongoing training plan.	300 finance civil servants trained under the ongoing training plan.	Ongoing training plan implemented with 600 civil servants trained, including the skills matrix.

Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
Subcomponent 12: Strengthening of knowledge management in the finance area.							
Outputs	Base (2008)	Year 1	Year 2	Year 3	Year 4	Year 5	Target
P12.1 Implementation of the knowledge management system.	0% of SEFAZ/RS staff knowledge management needs addressed.		Mapping of knowledge dissemination needs prepared.				Mapping of knowledge dissemination needs prepared.
Outcomes							
R12.1 Provide SEFAZ/RS with staff trained for internal knowledge management seeking better development of activities.	Lack of a knowledge management system.					SEFAZ/RS knowledge management model approved and implemented, with team appointed and target public identified.	SEFAZ/RS knowledge management model approved and implemented, with team appointed and target public identified.

PROCUREMENT PLAN – SUMMARY TABLE (US\$)

No.	Description of contract	Estimated cost	Procurement method (1)	Review (2)	Source (%)		Estimated dates		Comments
					IDB	Local	Publication of notice	Completion of contract	
CONSULTING SERVICES									
1	Preparation of ToRs	36,000	IC	ex post	100%	0%	Jul-2010	Dec-2010	
2	Goods transit inspection model	60,000	LCS	ex post	100%	0%	Sep-2010	Sep-2011	
3	IT - Communication structures (Infovia)	810,000	QCBS	ex ante	100%	0%	Jul-2010	Dec-2011	
4	Skills management plan	300,000	QCBS	ex post	100%	0%	Jul-2010	Dec-2011	
5	IT - Development of the system for liabilities management and the court papers (<i>precatórios</i>) management module	900,000	QCBS	ex post	100%	0%	Jul-2010	Dec-2011	
6	Budget programming model	426,000	QCBS	ex post	100%	0%	Jul-2010	May-2012	
7	IT - Adaptation of the accounting system to Brazilian public accounting standards	502,500	QCBS	ex post	100%	0%	Aug-2010	Dec-2011	
8	IT strategic plan	225,000	QCBS	ex post	100%	0%	Jul-2010	Jul-2011	
9	IT data security and risk mitigation	75,000	LCS	ex post	100%	0%	Jul-2010	Jul-2011	
SUBTOTAL CONSULTING		3,334,500			100%	0%			

TECHNICAL SERVICES (NONCONSULTING)									
1	Ongoing training courses	463,500	NCB	ex post	100%	0%	Dec-2010	Jun-2014	
2	Public debt management - World Bank course	50,000	DC	ex-ante	100%	0%	Jul-2010	Dec-2011	
3	Budget management tool	30,000	S	ex post	100%	0%	Jul-2010	Dec-2011	
4	Hiring of events firm	100,000	S	ex-ante	100%	0%	Jul-2010	Dec-2011	
5	Institutional security plan	10,800	S	ex post	100%	0%	Aug-2010	Dec-2010	
6	IT - Contract management system	37,500	S	ex post	100%	0%	Dec-2010	Jul-2011	
7	IT - Property management system	138,750	NCB	ex post	100%	0%	Aug-2010	Dec-2011	
8	Contract management model	45,000	S	ex post	100%	0%	Jul-2010	Dec-2010	
9	Improvement and adaptation of the human resource system	2,570,000	Law 8.666 C	ex post	0%	100%	Jul-2010	Dec-2014	
10	Portal development and new data warehouse cubes	1,320,000	Law 8.666 C	ex post	0%	100%	Jul-2010	Dec-2012	
11	Implementation of State Participation Fund modules	776,668	Law 8.666 C	ex post	0%	100%	Jul-2010	Dec-2012	
12	Project audit	100,000	QCBS	ex ante	100%	0%	Jul-2010	Dec-2014	IDB procedure
SUBTOTAL TECHNICAL SERVICES		5,642,218			17.3%	82.7%			
GOODS									
1	Computer hardware (scanners, microcomputers, barcodes)	715,620	NCB or auction	ex post	100%	0%	Aug-2010	Jun-2011	

2	Office furniture	515,350	NCB or auction	ex post	100%	0%	Dec-2010	May-2011	
3	Electronic and support equipment (data show, camera, LCD television)	98,800	S or auction	ex post	100%	0%	Jul-2010	Dec-2010	
4	Electronic equipment and accessories (detectors, cameras, radio, alarms)	276,200	NCB or auction	ex post	100%	0%	Feb-2011	May-2011	
5	Vehicles	243,000	NCB or auction	ex post	100%	0%	Aug-2010	Dec-2010	
SUBTOTAL GOODS		1,848,970			100%	0%			
WORKS									
1	SEFAZ headquarters (air conditioning, access and upgrading of plumbing)	1,767,000	IDB NCB	ex ante	100%	0%	Oct-2010	Mar-2012	
2	Upgrading of SEFAZ headquarters structure	2,000,000	Law 8.666 C	ex post	0%	100%	Aug-2010	Dec-2011	
SUBTOTAL WORKS		3,767,000			46.9%	53.1%			
GENERAL TOTAL		14,592,688							
% BY SOURCE		100%			54.3%	45.7%			

- Bidding method/selection: (a) **IDB**: ICB: International competitive bidding; **NCB**: National competitive bidding; **S**: Shopping; **DC**: Direct contracting; **QCBS**: Quality- and cost-based selection; **CQS**: Selection based on the consultants' qualifications; **LCS**: Least-cost selection; **FBS**: Selection under a fixed budget; **SSS**: Single source selection; **IC**: Individual consultant. (b) **Law 8666**: **IV**: Invitation **PT**: Price taking, **C**: Competition; **Auction**: Electronic auction; **PL**: Price list.
- Ex post or ex ante.