

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**FINANCE ADMINISTRATION MODERNIZATION PROGRAM
PROFISCO
(BR-L1233)**

**INDIVIDUAL OPERATION UNDER THE CCLIP
PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION
OF FINANCE ADMINISTRATIONS IN BRAZIL (PROFISCO)
(BR-X1005)**

LOAN PROPOSAL

This document was prepared by the project team consisting of: Aderbal Curvelo, Project Team Leader; Fátima Cartaxo; Ana Lucia Camargo and Daniela do Nascimento (FMM/CBR); Germán Zappani (FMP/CBR); Carlos Lago (CSC/CBR); Betina Hennig (LEG/SGO); Elcior Santana (IFD/ICS); Marina Massini and Dianela Avila (IFD/FMM); and consultants: Virginia de Vasconcellos (IFD/CBR); Marcio Cracel; Lilia Dobbin; Adriana Sobral Coelho.

Under the Access to Information Policy, this document is subject to public disclosure.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, challenges, rationale	1
B.	Objective, components, and cost	6
C.	Key results indicators	9
II.	FINANCING STRUCTURE AND MAIN RISKS	9
A.	Financing, procurement, and contractual conditions	9
B.	Environmental and social safeguard risks	11
C.	Fiduciary risk	12
D.	Other key issues and risks	12
III.	IMPLEMENTATION AND MANAGEMENT PLAN	12
A.	Summary of institutional arrangements for implementation	12
B.	Summary of arrangements for monitoring results	13

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

Electronic Links
<p>REQUIRED</p> <ol style="list-style-type: none"> 1. Project work plan – 18 months IDBDocs2142211 2. Program monitoring and evaluation system IDBDocs2141646 3. Procurement plan – 18 months (Itemized) IDBDocs2141685 4. Safeguard Policy Filter Report and Safeguard Screening Form for classification of projects IDBDocs2027660 <p>OPTIONAL</p> <ol style="list-style-type: none"> 5. Matrix of problems: diagnostic summary of fiscal management IDBDocs2141520 6. Project economic/financial analysis IDBDocs2145107 7. Program institutional arrangements and execution mechanism IDBDocs2141513 8. State law authorizing the credit operation IDBDocs2142605 9. Law establishing the Program Coordination Unit (PCU) IDBDocs2141703 10. Fiscal management report for the State of Goiás IDBDocs2142450 11. Frame of reference for the CCLIP-PROFISCO credit line approved by the Brazilian government IDBDocs2141519 12. Operating Regulations (OR) of the CCLIP-PROFISCO credit line and annexes IDBDocs2142137 13. Program indicators table IDBDocs2141498

ABBREVIATIONS

AWP	Annual work plan
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Economic and Social Development Bank]
CadSinc	Catastro Nacional Sincronizado [National Synchronized Registry]
CCLIP	Conditional credit line for investment projects
CENTRAC	Central de Aquisições e Contratações [Central Procurement Office of the State of Goiás]
ComprasNet/GO	Online procurement system
ECD	Digital accounting records
EFD	Digital tax records
ESAF	Escola de Administração Fazendária do Ministério da Fazenda [School of Public Finance Administration of the Ministry of Finance of the Federative Republic of Brazil]
GO	State of Goiás, Brazil
ICB	International competitive bidding
IT	Information technology
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NCB	National competitive bidding
NCI	Net current income
NF-e	Nota fiscal eletrônica [electronic tax invoice]
NRI	Net real income
OC	Ordinary Capital
OR	Operating Regulations
PAF	Programa de Reestruturação e Ajuste Fiscal [Fiscal Adjustment and Restructuring Program for the Brazilian States]
PCU	Program coordination unit
PGE/GO	Procuradoria Geral do Estado de Goiás [State of Goiás Attorney General's Office]
PMAE	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 Revenue Services]
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for Brazilian States]
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Finance Administrations in Brazil]
SEFAZ/GO	Secretaria de Estado de Fazenda de Goiás [State of Goiás Department of the Treasury]

SIAFEM	Sistema Integrado de Administração Financeira para Estados e Municípios [Integrated Financial Management System for States and Municípios]
SIOFI-Net	Sistema de Elaboração e Execução Orçamentária e Financeira do Estado de Goiás [Financial and Budget Preparation and Execution System of the State of Goiás]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
TCE/GO	Tribunal de Contas do Estado de Goiás [State of Goiás Audit Office]
UNDP	United Nations Development Programme

PROJECT SUMMARY

BRAZIL

FINANCE ADMINISTRATION MODERNIZATION PROGRAM PROFISCO (BR-L1233)

INDIVIDUAL OPERATION UNDER THE CCLIP PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION OF FINANCE ADMINISTRATIONS IN BRAZIL (PROFISCO) (BR-X1005)

Financial Terms and Conditions			
Borrower: The State of Goiás		Amortization period:	20 years
		Grace period:	4 years
		Disbursement period:	4 years
Source	Amount	Inspection and supervision fee:	*
IDB (Ordinary Capital)	US\$11,577,000	Interest rate:	LIBOR-based
Local	US\$1,320,000	Credit fee:	*
Total	US\$12,897,000	Currency:	U.S. dollars from the Single Currency Facility
Project at a Glance			
Objective and description: The project's general objective is to make fiscal management in the State of Goiás more efficient and transparent, in order to: (i) improve planning and decision-making instruments; (ii) increase the state's internally generated revenue; (iii) enhance the efficiency, effectiveness and control of public expenditure; and (iv) provide better services to citizens. The project has four components with their respective subcomponents: Component I. Integrated financial management: (a) institutional strengthening and improved financial management; and (b) national and international interagency cooperation. Component II. Tax administration and litigation: (a) more efficient and effective tax administration; and (b) more efficient and effective management of tax litigation. Component III. Financial and property management and internal control of fiscal management: (a) more efficient and effective financial management; (b) more efficient and effective management of materials and property in the finance area; and (c) improved internal control mechanisms. Component IV. Institutional resource management: (a) enhancement of mechanisms for transparency and communication with society; (b) technological management modernization and upgrading of internal and external services; and (c) improved human resource management in the finance area. Special contractual clauses: As a condition precedent to the first disbursement of the program resources, the borrower will submit the following to the Bank for verification: (i) evidence that the program Operating Regulations (OR) are in force (see paragraph 3.5); and (ii) evidence that the Program Coordination Unit (PCU) has been established, and its staff appointed (see paragraph 3.1). Exceptions to Bank policies: Authorization is requested for the borrower to use national legislation on procurement and contracting as described in paragraph 2.2, and to use direct contracting as described in paragraph 2.4.			
Project qualifies as:		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. DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, rationale

- 1.1 This program is an operation under the conditional credit line for investment projects (CCLIP) BR-X1005, “Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO),” which was approved by the Bank’s Board of Executive Directors on 5 November 2008 pursuant to Resolution DE-132/08.
- 1.2 **Rationale for the CCLIP-PROFISCO credit line.** Although Brazil is one of the world’s 10 largest economies, its socioeconomic context is highly differentiated. The human development index (HDI) is 0.718, ranking eighty-fourth out of 187 countries in 2011.¹ Brazil also has one of the poorest income distribution indicators in the world (Gini coefficient of 54.7 and 2009).² As a consequence, there are disparities in nearly all sectors in its 27 states. Thus, the state governments have the challenge of remedying these disparities, largely with their own revenues, since they are autonomous entities responsible for providing the majority of basic services and maintaining their infrastructure.³ The difficulty with meeting these obligations lies in the challenge of raising tax revenue and maintaining public spending at responsible levels, so as to deliver adequate services and make the required investments without borrowing at unsustainable levels. The CCLIP-PROFISCO credit line provides the states with resources and technical assistance to support the strengthening of fiscal management in the areas of tax administration, financial administration, debt management, and program and project management.
- 1.3 **Macroeconomic context.** With a GDP of R\$103.44 billion and per capita income of R\$14,446.68, representing 2.5% of national GDP, Goiás has the ninth largest economy among Brazil’s states. In the last 10 years, its economy grew 55.73%, above the Brazilian average of 37.5%, driven by agribusiness, trade, and growth and diversification of the industrial sector (see Table 1.1).

Table 1.1. Gross Domestic Product				
	Current values (R\$ millions)		Growth rates (%)	
Year	Goiás	Brazil	Goiás	Brazil
2000	26,249	1,179,482	5.0	4.3
2005	50,534	2,147,239	4.2	3.2
2009	85,615	3,239,404	0.9	-0.3
2010	94,298	3,770,085	10.7	7.5
2011	103,446	4,143,015	4.1	2.7

Source: SEGPLAN/GO / SEPIN / Office of Regional Accounts and Indicators, 2012.

¹ Source: <http://hdr.undp.org/en/statistics/>.

² Source: <http://data.worldbank.org/indicator/SI.POV.GINI>.

³ Under Brazil’s Constitution, the states are responsible for the delivery of health care, education, public safety, basic sanitation, justice, and other services.

- 1.4 The economy is dominated by the service sector, which generates 59% of wealth, including wholesale and retail commerce and real estate activities. The industrial sector contributes 27% of GDP, and agriculture 14%. With its smaller share, agriculture is still important for the economy as the basis for agroindustry, which is one of the most active sectors with the production of meat, dairy products, soya, and alcohol.
- 1.5 The government is expanding its infrastructure, including the state's 25,000 km of roads,⁴ 685 km of railroads,⁵ ports, dry customs facilities,⁶ and its multimodal logistics platform that will make Goiás one of the country's leading agricultural distribution centers. It therefore needs to build its investment capacity in order to meet this challenge. The operation will support these objectives by improving fiscal management and, consequently, expanding fiscal headroom.
- 1.6 **Fiscal context.** In 2011, the total revenue intake was R\$16.2 billion, for an annual average increase of around 14.5% in the period 2007-2011, as shown in Table 1.2.

Table 1.2. Actual Revenue (2007-2011) (R\$000)					
Revenue	2007	2008	2009	2010	2011
Total	10,383,433	11,373,364	12,520,900	14,580,968	16,231,698
Treasury	7,691,994	8,715,528	9,317,026	10,971,480	11,228,888
Tax	5,943,656	6,059,018	7,210,807	8,802,745	9,922,820
Assets	8,993	10,082	14,013	23,197	21,592
Current transfers	1,760,523	2,123,364	2,750,931	3,366,750	3,608,261
Agreements	392,284	446,832	226,280	116,395	193,379
Credit operations	61,903	7,034	178,000	1	1,500,500
Other	190,193	1,030,516	433,520	241,277	272,707
Current revenue deductions	665,558	-961,318	-1,318,703	-1,578,885	-4,290,371
Own resources from government departments and decentralized agencies, public enterprises, and public foundations	924,604	806,476	1,164,200	1,633,930	2,916,843
Own resources from special funds	1,029,423	979,864	1,145,994	890,270	923,010
Own resources from semipublic enterprises	737,412	871,496	893,680	1,085,288	1,162,957
Source: SEGPLAN/GO / SEPIN / Office of Socioeconomic Statistics, 2011.					

⁴ Only 53.2% is paved.

⁵ The North-South Railroad is under construction, with a length of 1,200 km.

⁶ Approximately 22,000 tons of freight/month passes through the Anápolis dry customs port.

Table 1.3. Actual Expenditure by Group (2007-2011) (R\$000)					
Expenditure	2007	2008	2009	2010	2011
Total	10,383,433	11,373,364	12,520,900	14,580,968	16,231,698
Payroll and social security	3,983,565	4,199,698	4,853,572	6,096,670	7,949,359
Interest and finance charges	306,003	479,482	524,050	668,162	877,891
Other current expenditures	3,395,504	3,835,760	4,283,661	4,865,862	2,945,349
Capital investments	1,189,730	983,079	1,034,013	999,261	2,411,116
Financial investments	54,012	69,114	49,498	20,118	30,791
Debt repayments	359,163	600,157	524,049	581,838	489,082
Contingency reserve	358,044	334,578	358,377	263,769	365,153
Investments in companies	737,412	871,496	893,680	1,085,288	1,162,957
Source: SEGPLAN/GO / SEPIN / Office of Socioeconomic Statistics, 2011.					

- 1.7 Total expenditure in 2011 was R\$16.2 billion in 2008, up 11.3% from expenditure in 2010 (see Table 1.3).
- 1.8 Debt service in 2011 was R\$1.366 billion, including principal, interest, and other costs, for a nominal increase of 9.3% from the previous year.
- 1.9 **Fiscal management.** In the last 10 years the State of Goiás Department of the Treasury (SEFAZ/GO) has pursued a process of institution-strengthening, financed with Bank resources under the National Fiscal Administration Program for Brazilian States (PNAFE) from 2002 to 2006. Notable progress has included:
- Organization and strategic management.** Reduction in the number of appointed positions, administrative costs, and the number of special funds.
 - Tax administration and litigation.** Introduction of the following management instruments: (i) electronic tax invoice (known by its Portuguese-language acronym, NF-e); (ii) automatic system for recording violations and cross-checking information; (iii) export control and financial intelligence systems; and (iv) creation of the Fiscal Intelligence Branch.
 - Financial and property management, and internal control.** Introduction of the financial management system for the state treasury and the integrated management system for contracts signed with the federal government.
 - Management of strategic resources.** (i) Introduction of the Goiás transparency portal; (ii) organization of an oversight function⁷ in the comprehensive service units; (iii) institutionalization of the fiscal education program; (iv) centralization of IT and telecommunications management; and (v) creation of a Central Procurement Office (CENTRAC).

⁷ Citizen participation and investment decisions and societal oversight.

1.10 **Challenges for the future.**⁸ Despite the significant progress to date, there are still specific areas that require support, in light of the following problems:

- a. **Integrated financial management.** Limitations on the decision-making process and on making full use of strategic and financial resources, owing to: (i) little culture of results-based planning, due to the absence of evaluation instruments and procedures for targets and indicators;⁹ (ii) no standardization of SEFAZ/GO procedures, due to the absence of a mechanism to integrate information generated by the nine superintendencies; and (iii) little capitalization on the attendance of SEFAZ/GO staff at good practices dissemination events with the finance departments of other states, due to the absence of an instrument for the dissemination and implementation of these good practices.¹⁰
- b. **Tax administration and litigation.** Difficulty achieving the full potential for revenue collection, owing to: (i) significant revenue evasion, due to poor mechanisms for vehicle traffic control;¹¹ (ii) lost revenue, due to slow processes to initiate and conclude an audit;¹² (iii) difficulty in detection of the tax evasion procedures adopted by businesses and book-keeping errors or failures in process monitoring, due to weaknesses in instruments and systems for cross-referencing information to identify irregularities;¹³ (iv) increase in adjudicated tax debt, due to inefficiency in recovering assessed taxes owed;¹⁴ and (v) weaknesses in court and administrative proceedings of the Tax Litigation Office, due to the absence of computerized methodologies and tools.¹⁵
- c. **Financial and property management.** Problems in managing budgetary, financial, and property resources affecting the quality of public expenditure, owing to: (i) difficulty in managing information on social programs, due to the absence of a single database on beneficiaries, institutions, programs, and social actions;¹⁶ (ii) poor performance of financial planning, due to insufficient

⁸ The technical reference, "[Matrix of problems/causes/solutions/outcomes](#)," describes each of the problems related to the challenge areas.

⁹ None of the nine SEFAZ superintendencies conducts evaluations of targets and indicators established in the integrated management plan.

¹⁰ None of the good practices from the five events attended with other states in 2011 was disseminated or implemented.

¹¹ In the study on the revenue collection efficiency of the Brazilian states, Goiás had an invasion index of approximately 30%.

¹² The mean time between a trigger event and an audit is five years.

¹³ The Office of Fiscal Intelligence produced only 57 reports of irregularities, whereas the recommended number is around 90.

¹⁴ Out of R\$25.52 billion in assessed taxes owed, just R\$211.3 million is recovered each year.

¹⁵ Out of 20,000 proceedings docketed, just 1,200 returns are generated each month.

¹⁶ Information is scattered among the seven state government agencies.

training for the human resources involved in the process;¹⁷ (iii) difficulty in the state's management of logistics and service delivery, due to the absence of planning instruments in those areas;¹⁸ (iv) weak management of the real estate assets of the state, due to the absence of an up-to-date registry of the state's personal and real property;¹⁹ and (v) difficulty in the management of internal control, due to poor integration of internal control functions and the difficulty of eliminating the large number of registered irregular processes.²⁰

- d. **Management of institutional resources.** Insufficient physical and technological infrastructure to offer efficient service to the internal and external clients of SEFAZ/GO. The main factors contributing to this problem are: (i) inefficiency in the services provided to taxpayers, due to failure by the regional offices to observe standards of excellence;²¹ (ii) vulnerability in the security of information, documents, and objects, due to the absence of access restrictions at SEFAZ offices;²² (iii) insufficient availability of technology resources and systems, due to growing demand for processing internal and external information;²³ (iv) little standardization in the execution of SEFAZ work processes, due to the scarce participation of staff of decentralized units in training activities offered in the capital;²⁴ and (v) sluggish administrative procedures of the SEFAZ/GO staff disciplinary body (Corregedoria Fiscal), due to a lack of planning and methodologies to support process management.²⁵

- 1.11 **The Bank's country strategy and GCI-9.** The Government of Brazil and the Bank have recognized the importance of strengthening subnational fiscal management for successful social policies and economic development. Thus, one of the six priority sectors of the Bank's country strategy with Brazil (2012-2014) (document GN-2662-1) is to improve the institutional capacity of public entities through actions in public management and fiscal management. The strategy's main sector objectives in fiscal management are to: (i) reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government; (ii) promote sustainable fiscal balance at the subnational level; and (iii) improve initiatives on transparency and dialogue with society. The program also contributes to the targets of the Bank's Ninth General Capital Increase (GCI-9) (document AB-2764) in

¹⁷ The ratio of obligations carried forward to the authorized budget was 8.56%, whereas the recommended number is around 1%.

¹⁸ There is no logistics plan to provide guidance for state government procurement.

¹⁹ Only 4,200 of the state's 15,000 buildings are registered and inspected.

²⁰ 8,495 irregular processes were registered in 2008.

²¹ Only one of the 12 regional offices has a pattern of providing excellent service to taxpayers.

²² Three occurrences were reported in 2008

²³ The availability of technology and systems is 82%.

²⁴ Fewer than 25% of the 2,746 SEFAZ staff who could attend training events did so.

supporting the capacity-building of public institutions for growth and social welfare. This will be achieved, in part, by strengthening the state's taxation systems and narrowing the gap between actual and potential tax revenue intake.

B. Objective, components, and cost

- 1.12 The project's general objective is to make fiscal management in the State of Goiás more efficient and transparent, in order to: (i) improve planning and decision-making instruments; (ii) increase the state's internally generated revenue; (iii) enhance the efficiency, effectiveness and control of public expenditure; and (iv) provide better services to citizens. The direct beneficiary of the program is the State of Goiás, in terms of improved budget execution and increased tax efficiency. The ultimate beneficiaries of the program will be the client individuals and corporations of the state government of Goiás, in terms of a higher standard of excellence in revenue collection and service delivery. The state government of Goiás has a base of 390,000 client individuals and corporations.
- 1.13 The project has four components with their respective subcomponents:
- 1.14 **Component I. Integrated financial management (US\$1.874 million).** This component seeks to improve methods and tools to support government financial management. The component has the following subcomponents and respective outputs:
- a. **Organizational development and improved financial management:**
 - (i) introduction of an integrated management planning model,²⁶ with revisions to the way SEFAZ/GO does business and setting of targets and indicators; and
 - (ii) implementation of integrated management of macroprocesses.
 - b. **National and international interagency cooperation:** implementation of an exchange program with other institutions.
- 1.15 **Component II. Tax administration and litigation (US\$5.609 million).** This component seeks to enhance performance of tax administration and increase revenue collection. The component has the following subcomponents and respective outputs:
- a. **More efficient and effective tax administration:** (i) expansion of the electronic compliance system using fixed and mobile units; (ii) introduction of a new audit system for the electric power and communications sectors and interstate tax substitution; and (iii) improvement of the fiscal intelligence model.
 - b. **More efficient and effective management of tax litigation:** introduction of (i) a new model for recovering assessed taxes owed; and (ii) a model for managing proceedings of the Tax Litigation Office of the PGE.

²⁶ The model would include a diagnostic assessment of current conditions, a proposal for alternative business models with their respective procedures, a computerized support system and physical and technological adaptation and personnel training.

- 1.16 **Component III. Financial and property management and internal control of fiscal management (US\$2.216 million).** This component seeks to improve the performance of financial administration and increase control over public expenditures. The component has the following subcomponents and respective outputs:
- a. **More efficient and effective financial management:** implementation of (i) an integrated information management model for social programs; and (ii) an ongoing program for certification of government financial managers.
 - b. **More efficient and effective management of materials and property in the finance area:** (i) introduction of a logistics and property management model for SEFAZ/GO; and (ii) improvements to the real property management model of the State of Goiás.
 - c. **Improved internal control mechanisms:** introduction of an internal control management system.
- 1.17 **Component IV. Management of institutional resources (US\$2.601 million).** This component seeks to improve operational and administrative support methods, instruments and systems, and interaction with society. The component has the following subcomponents and respective outputs:
- a. **Enhancement of mechanisms for transparency and communication with society:** raising the standard for prompt service to taxpayers.
 - b. **Technology management modernization and upgrading of internal and external services:** (i) introduction of digital access control; (ii) expanded capacity for processing, storing, retrieving and distributing information; and (iii) introduction and institutionalization of a IT Master Plan (PDTI) that includes risk analysis.
 - c. **Improved human resources management in the finance area:** (i) introduction of an “online classroom” instruction model; and (ii) improved management of the staff disciplinary unit of SEFAZ/GO.
- 1.18 **Eligibility.** National integration activities, such as the National Synchronized Registry (CadSinc) and the Digital Public Accounting System (SPED), with their respective outputs—electronic tax invoice (NF-e), digital tax records (EFD), digital accounting records (ECD)—are the specific focus of this project under the Program for the Modernization of Revenue Administration and Fiscal, Financial and Asset Management in the State Revenue Services (PMAE), financed by the National Economic and Social Development Bank (BNDES).
- 1.19 **Overall budget.** The total value of the project is US\$12.897 million. Of that amount, US\$11.577 million (90%) will be financed by the Bank, and

US\$1.32 million (10%) will be the local counterpart contribution, as indicated in the overall budget presented in Table 1.4.²⁷

Table 1.4. Overall Budget
(in US\$000)²⁸

Categories	IDB	Local	Total	%
1. Project administration	196	-	196	1.52
1.1 Project management	96	-	96	
1.2 Monitoring and evaluation	100	-	100	
2. Direct costs	11,120	1,180	12,300	95.38
2.1 Integrated financial management	1,874	-	1,874	
2.2 Tax administration and litigation	5,019	590	5,609	
2.3 Financial and property management and internal control of fiscal management	1,626	590	2,216	
2.4 Management of institutional resources	2,601	-	2,601	
3. Unallocated costs	261	140	401	3.10
Total	11,577	1,320	12,897	
%	90	10	100	100.00

- 1.20 **Disbursement schedule.** Disbursements will be made over four years, running from the effective date of the loan contract, in accordance with the schedule shown in Table 1.5.

Table 1.5. Disbursement Schedule

Source	2013	2014	2015	2016	TOTAL
IDB	4,557	4,110	2,170	740	11,577
State of Goiás	500	340	480	0	1,320
TOTAL	5,077	4,450	2,650	740	12,897
%	39.4%	34.5%	20.5%	5.6%	100%

- 1.21 **Financial analysis.** Given the small scale of the operation, the project team compared the incremental financial costs and benefits expected from two project outputs: (i) expansion of the electronic compliance system, and (ii) implementation of the new system for sector audits and tax substitution. The financial analysis reflects an increase in revenue collection of just 1% from improved management of the goods and services sales tax (ICMS) after introduction of the outputs and during project execution. The analysis used the following assumptions: (i) 10-year horizon; (ii) 12.5% annual discount rate; and (iii) 2.5% annual GDP growth rate.

²⁷ No provision is made in the budget for the inspection and supervision fee or credit fee, because these will be paid by the state from its own funds.

²⁸ The finance charges and expenses will be paid by the borrower from its own funds, outside the program.

- 1.22 According to this financial analysis (see [electronic link](#)), a cumulative net benefit of around US\$1.3 million in present value terms is projected by 2016, and the net benefit is projected to be on the order of US\$8.5 million with an internal rate of return (IRR) of 36% by 2021. The program is therefore fully justified.

C. Key results indicators

- 1.23 The most significant expected outcomes by the end of project execution are: (i) reduction in the ratio between values budgeted and values executed; (ii) increase in revenue collected from the medications, breadstuffs, electronics, wholesale goods, paper products, textiles, meatpacking, and supermarkets sectors; (iii) increase in revenue from collection of assessed taxes owed; (iv) reduction in accounts payable outstanding at the end of the year; (v) increase in the index of user satisfaction with the standard of excellence in service delivery. The main expected outputs are: (i) system implemented to support the new integrated management planning model; (ii) system implemented to support the integrated management of macroprocesses (electronic management of documents); (iii) new technologies adopted from other institutions implemented; (iv) instruments in operation to support inspections of goods in transit; (v) audit system introduced for the electric power and communications sectors and interstate tax substitution; (vi) fiscal intelligence reports available for enforcement; (vii) system implemented to support the model for recovering assessed taxes owed; (viii) system implemented to support management of litigation proceedings; (ix) system implemented to support management of social programs; (x) government financial managers certified; (xi) system introduced to support the new logistics and property management model for SEFAZ/GO; (xii) real property reviewed and registered; (xiii) internal control management system introduced; (xiv) taxpayer services system implemented at regional offices; (xv) access control system implemented at SEFAZ facilities; (xvi) storage capacity installed; (xvii) “online classroom” instruction system in use at regional offices; and (xviii) internal disciplinary instruments introduced for SEFAZ/GO technical staff.
- 1.24 In terms of the finances of the State of Goiás, the project will contribute to a sustainable fiscal balance with generation of a primary surplus of R\$404 million in 2014. At the national level, it will contribute to: (i) the facilitation of interstate commerce; (ii) a reduction in tax evasion and fraud; (iii) improvement of the national tax system; and (iv) enhanced integration of the state and national tax authorities.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing, procurement, and contractual conditions

- 2.1 **The country’s fiduciary context.** Brazil has a sound and transparent legal and institutional system with robust country fiduciary systems enabling good governance of administrative, financial, control, and procurement processes in accordance with the principles of transparency, economy, and efficiency. These

systems should be continually improved and strengthened in order to adapt more and more to new fiduciary needs. Thus, the Bank's fiduciary strategy with Brazil is oriented toward the progressive and sustainable use of the country's fiduciary systems (see Annex III).

- 2.2 **Brazilian national legislation.** For the reasons described above, and as is the case with the other PROFISCO operations as provided in the framework operation (BR-X1005), **an exception is requested to Bank policy, allowing the borrower to utilize Brazilian national legislation for procurement processes other than consulting services:** in the case of works for amounts less than US\$25 million per contract, and in the case of goods and nonconsulting services for amounts less than US\$5 million per contract, provided that they adhere to the principles of competition, economy, transparency, equality, publicity, and due process, particularly as they relate to the origin of the goods, the nationality of the suppliers, changes in purchase orders, prohibition of price bands, and publication in major newspapers. The borrower will also indicate in the corresponding procurement plan whether it has opted for Brazilian national legislation. Works, goods, and nonconsulting services for amounts greater than or equal to those indicated this paragraph will be procured in accordance with the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9 of 19 April 2011).
- 2.3 The Bank may recognize the following Brazilian federal procurement processes for off-the-shelf goods and services, provided that the standard bidding document is used: (i) electronic auction using the ComprasNet/GO system or Banco do Brasil's e-bidding system for off-the-shelf goods and services with an estimated cost of US\$5 million or less; (ii) price list for off-the-shelf goods and services with an estimated cost of US\$5 million or less, with prior Bank authorization of the list; and (iii) live auction for off-the-shelf goods and services with an estimated cost of US\$100,000 or less. The Bank may, at any time during program execution, eliminate the use of one or more procurement processes described in this paragraph.
- 2.4 **Direct contracting.** The borrower may directly contract the School of Public Finance Administration (ESAF) of the Ministry of Finance to provide training services to state public administration personnel. The direct contracting of ESAF is justified by the specific features and nature of the services it provides to all Brazilian states (training and knowledge management), contributing to project sustainability, sharing of knowledge and experiences, and sustaining the supply of such products and services once the project ends.
- 2.5 **Review by the Bank.** The project team conducted an analysis of the executing agency's capacity to administer procurement. On the basis of that analysis it was determined that the first two procurement processes for consulting services and the first for an individual consultant would be subject to ex ante review by the Bank. Based on the annual audit reviews, the Bank may modify the review method indicated in the procurement plan.

- 2.6 **Recognition of expenditures.** The state government has incurred expenditures during program preparation in the procurement of eligible goods and services chargeable to the counterpart contribution and the loan proceeds. The Bank may retroactively recognize up to US\$2.315 million (20%) against the loan proceeds, and up to US\$500,000 (37%) against the local counterpart, in eligible expenditures incurred by the borrower prior to the loan approval date. In no case will expenditures incurred more than 18 months prior to the loan approval date be included. Such expenditures will be financed, provided that requirements substantially analogous to those established in the loan contract have been met. Procurements will follow the rules established in local legislation and comply with the “Policies for the procurement of goods and works financed by the IDB” (document GN-2349-9) and the “Policies for the selection and contracting of consultants financed by the IDB” (document GN-2350-9), as applicable.
- 2.7 **Specialized agency.** The borrower may directly contract a specialized agency to provide technical support services, exclusively for goods procurement and the selection of consulting firms and individual consultants to conduct activities related to program execution, so long as the following conditions are met: (i) the contract to be signed between the borrower and the specialized agency in question shall be subject to the Bank’s prior approval; (ii) the specialized agency shall assume the commitment to follow the Bank’s procurement policies and procedures; (iii) consulting services shall not be contracted for routine project execution activities; and (iv) in the event that the specialized agency is the United Nations Development Programme (UNDP), the respective contract shall meet the requirements of the Letter of Agreement signed between the Bank and the UNDP on 20 June 2003.
- 2.8 **Technical cooperation and exchanges.** The borrower may participate in national 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.
- 2.9 The executing agency may enter into cooperation agreements with other agencies, institutions, and branches of government involved in areas related to the project, in order to pursue complementary modernization efforts. To this end, work programs will be identified with activities that are compatible with the project components and subcomponents, to be executed with guidance the Program Coordination Unit (PCU).

B. Environmental and social safeguard risks

- 2.10 The project has been classified as category “C” and has not triggered any policy clause in this area. No environmental assessment or consultation is required. This is consistent with the project team’s assessment, as the project involves the institutional modernization of a state finance department. Consequently, preparation of an environmental strategy for the project is not considered necessary.

C. Fiduciary risk

- 2.11 Fiduciary risk was assessed by a specialized team at the Bank's Country Office in Brazil, resulting in a rating of low to moderate risk and no additional recommendations. The principal observations of the analysis were the following:
- 2.12 **Partial familiarity with Bank policies, especially when in the contracting of consulting services, and delays in average contracting times produced by an institutional change.** This risk will be mitigated through: (i) training for the PCU team and staff responsible for bidding processes; (ii) approval by the state legislature of a new law on bidding, contracts, and agreements; (iii) final integration of the ComprasNet/GO online procurement system of CENTRAC with the state budget and finance systems and the internal control systems of SEFAZ/GO, PGE/GO, and TCE/GO; and (iv) priority assignment of a staff member from each CENTRAC coordination area to be involved in bidding procedures financed with external funds.
- 2.13 **Low project management capacity.** This risk will be mitigated through use of the monitoring and evaluation system developed for the CCLIP-PROFISCO credit line, training for PCU staff in project management, and the use of performance and outcome indicators. A permanent advisory position for monitoring and evaluation has been created at the PCU for that purpose. In addition, in the event of technical staff turnover, the executing agency will submit the CVs of potential candidates to the Bank for consideration.

D. Other key issues and risks

- 2.14 **Possible restrictions on budgetary allocation of the project resources.** This risk has been mitigated through measures already adopted: (i) PROFISCO has been included in the 2012-2015 Multiyear Plan (PPA), so funding is guaranteed during that period; and (ii) an allocation for the program has been included in the state's general budget for 2012, and resources have been set aside for the project in the draft budget for 2013. The source of counterpart resources for PROFISCO is the Fund for Modernization of Financial Administration (FUNDAF), which is funded with the proceeds of fines for tax violations.
- 2.15 **Little integration of fiscal management at the national level.** This risk will be reduced through the state's signature of the agreement to participate in the Comissão de Gestão Fazendária [Finance Management Commission], specially created as part of the Conselho Nacional de Política Fazendária [National Financial Policy Council] (CONFAZ) to encourage the exchange of know-how and technical solutions under the PROFISCO program.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of institutional arrangements for implementation

- 3.1 The borrower will be the State of Goiás, and the guarantor of the financial obligations of the loan will be the Federative Republic of Brazil. The executing

agency for the program will be the State of Goiás, acting through the State of Goiás Department of the Treasury (SEFAZ/GO), which will create a Program Coordination Unit (PCU). **Presentation to the Bank of evidence that the PCU has been established, and its staff appointed, will be a special contractual condition precedent to the first disbursement.**

- 3.2 Strategic coordination of the program will be in the hands of the Board of Superintendents of SEFAZ/GO. That board is already operating and is chaired by the Secretary of Finance.
- 3.3 The PCU is staffed by career employees of the state government and includes general, technical, and administrative/financial coordinators and a monitoring and evaluation assistant. Beyond this basic structure, the PCU will have output leaders (also career employees) who will be appointed in accordance with the act establishing the PCU.²⁹ In addition, CENTRAC will be responsible for all procurement under the program.
- 3.4 Program monitoring and evaluation will be conducted by the PCU, which will have a full-time monitoring and evaluation assistant whose responsibilities are described in the monitoring and evaluation system (see [electronic link](#)).
- 3.5 The PCU will: (i) submit disbursement requests; (ii) supervise competitive bidding processes (procurement of goods and works) and the selection and contracting of services in accordance with the relevant procurement plan and Bank policies; (iii) maintain the project financial accounting system in accordance with Bank policies; (iv) deliver project status reports; (v) deliver the annual work plan (AWP) and update the procurement plans; (vi) store invoices, contracts, and payment orders and submit them to the Bank and the project auditors upon request; (vii) ensure that the goods and works procured with the project resources are maintained in accordance with generally accepted technical standards.
- 3.6 **Operating Regulations.** The project will be governed by Operating Regulations (OR) previously approved by the Bank as an integral part of the CCLIP-PROFISCO credit line. The OR contains the eligibility requirements for the borrowers of individual PROFISCO operations, and for the projects and products eligible for financing. As a special contractual condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence that the OR established by the Bank for the CCLIP-PROFISCO credit line are in force in the state.

B. Summary of arrangements for monitoring results

- 3.7 Project monitoring will be based on the schedule of activities and the itemized physical and financial outputs contained in the AWP, and on the descriptions of procurement and contracting processes included in the procurement plan.

²⁹ Details for this section are included at the electronic link, “Program institutional arrangements and execution mechanism.”

- 3.8 The evaluation will use an ex post cost-benefit analysis to assess the financial performance of those outcomes that can be calculated. A pre-post program analysis will also be conducted jointly, to evaluate the changes generated by the program, after isolating the effects generated by exogenous factors that could affect the state with or without the program. Resources of US\$100,000 have been set aside for monitoring and evaluation activities. There will be a technical assistant at the PCU with specific, ongoing responsibility for program monitoring and evaluation.
- 3.9 Additional to the resources set aside for the program impact evaluation, as identified in the evaluation plan, the program will benefit from technical cooperation operation ATN/OC-11989-BR, under which an impact evaluation methodology is being developed for the PROFISCO program and for each of the individual projects. In principle, the impact evaluation will be based on a type of reflexive evaluation adjusted with control variables to discern what impacts can be attributed to the program, given the fact that a valid comparison group cannot be established.
- 3.10 **Annual work plan (AWP).** The borrower has submitted, and the Bank has validated, a draft work plan for the first 18 months, running from the loan contract signature date.
- 3.11 **Procurement plan.** The borrower submitted, and the Bank validated, the procurement plan for the first 18 months, running from the signature date of the loan contract.
- 3.12 **Six-monthly status reports.** When delivering these reports, the borrower will send copies to the Executive Secretariat of the Ministry of Finance. The reports will include information on the implementation phase of national integration activities, independent of the source of funding, namely: CadSinc and the Digital Public Accounting System (SPED) (comprising the NF-e electronic tax invoice, ECD digital accounting records, and EFD digital tax records).
- 3.13 **Audited financial statements and six-monthly reports on ex post review of procurement and disbursements.** Annual and six-monthly reports will be prepared by an acceptable independent audit firm.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals	Institutions for growth and social welfare: Ratio of actual to potential tax revenues.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Institutions for growth and social welfare: Municipal and other sub-national governments supported.		
2. Country Strategy Development Objectives			
Country Strategy Results Matrix	GN-2662-1	(i) Reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government, (ii) Promote sustainable fiscal balance at the subnational level, and (iii) Improve tax education and citizenship programs and initiatives on transparency and dialogue with society.	
Country Program Results Matrix	GN-2662-3	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.1		10
3. Evidence-based Assessment & Solution	7.4	25%	10
4. Ex ante Economic Analysis	8.5	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Low		
Environmental & social risk classification	B.13		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: National Public Bidding.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

This is a policy-based loan (PBL) for the Brazilian government. It will be funded by US\$ 11.57 million from the Bank's ordinary capital and by US\$ 1.32 million from the local counterpart. The program's goal is to improve the efficiency and transparency of fiscal management of the state of Goiás, in order to: i) improve tools for planning and decision making, ii) increase the state's own revenues iii) increase efficiency, effectiveness and better control of public spending, and iv) to provide better services to citizens.

The project has a reasonable diagnostic that identifies the main deficiencies and quantifies most of them. The justification for the effectiveness of the intervention in other or similar contexts is less clear. Results are correctly defined and all indicators are SMART. In most cases the objectives are realistic and outputs are also clearly defined. General mechanisms of monitoring have been defined and there is a budget for this activity. An ex post cost-benefit analysis will be undertaken to evaluate its results with an evaluation plan and the main activities to be performed. There is an economic analysis for some of its components, with properly quantified costs and benefits. Most assumptions are clearly stated and reasonably justified.

The program has identified risks, as well as all the required mitigation measures. Furthermore, there are indicators for all of the mitigation measures identified.

RESULTS FRAMEWORK

Project objective: The project's general objective is to make fiscal management in the State of Goiás more efficient and transparent, in order to: (i) improve planning and decision-making instruments; (ii) increase the state's internally generated revenue; (iii) enhance the efficiency, effectiveness and control of public expenditure; and (iv) provide better services to citizens.

Impact 1: Maintain the primary surplus

Impact indicator	Unit of measure	Baseline 2009			2014				Source/Mean of verification	Remarks
Primary surplus	R\$ million	488			404				Annual report of the Fiscal Adjustment Program (PAF) issued by the National Department of the Treasury (STN)	
Outcome indicator	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks

Expected outcome 1: Reduction in the ratio between values budgeted and values executed

Ratio between values budgeted and values executed	%	11			8.8			8.8	General balance sheet of the state, issued by the SEFAZ Superintendency of Management, Planning, and Finance	
---	---	----	--	--	-----	--	--	-----	--	--

Expected outcome 2: Increase in revenue collected from the medications, breadstuffs, electronics, wholesale goods, paper products, textiles, meatpacking, and supermarkets sectors

Goods and services sales tax (ICMS) revenue collected from specific sectors	R\$ million	587.7	590.0	592.3	594.6	596.9	618.7	618.7	Report on operations, issued by the Superintendency of Tax Administration	
---	-------------	-------	-------	-------	-------	-------	-------	-------	---	--

Impact indicator	Unit of measure	Baseline 2009			2014				Source/Mean of verification	Remarks
Expected outcome 3: Increase in revenue from collection of assessed taxes owed										
Revenue from collection of assessed taxes owed	R\$ million	211.3			450.0			450.0	Report on operations, issued by the Superintendency of Revenue Collection	
Expected outcome 4: Reduction in accounts payable outstanding at the end of the year										
Ratio between “accounts payable outstanding” and the authorized budget	%	8.56			6			6	General balance sheet of the state, issued by the SEFAZ Superintendency of Management, Planning, and Finance	
Expected outcome 5: Increase in the index of user satisfaction with the standard of excellence in service delivery										
Index of user satisfaction	%	85.71			98.5			98.5	General balance sheet of the state, issued by the SEFAZ Superintendency of Management, Planning, and Finance	Opinion survey

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks
COMPONENT I: INTEGRATED FINANCIAL MANAGEMENT										
System implemented to support the new integrated management planning model	System	0		1				1	Analytical report of the SEFAZ Superintendency of Management, Planning, and Finance	Introduction of an integrated management planning model ¹ with revisions to the way

¹ The model would include a diagnostic assessment of current conditions, a proposal for alternative business models with their respective procedures, a computerized support system and physical and technological adaptation and personnel training.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks
										SEFAZ/GO does business and setting of targets and indicators.
System implemented to support the integrated management of macroprocesses (electronic management of documents)	System	0		1				1	Analytical report of the SEFAZ Superintendency of Management, Planning, and Finance	Implementation of integrated management of macroprocesses.
New technologies adopted from other institutions implemented	Number of new technologies	0		1	1			2	Annual report on operations of the SEFAZ Superintendency of Management, Planning, and Finance	Implementation of an exchange program with other institutions.
COMPONENT II: TAX ADMINISTRATION AND LITIGATION										
Instruments in operation to support inspections of goods in transit	Number of fixed and mobile units	0		2	2			4	Report issued by the new computerized control system with evidence of selection for inspection by the SEFAZ Superintendency of Revenue Collection	Expansion of the electronic compliance system using fixed and mobile units.
Audit system introduced for the electric power and communications sectors and interstate tax substitution	System	0		1				1	Sector reports: electric power, communications, and interstate tax substitution issued by the SEFAZ Superintendency of Tax Administration	Introduction of a new audit system for the electric power and communications sectors and interstate tax substitution.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks
Fiscal intelligence reports available for enforcement	Number of reports available	57				43		90	Report of the compliance monitoring system issued by the SEFAZ Superintendency of Revenue Collection	Improvement of the fiscal intelligence model.
System implemented to support the model for recovering assessed taxes owed	System	0		1				1	Report of the compliance monitoring system issued by SEFAZ Superintendency of Revenue Collection	New model for recovering assessed taxes owed.
System implemented to support management of litigation proceedings	System	0		1				1	Report on operations of the SEFAZ/GO Tax Litigation Office	Model for managing proceedings of the Tax Litigation Office of the PGE.
COMPONENT III: FINANCIAL AND PROPERTY MANAGEMENT AND INTERNAL CONTROL OF FISCAL MANAGEMENT										
System implemented to support management of social programs	System	0		1				1	Report of the social program management system issued by the SEFAZ Superintendency of Management, Planning, and Finance	Integrated information management model for social programs.
Government financial managers certified	Number of managers	0	60	60				120	Certification report authorized by the State Department of the Treasury	Ongoing program for certification of government financial managers.
System introduced to support the new logistics and property management model for SEFAZ/GO	System	0		1				1	Report of the logistics system issued by the SEFAZ Superintendency of Management, Planning, and Finance	Introduction of a logistics and property management model for SEFAZ/GO.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks
Real property reviewed and registered	Number of properties	4,200				10,800		15,000	Report on operations issued by the SEFAZ Superintendency of Management, Planning, and Finance	Improvements to the real property management model of the State of Goiás.
Internal control management system introduced	System	0		1				1	Report on operations issued by the State Audit Office (TCE)	Introduction of the internal control management system.
COMPONENT IV: MANAGEMENT OF INSTITUTIONAL RESOURCES										
Taxpayer services system implemented at regional offices	Number of regional offices	1	3	8				12	Report of the taxpayer services management system issued by the SEFAZ Superintendency of Revenue Collection	Raising the standard for prompt service to taxpayers.
Access control system implemented at SEFAZ facilities	System	0		1				1	Report on operations of the Superintendency of Management issued by the SEFAZ Superintendency of Revenue Collection	Introduction of digital access control.
Storage capacity installed	Amount of storage space or terabytes	35		50				85	Report on operations issued by the Office of Information Technology	Expanded capacity for processing, storing, retrieving and distributing information.
Modern training instruments implemented at regional offices	Number of regional offices	0	6	6				12	Report on operations issued by the SEFAZ Superintendency of Management, Planning, and Finance	Introduction of an "online classroom" instruction model.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/Mean of verification	Remarks
Internal disciplinary instruments introduced for SEFAZ/GO technical staff	Number of instruments	0		3				3	Report on operations issued by the SEFAZ Superintendency of Management, Planning, and Finance	Improved management of the staff disciplinary unit of SEFAZ/GO (Corregedoria Fiscal) Instruments: Code of internal control, manual for control of agreements, manual for accountability analysis.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil

Name: Finance Administration Modernization Program
PROFISCO

Project number: BR-L1233

Executing agency: The State of Goiás, acting through its Department of the Treasury (SEFAZ/GO)

I. EXECUTIVE SUMMARY

The State of Goiás intends to pursue a project under the conditional credit line for investment projects (CCLIP) for the “Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO),” which was approved by the Bank’s Board of Executive Directors on 5 November 2008.

The program will be executed by the State of Goiás, acting through its Department of the Treasury (SEFAZ/GO). The State of Goiás and SEFAZ have substantial experience on projects with the Bank. Judging from the evaluations, it can be concluded that the PROFISCO Program Coordination Unit (PCU) possesses, in general, an adequate organizational structure and sufficient administrative, technical, and financial management capacity for satisfactory execution of the program, according to the conditions and requirements set by the Bank.

The PCU is staffed by career employees of the state government and includes general, technical, and administrative/financial coordinators and a monitoring and evaluation assistant. Beyond this basic structure, the PCU will have output leaders (also career employees) who will be appointed in accordance with the act establishing the PCU.¹ In addition, the Central Procurement Office of the State of Goiás (CENTRAC) will be responsible for all procurement under the program.

II. THE COUNTRY’S FIDUCIARY CONTEXT

Brazil has a sound and transparent legal and institutional system with robust country fiduciary systems enabling good governance of administrative, financial, control, and procurement processes in accordance with the principles of transparency, economy, and efficiency. These systems should be continually improved and strengthened in order to adapt more and more to new fiduciary needs. Thus, the Bank’s fiduciary strategy with

¹ Details for this section are included in the document, “Program institutional arrangements and execution mechanism.”

Brazil is oriented toward the progressive and sustainable use of the country's fiduciary systems.

The financial administration activities of SEFAZ are recorded in the Organizational Public Financial Administration System (SOAFP), which is used for commitment, settlement, and payment of that agency's processes.

SEFAZ has already identified firms that can provide a suitable system for physical and financial management of the project, which will be purchased before project start.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

The PCU will be responsible for **coordination of support for the execution of activities**, management, the technical area of planning and monitoring, the administrative/financial area, and the procurement area.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

Based on the risk analysis conducting in the project design stage, risks were identified in relation to procurement and financial management, namely:

Partial familiarity with Bank policies, especially in the contracting of consulting services, and delays in average contracting times produced by an institutional change. This risk will be mitigated through: (i) training for the PCU team and staff responsible for bidding processes; (ii) approval by the state legislature of a new law on bidding, contracts, and agreements; (iii) final integration of the ComprasNet/GO online procurement system of CENTRAC with the state budget and finance systems and the internal control systems of SEFAZ/GO, PGE/GO, and TCE/GO; and (iv) priority assignment of a staff member from each CENTRAC coordination area to be involved in bidding procedures financed with external funds.

Low project management capacity. This risk will be mitigated through use of the monitoring and evaluation system developed for the CCLIP-PROFISCO credit line, training for PCU staff in project management, and the use of performance and outcome indicators. A permanent advisory position for monitoring and evaluation has been created at the PCU for that purpose. In addition, in the event of technical staff turnover, the executing agency will submit the CVs of potential candidates to the Bank for consideration.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

The procurement agreements and requirements establish the rules to be followed for the execution of all procurements under the projects.

1. Procurement execution

Procurement of works, goods, and nonconsulting services. Procurements of works, goods, and technical services to be financed, in whole or part, with loan proceeds will be

conducted in accordance with the “Policies for the procurement of goods and works financed by the Inter-American Development Bank” (document GN-2349-9) of April 2011.

International competitive bidding (ICB) will be used for procurements of works, goods, and services with an estimated cost of US\$5 million or more, following the procedures established in Section II of document GN-2349-9.

The Bank of may recognize the financing of the following procurement modalities established in Brazilian federal legislation for off-the-shelf goods and services, provided that the corresponding standard bidding document is used: (i) electronic auction, using the ComprasNet/GO or the e-bidding system of Banco do Brasil, for procurements of off-the-shelf goods and services with an estimated cost of US\$5 million or less; (ii) a price list, for off-the-shelf goods with an estimated cost of US\$5 million or less, provided that it has been previously accepted by the Bank; and (iii) live reverse auction, for procurements of off-the-shelf goods and services with an estimated cost of US\$100,000 or less.

Recognition of expenditures. The Government of the State of Goiás has incurred expenditures during program preparation in the procurement of eligible goods and services chargeable to the counterpart contribution and the loan proceeds. The government has asked the Bank to recognize up to US\$500,000 against the local counterpart, and up to US\$2.315 million against the loan proceeds, in expenditures incurred up to 18 months prior to approval of the operation by the Bank’s Board of Executive Directors. Procurements will follow the rules established in local legislation and comply with policy documents GN-2349-9 and GN-2350-9,² as applicable.

Selection and contracting of consulting services. The selection and contracting of consulting services to be financed, in whole or part, with loan proceeds in the context of the program will be conducted in accordance with the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9) of April 2011.

The selection and contracting of consulting firms will be conducted in accordance with the methods established in Section II (Quality- and cost-based selection) and Section III (Other methods of selection) of document GN-2350-9, basing the structure of the processes on the guidelines and policies described in Section II.

If the estimated cost of the contract is US\$1 million or more, the short list shall comprise six consulting firms, with no more than two firms from any one country, as provided in paragraph 2.6 of document GN-2350-9.

² The procedures described in these policies apply to all procurements of goods and works financed, in whole or in part, with the loan proceeds. The borrower may adopt other procedures for the procurement of goods and works not financed from a loan. In such cases, the Bank shall be satisfied that the procedures to be used will fulfill the Borrower’s obligation to cause the project to be carried out diligently and efficiently, and that the goods and works to be procured: (i) are of satisfactory quality and are compatible with the balance of the project; (ii) will be delivered or completed in timely fashion; and (iii) are priced so as not to affect adversely the economic and financial viability of the project.

Domestic preference. No national margins of preference will apply.

1. Table of threshold amounts (US\$000)

Works			Goods ³			Consulting	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity consulting	Shortlist 100% national
25,000	500 – 25,000	< 500	> 5,000	100 – 5,000	< 100	> 200	< 1,000
Threshold for ex post review							
Works		Goods			Consulting services		
< 25,000		< 5,000			< 1,000		
Note: The thresholds for ex post review are based on the fiduciary capacity of the executing agency, and may be modified by the Bank as that capacity changes.							

Direct contracting. The borrower may directly contract the School of Public Finance Administration (ESAF) of the Ministry of Finance to provide training services to state public administration personnel. The direct contracting of ESAF is justified by the specific features and nature of the services it provides to all Brazilian states (training and knowledge management), contributing to project sustainability, sharing of knowledge and experiences, and sustaining the supply of such products and services once the project ends.

2. Main procurement processes

Description of planned procurement	Estimated value (US\$000)	Selection method
Works		
1. Physical improvements at 3 tax offices of the Office of Revenue Collection and Special Programs, at the regional offices, and at the Treasury Complex for installation of the classroom facility.	647	NCB
Goods and technical services		
1. Computer hardware (desktop and notebook computers, monitors, and printers)	2,967	Electronic auction
2. Utility vehicles for mobile inspections	1,026	Price list
3. Furniture, equipment, and instruments for tax offices	1,300	Electronic auction
Consulting firms		
1. Strategic planning methodology	350	QCBS
2. Information technology master plan	250	QCBS
3. Electronic document management	200	QCBS
4. Workflow integrating SEFAZ/PGE	375	QCBS
5. Training for managers in the financial area	337.5	DC-ESAF

³ Includes nonconsulting services.

3. Procurement supervision

The project team conducted an analysis of the executing agency's capacity to administer procurements. Based on that analysis, it was determined that the first two contracting processes for consulting services and the first contracting process for an individual consultant will be subject to ex ante review by the Bank. Based on the annual audit reviews, the Bank may modify the review modality indicated in the procurement plan.

4. Special Provisions of the loan contract

None, other than those already established for the CCLIP-PROFISCO credit line.

5. Records and file

The program records and files shall meet at least the following conditions:

- a. Records/processes will contain original documentation filed in chronological order;
- b. Records/files will be stored in an appropriate place set aside for that purpose, with restricted access and security measures. A designated individual will keep track of all movements of these documents, as well as implement and oversee compliance with the security measures.
- c. The individual responsible for the files will review all documents checked out upon their return, and record any movement of documents that occurs.
- e. A record will be kept of all the documentation on file.

6. Financial management agreements and requirements

The PCU will be responsible for strategic and technical coordination of the program and will set program priorities and guidelines.

The PCU, reporting to SEFAZ, will also be responsible for operational communication with the IDB and support for operational execution of activities, including: (i) planning of activity execution according the program execution plan (PEP), budgets, and annual work plan (AWP); (ii) preparation and update of the initial project report, AWP, procurement plan, six-monthly status reports, evaluation reports, and project completion report; (iii) management, monitoring, and supervision of AWP execution and the indicators established in the operation's results matrixes; (iv) budgetary and financial programming for the program and execution of the corresponding monitoring activities; (v) implementation and maintenance of a control system to ensure proper use of the loan proceeds, as well as the storage and safekeeping of project documents; (vi) execution and supervision of technical aspects of the program; (vii) execution of the activities necessary to conduct program procurements; (viii) preparation of technical files for the execution of each component; (ix) formulation of technical specifications and terms of reference for procurement processes; (x) preparation and regular delivery of program status reports, from the quantitative and qualitative standpoints; (xi) fiduciary administration of operation execution and responsibility for contracting and financial administration of the program, including funding and payments, preparation of financial reports,

accountability, preparation of disbursement requests, and provision of information for audits.

The project budget will be duly recorded and executed through the management system to be purchased by SEFAZ in the near future, which must have full functionality for the execution of IDB projects.

The budget for program activities will be approved by an appropriate legal instrument. The Bank will reimburse eligible project expenditures, in accordance with the agreements established and executed.

A. Accounting and information system

The project's budgetary and financial execution will be performed directly through the SOAFP system, which will be duly adapted for such purpose.

In addition to the Bank's standardized reports, the financial module will generate the "financial plan" report to settle project requests for advances of funds.

B. Disbursements and cash flows

The Program will operate on the basis of reimbursement of expenditures already incurred. However, SEFAZ has the prerogative of working with funds advanced by the Bank, if it decides to do so in the future.

The PCU will submit an initial financial plan to the Bank, which must include the disbursement schedule for the entire execution period. For future advances (if any), at least 80% of the funds advanced must be accounted for, and a new financial plan submitted for the period in question.

For the purposes of accounting for the loan proceeds and local contribution resources, amounts paid in local currency will be converted into the currency of the operation in accordance with following exchange rules:

- (i) The same exchange rate used to convert the resources disbursed in U.S. dollars into the currency of the borrower's country. In such case, the exchange rate in force on the submission date of the request to the Bank will be used for the reimbursement of expenditures chargeable to the loan and for the recognition of expenditures against the local counterpart; Expenditures considered ineligible by the Bank will be repaid with the local contribution resources or other resources, at the borrower's discretion, depending on the nature of the ineligibility.

C. Internal control and audit

Internal control at SEFAZ is exercised by the agency itself, acting through the Tribunal de Contas do Estado de Goiás [State Audit Court of Goiás] (TCE/GO), the permanent institution also responsible for the internal audit function.

D. External control and reports

The State Audit Court (TCE/GO) will perform the external control function.

The project will deliver annual financial statements to the Bank, duly audited by TCE/GO or by a previously selected independent audit firm engaged in accordance with the Bank's specific policy and procedures.

The reports and opinions issued must follow the content guidelines set by the Bank for external audits, and must be delivered to the Bank within the time stated in the loan contract.

E. Financial supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Responsibility	
			Bank	Third party
OPERATIONAL	Review of physical progress of the component actions and activities as compared with disbursements	Six-monthly	Technical team	
	Review of status report	Six-monthly	Fiduciary and technical teams	Executing agency
	Review of portfolio	Annual	Technical team	
FINANCIAL	Ex ante and ex post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		State Audit Court or external audit firm
	Review of disbursement requests and accompanying reports	Periodic	Fiduciary team	
	Inspection visit and analysis of internal controls and control environment	Annual	Fiduciary team	
COMPLIANCE	Annual budget allocation for project execution	Annual	Fiduciary team	Executing agency
	Delivery of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to first disbursement	Once	Fiduciary and technical teams	Executing agency

F. Execution mechanism

The execution mechanism described in the proposal for operation development (POD) will require an administrative/financial execution structure centralized through the executing agency for annual budget formulation and financial execution for both the local contribution and the IDB financing.