

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROGRAM FOR FISCAL BALANCE CONSOLIDATION TO IMPROVE
PUBLIC SERVICE DELIVERY IN THE STATE OF AMAZONAS
(PROCONFIS AM)**

(BR-L1385)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED (REL)	
1. Policy Letter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38278079
2. Means of verification	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38095867
3. Results Matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38089867
4. Monitoring and evaluation plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38089951
OPTIONAL (OEL)	
1. Economic Analysis	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38089929
2. Study of the Public Finances and Fiscal Sustainability of the State of Amazonas	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38090117
3. Agreement on the Restructuring and Fiscal Adjustment Program for 2010-2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38095914
4. Agreement on the Restructuring and Fiscal Adjustment Program for 2011-2013	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38095941
5. Agreement on the Restructuring and Fiscal Adjustment Program for 2012-2014	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38096002
6. PROCONFIS/AM consultation letter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38096024
7. Law authorizing the PROCONFIS/AM operation	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38096037
8. Problems, Solutions, Outcomes, and Policy Matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38089972
9. Safeguard Filters	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37928759
10. Overview of Crime and Public Policies for Security in Brazil and Amazonas	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38182877
11. Costs of AISC in Manaus, Metropolitan Region of Manaus, and the Interior	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38182903
12. Public Management of Integrated Citizen Security Areas (AISCs) in Manaus	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38182906
13. SEFAZ Technical Notes - Component II	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38195905
14. SEFAZ Technical Notes - Component III	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38195912
15. SEFAZ Technical Notes - Component IV	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38195917

ABBREVIATIONS

AFI	Administração Financeira Integrada [Integrated financial administration system]
AISC	Área Integrada de Segurança Cidadã [integrated citizen security area]
COFIEIX	Comissão de Financiamentos Externos [External Financing Commission]
DIP	Distrito Integrado de Polícia [integrated police district]
DOE	Diário Oficial do Estado [Official Gazette of the State]
DT-e	Domicílio Tributário Eletrônico [Electronic tax address]
FUNDEB	Fundo de Manutenção e Desenvolvimento da Educação Básica e de Valorização dos Profissionais da Educação [Fund for the Maintenance and Development of Basic Education and Upgrading of Education Professionals]
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre Circulação de Mercadorias e Prestação de Serviços [Goods and services sales tax]
IPSAS	International Public Sector Accounting Standards
LIBOR	London Interbank Offered Rate
MPE	Ministério Público do Estado [State Public Prosecutor's Office]
NBCASP	Normas Brasileiras de Contabilidade Aplicadas ao Setor Público [Brazilian Public Sector Accounting Standards]
NFC-e	Nota Fiscal de Consumidor eletrônica [consumers' electronic tax invoice]
PAF	Fiscal Adjustment Program
PBL	Policy-based loan
PGE	Procuradoria Geral do Estado [Office of the State Attorney General]
PNAFE	National Fiscal Administration Support Program for Brazilian States
PROCONFIS	Program for fiscal balance consolidation for development
PROFISCO	Program to Support the Integration and Management of Tax Administrations in Brazil
R\$	Brazilian reais
SEFAZ	Secretaria de Fazenda [Finance Department]
SEFAZ/AM	Secretaria de Fazenda do Estado do Amazonas [Amazonas State Finance Department]
SEPLAN	Secretaria de Estado do Planejamento e do Desenvolvimento Econômico [State Planning and Economic Development Department]
SSP	Secretaria de Estado de Segurança Pública [State Public Safety Department]
STN	Secretaria do Tesouro Nacional [National Treasury Department]

PROJECT SUMMARY

BRAZIL

PROGRAM FOR FISCAL BALANCE CONSOLIDATION TO IMPROVE PUBLIC SERVICE DELIVERY IN THE STATE OF AMAZONAS (PROCONFIS AM) (BR-L1385)

Financial Terms and Conditions			
Borrower: State of Amazonas		Flexible Financing Facility (FFF)*	
Guarantor: Federative Republic of Brazil		Amortization period:	20 years
Executing agency: State of Amazonas, through the Amazonas State Finance Department (SEFAZ/AM)		Original WAL:	12.5 years
		Disbursement period:	2 years
		Grace period:	5 years
Source	Amount	Inspection and supervision fee:	**
IDB (Ordinary Capital):	US\$184 million	Interest rate:	LIBOR
Counterpart:	0	Credit fee:	**
Total:	US\$184 million	Currency:	U.S. dollars from the Ordinary Capital
Project at a Glance			
Project objective/description: The program's objective is to promote the State's fiscal sustainability in order to resume the levels of State investment necessary to deliver public services. To that end, the program will support policy actions aimed at: (i) increasing tax revenues; (ii) improving financial management of both expenses and liabilities; and (iii) rationalizing the use of resources in the citizen security area. This operation is a policy-based loan with estimated financing of US\$184 million. The proceeds from the Bank's loan will be disbursed in two tranches, the first of US\$165.6 million and the second of US\$18.4 million. The operation stems from Brazil's prepayment and use of the reallocation program (documents FN-672-1/ GN-2724) associated with the prepayment made by the Government of Brazil; accordingly the amortization schedule cannot be altered and will consist of equal, consecutive, semiannual payments once the grace period has expired.			
Special contractual clauses: The disbursement of the proceeds in two tranches will be contingent on fulfillment of the conditions set out in the Policy Matrix (see Annex II).			
Exceptions to Bank policies: None			
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []			

* The loan will benefit from the options offered under the Flexible Financing Facility (document FN-655-1), including currency and interest rate conversions, except for the flexibility to change the amortization schedule, which will consist of consecutive, semiannual, and, to the extent possible, equal installments at the end of the grace period.

** 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.

I. DESCRIPTION OF THE PROGRAM

A. Frame of reference and rationale

- 1.1 **Macroeconomic situation in Brazil¹ and the State of Amazonas.** Brazil has seen a deterioration in its macroeconomic situation over the last year as a result of weak growth, inflationary pressures, and external account difficulties. At the start of the year the government therefore lowered its growth forecasts for 2013 and 2014 from 3.3% and 3.7%, to 2.2% and 2.5%, respectively. Annual inflation has stood at around 6% and it is expected to remain above the central bank's 4.5% target in the medium term. In the first eight months of 2013 the current account deficit came to 3.9% of gross domestic product (GDP).
- 1.2 Both domestic and external factors underlie the deterioration in Brazil's macroeconomic situation. On the domestic side, high levels of household debt and the start of a contraction in the labor market slowed the rate of consumption growth, while at the same time levels of public investment have remained very low. The external factors include uncertainty over the course of the United States fiscal and monetary policy in the short and medium term, which has fueled exchange rate volatility. Less vigorous growth in China and the slow recovery of the developed economies have also had a negative impact on the trade transactions of producers of commodities.² Macroeconomic risks have intensified, though they remain at manageable levels.³
- 1.3 Amazonas is Brazil's biggest state⁴ and is larger than any of the countries of South America except Argentina. It has a population of 3.6 million, similar to Caracas. The population density is lower than that of every country in the world except Mongolia.⁵ Its borders with Colombia, Peru, and Venezuela extend for approximately 3,500 km and are difficult to control.⁶ The state has a significant industrial hub, comprising around 600 companies,⁷ creating jobs for approximately 110,000 people, with an annual output of R\$81.4 billion in 2012,⁸ which allowed Amazonas to post real GDP growth rates above the national average (5.1%

¹ See Independent Macroeconomic Assessment (IMA).

² The Real-Dollar exchange rate has depreciated by more than 15% since May 2013, which will help rebalance growth components in the future, encouraging exports rather than domestic consumption.

³ Debt remains at sustainable levels and is in line with the base scenario. The high level of international reserves provides support allowing the central bank to reduce exchange rate volatility and thus prevent the transmission of external shocks to the domestic economy.

⁴ Area of 1,559,161 km² (18% of the country). Source: Brazilian Institute of Geography and Statistics (IBGE).

⁵ Source: IBGE.

⁶ This difficulty controlling the borders is due to the fact that they are in the heart of the Amazon jungle, where the vegetation and network of rivers create an environment that makes the circulation of goods and people difficult.

⁷ Electronic equipment (TV, telephones), bicycles, and motorcycles. Source: Superintendency of the Manaus duty-free zone.

⁸ Much, but not all, of this production generates value added for the composition of Amazonas's GDP.

compared with 4.1%) between 2002 and 2010.⁹ For 2012 it is estimated that the state's GDP was 1.6% of the country's total, which equates to a per capita income of R\$19,440,¹⁰ equivalent to 86% of the national average.¹¹ The human development index in Amazonas is 0.713, which is also below the Brazilian average.¹²

- 1.4 To guarantee these levels of growth, and improve its low social indicators, since the start of the decade the state government has been making public investments above the national average.¹³ Ranked by size of investment, the following social areas were targeted:¹⁴ (i) improving the education sector, with a view to increasing the level of human development in the state and generating new technologies; (ii) expanding the health care network inside the state, aimed at offsetting the sharp social disparity between the capital and the interior;¹⁵ and (iii) strengthening public safety, with a view to reducing crime, particularly in the city of Manaus.¹⁶ As described below, these investments have played a significant role in the increase in the state's current expenditure.
- 1.5 **Situation of the state's public finances.** Current revenue¹⁷ in 2012 was 18.9% of GDP, an increase of 1.4 points on the previous year.¹⁸ Tax revenues, on the other hand, came to 10.4% of GDP, a higher share than the average for Brazil as a whole.¹⁹ The most important source of own revenues is the goods and services sales tax (ICMS),²⁰ which raised the equivalent of 9.6% of GDP in 2012.²¹ Amazonas is fourteenth out of a total of 27 states in terms of ICMS collection in Brazil, and in first place in the North.

⁹ GDP figures are only available for all Brazil's states up to 2010. After this date values are estimates.

¹⁰ Equal to approximately US\$8,500. Amazonas is Brazil's 11th richest state out of a total of 27. Source: IBGE.

¹¹ Source: IBGE.

¹² The national average was 0.766. Source: <http://www.ipeadata.gov.br/>.

¹³ Public investments as a share of GDP (2006-2012): Amazonas = 2.55% and Brazil = 1.1%. Source: National Treasury Department (STN) (2012).

¹⁴ Investment percentages in the 2006-2012 period: education = 44%, health = 24% and public safety = 8%.

¹⁵ Manaus accounts for 50% of the state's population and almost the whole of the health sector's public and private service network. Source: "*Desigualdades Regionais e Sistema de Saúde no Amazonas: O caso de Manaus*," [Regional inequalities and the health system in Amazonas: the case of Manaus], Oswaldo Cruz Foundation (FIOCRUZ) – Sergio Arouca National School of Public Health (ENSP), 2004.

¹⁶ 80% of the state's GDP is produced in the city of Manaus.

¹⁷ Excluding deductions and capital revenue.

¹⁸ Between 2011 and 2012 current income increased by 14% in nominal terms, rising from R\$11.4 billion to R\$13.0 billion, while inflation stood at 5.8% in 2012.

¹⁹ The average for the North was 9.5% and for Brazil, 8.8% in 2011. Source: IBGE (2012).

²⁰ ICMS is a state value added tax.

²¹ ICMS accounts for 50.6% of total current revenues.

Table 1.1: Public Budget Execution of the State of Amazonas (% of GDP)

Description / Year	2006	2007	2008	2009	2010	2011	2012
Revenue							
1 Current revenue	15.7	16.7	18.3	16.7	16.8	17.5	18.9
1.1 Tax revenues	9.2	9.5	10.6	9.4	10.0	9.8	10.4
1.1.1 ICMS	8.6	8.8	9.8	8.6	9.3	9.1	9.6
1.1.2 Other taxes	6.6	0.7	0.8	0.8	0.7	0.7	0.8
1.2 Current transfers	4.8	5.0	5.8	4.8	4.7	4.8	4.9
1.3 Other current revenue	1.7	2.3	2.0	2.5	2.1	2.9	3.6
2. Deductions FUNDEB - Education	(1.3)	(1.6)	(1.9)	(1.9)	(1.9)	(1.9)	(2.0)
3. Capital revenue	0.4	0.5	0.7	2.2	1.3	0.7	1.4
4. Intra-budget revenue	-	-	-	-	-	-	0.4
Total net revenue (1+2+3+4)	14.8	15.7	17.1	17.1	16.2	16.3	18.8
Expenditure							
1. Current expenditure	12.0	12.6	13.6	13.7	13.0	13.5	14.5
1.1 Staff	6.0	6.2	6.6	6.9	6.2	6.7	7.2
1.2 Interest and debt charges	0.3	0.3	0.2	0.2	0.3	0.3	0.3
1.3 Other current expenditures	5.7	6.2	6.8	6.5	6.5	6.5	7.0
2. Capital expenditure	2.7	2.4	3.0	3.8	3.3	2.9	2.7
2.1. Investments	2.3	2.1	2.7	3.4	2.8	2.4	2.2
2.2. Debt repayments	0.3	0.3	0.3	0.3	0.3	0.4	0.5
3. Intra-budget expenditures	-	-	-	-	-	-	0.4
Total expenditures (1+2+3)	14.7	15.0	16.6	17.5	16.3	16.3	17.6
Budget outturn	0.1	0.7	0.4	(0.4)	(0.1)	(0.02)	1,2*
GDP (R\$ million - nominal values)	39,157	42,023	46,823	49,614	59,779	65,039	69,113

* This positive budget outturn in 2012 is the result of transitional income and accounting adjustments.

- 1.6 Current expenditure²² came to 14.5% of GDP in 2012, up one point on the previous year. This increase in current expenditure is partly explained by the high operating costs²³ stemming from public investments over the last decade in labor-intensive sectors.²⁴ Staff costs came to 7.2% of GDP in 2012, representing an increase of 1.2 points over the period 2006-2012. Other current expenditure, including operating expenses, increased by 1.3 points of GDP over the period, totaling 7.0% of GDP in 2012.

²² Excluding capital expenditure.

²³ Real operational expenditure growth rate 2011-2012: public safety = 22.8%; health 1.3%; and education = 7.7%.

²⁴ Public employee compensation policy envisages an annual salary increase based on a minimum inflation-rate correction.

- 1.7 One of the fastest growing public spending items in the Amazonas state budget²⁵ in recent years has been Public Safety. Between 2010 and 2012 spending in this sector rose, in real terms, by 40.4%, outpacing increases in spending on education (12.7%), debt-servicing (9.6%), and health (1.3%). This significant increase in the sector's expenses is primarily due to the implementation of the *Ronda no Bairro* [neighborhood patrol] program,²⁶ which is part of the state's efforts²⁷ to tackle rising crime and violence.²⁸ Expenditures in the sector are estimated to continue rising for the next two years.²⁹
- 1.8 The state ran a budget deficit over the 2009-2011 period.³⁰ The Finance Department (SEFAZ) forecasts a budget deficit in 2013 of approximately 0.9% of GDP,³¹ mainly explained by nominal growth in staff costs (7.6%) and other current expenditure (23.5%). Although the deficits posted in the years 2009-2011 were less than one point of GDP, this scenario began to deteriorate in 2013, with an estimated spending cut of at least 1% of GDP being necessary.
- 1.9 This trend is confirmed by the fact that in the 2006-2009 period Amazonas registered an average annual increase in investment of around 0.36 points of GDP, whereas in the 2010-2012 period there was a drop of 0.3 points of GDP per year. If this downward trend continues, negative impacts on the state's economic growth may emerge, with further impacts in the public safety, education, and health sectors, in which the government has prioritized to a significant share of public investment.

B. Progress and outcomes in management

- 1.10 The Government of the State of Amazonas has been promoting various initiatives over the last five years to improve the State's fiscal management. The fiscal network procedure³² was introduced in tax administration, which aims to enable early detection of inconsistencies in the information submitted by taxpayers in their

²⁵ The areas with the highest spending as a percentage of the total budget in 2012 were: debt service (21%), health (16%), education (15%), and public safety (9%). Source: SEFAZ-AM 2012.

²⁶ The program has financed the procurement of a new fleet of vehicles and modern communications equipment, an increase in the number of police officers, both for the civil police, responsible for criminal investigations, and for the military police, responsible for preserving the public order.

²⁷ The Amazonas police integration program has its own regional characteristics, whose outcomes are not comparable with those of other community police projects in other Brazilian states, such as Rio de Janeiro, São Paulo and Minas Gerais.

²⁸ In the 2000s the homicide rate per 100,000 inhabitants rose from 19.8 to 30.6 in 2010, which is higher than Brazil's average (26.2). In 2011 Amazonas had the second highest rate of robberies, reaching 1,038 per 100,000 inhabitants. A rate of 30 homicides per 100,000 inhabitants is considered to be comparable to the impact of a civil war. The government has therefore given priority to actions in this area.

²⁹ The number of police officers and their salaries are expected to rise in 2014 and 2015 (Law 3,722/2012).

³⁰ Budget deficit in relation to GDP: 2009 = -0.54%; 2010 = -0.11%, 2011 = -0.02%.

³¹ Value estimated by SEFAZ-AM based on expenses authorized to June 2013.

³² This is a tool for cross-checking and validating information allowing the inconsistencies between data from different information sources to be detected (mesh/filter).

tax returns and other documents required by the tax authorities. At the same time this procedure serves as a tax education tool for taxpayers and gives the tax administration a solid foundation of data in order to start tax proceedings to recover unpaid debts.

- 1.11 Procedures for electronic notices of infraction³³ and the electronic tax address were also implemented, complementing the fiscal net process by automatically sending out notifications to taxpayers, specifying the precise infraction³⁴ and calculating the payment due, with notifications being sent directly to taxpayers' electronic addresses. The digital certification procedure was also implemented, providing all tax inspectors certified access to process tax information securely on an electronic platform.
- 1.12 Improvements were made in financial administration in terms of budget execution control, particularly in the integrated financial administration system (AFI), enabling automatic month-end and year-end reconciliation of the public accounts, and automatic bank reconciliation of all state payments through the AFI system. Additionally functionality was added to allow standardized periodic depreciation of State assets in the asset management system. Lastly, in the human resources area, a public competitive recruitment exam was held to cover staff shortages in all SEFAZ areas, and physical infrastructure is being refurbished, with the aim of ensuring appropriate workplaces for staff and taxpayers.
- 1.13 Beginning in the first half of 2012, the citizen security sector implemented the *Ronda no Bairro* program in Manaus, which consists of targeting and joint action by the police, addressing the same target population in the territory in a coordinated manner, through integrated civil and military police districts (DIPs).³⁵ The program

³³ This is an automatic taxpayer notification system that is independent of the inspector's intervention. As soon as the evaluation of a taxpayer with inconsistencies is completed, the system issues a notice of infraction, which is sent to the taxpayer's electronic address.

³⁴ An infraction is a breach of the tax legislation, such as application of incorrect tax rates, deductions which cannot be confirmed to be applicable, failure to submit documents by the set deadlines, and filing of documents with mandatory fields left blank.

³⁵ The Amazonas police integration program has its own regional characteristics but is based on effective intervention models for reducing crime and violence. There is empirical evidence that the police are more effective when: (i) they plan and target interventions in areas where crime is concentrated (Sherman, L. and Rogan, D., 1995); police concentration at hot spots proved effective in reducing crime. (The Minneapolis Hot Spots (Weisburd, 2012)); and (ii) community-based policing is instituted, aimed at solving problems (Herman Goldstein, 2001-2012).

has contributed to reducing the homicide rate in the six areas of the capital where it has been implemented.³⁶

C. Obstacles to the state's continued development³⁷

- 1.14 In this context, one of the State of Amazonas's main challenges is to build a solid foundation for promoting fiscal sustainability while aiming to return investments at least to historical levels and maintain the quality of public services such as citizen security. In this regard, a series of shortcomings both in the State's tax and finance administration and in the management of the citizen security sector have been identified, which seriously limit fiscal capacity and the efficiency with which Amazonas manages the resources earmarked for implementing citizen security policies.
- 1.15 From the tax administration standpoint, it is difficult to control tax compliance in the area of retail sales to end consumers;³⁸ traffic of goods between states;³⁹ integration between the bodies involved in investigating tax offenses;⁴⁰ and use of available information on commercial transactions.⁴¹ Shortcomings in collections include delays in handling administrative tax proceedings⁴² and tax claims registered in adjudicated tax debt. All these factors make it difficult to raise tax revenue levels.
- 1.16 In the financial administration area, shortcomings exist in controlling operational expenses. Expenses of executive branch agencies⁴³ and public procurement processes⁴⁴ do not use planning, monitoring, and evaluation mechanisms in competitive bidding processes. The difficulties in financial execution involve the control over payments to suppliers⁴⁵ that generate additional expenses in the form

³⁶ According to the Diagnostic Assessment of Crime in Amazonas for 2012, performed by the Amazonas Public Safety Department (SPP/AM), in the last five months of 2012, the homicide rate fell by 18% in the capital, compared with the same months of the previous year. The studies "Technical note on costs" and "Crime outlook" include an analysis of the administrative data that compares the effect observed in the Northern Zone of Manaus, where the program was implemented for the first time, with the Southern Zone, which has similar socioeconomic characteristics and populations but was not the target of an intervention, and the net effect of the intervention was a 4.5% drop in crime (458 incidents).

³⁷ The diagnostic assessment in this section is based on the Problems, Causes, Solutions, and Policies Matrix.

³⁸ Of 34,034 registered taxpayers, only 5,883 issue receipts.

³⁹ No goods from other states are recorded on entry or checked on exit.

⁴⁰ Absence of internal procedures to determine criminal liability of tax evaders.

⁴¹ Of almost 100 types of management consultation with cross-checking of information, only 23 are carried out by the system.

⁴² Average time for a prosecution under administrative tax proceedings at 1st and 2nd instance is 745 days, 60% higher than the Brazilian average.

⁴³ For example, in 2011, out of a total of 50 entities, 22 presented significant differences between budgeted expenses and disbursements for energy consumption.

⁴⁴ From January to April 2013, 49% of the competitive bidding processes with reference prices were declared void.

⁴⁵ In 2012 suppliers with adjudicated tax debt of R\$6 million received payables of R\$38 million.

of interest and fines for delays⁴⁶ and inflated prices for goods and services.⁴⁷ In the case of public investment, there are difficulties in the public-private partnership planning and managing processes.⁴⁸ There are also difficulties managing public liabilities due to the lack of information on contingent liabilities, particularly *precatórios*⁴⁹ under the jurisdiction of the Office of the Attorney General (PGE);⁵⁰ as well as deficiencies in monitoring state public debt, which leads to uncertainty in budget management.

- 1.17 Lastly, management of the citizen security sector presents deficiencies in this area's resource use, as a result of duplication of effort and a lack of coordination between the civil and military police (see paragraph 1.7). In 2012 the government implemented the *Ronda no Bairro* program,⁵¹ which has made it possible to start the physical integration of the two police forces, with integrated civil and military police districts (DIPs) in six areas of the capital. Despite this progress, the police forces' joint work faces difficulties in terms of setting priorities, assigning resources, and adopting harmonized working procedures to ensure operational sustainability. This is primarily due to the lack of a central body in charge of these activities. In turn, the possibility of boosting the efficiency with which these resources are assigned is limited by the lack of performance monitoring and evaluation mechanisms for police activity and expenditure,⁵² the lack of coordination between the state, municipalities, and civil society,⁵³ and the nonexistent disclosure of crime information, which would allow society to monitor police activity.

D. The Bank's country and sector strategy

- 1.18 The program's intervention areas are aligned with the Bank's country strategy with Brazil for 2012-2014 (document GN-2662-1), the outcomes of which include: (i) improvement in the states' fiscal position and greater availability of investment resources; (ii) an increase in the fiscal transparency index at the subnational level, with improved accessibility to finance portals; and (iii) more effective public spending on security. The program will help achieve the goals of the Ninth General Increase in the Resources of the Bank (document AB-2764), by supporting the sector priority of "institutions for growth and social welfare," through its contribution to regional targets for the "Ratio of actual to potential tax revenues"

⁴⁶ In 2012 R\$2.6 million was paid in fines and interest on energy consumption charges, representing 2.7% of the total.

⁴⁷ Management units used different prices to contract identical services.

⁴⁸ Absence of a functional set of rules for public-private partnership management unit.

⁴⁹ Court orders requiring the State to pay citizens. Totalling R\$34 million in 2012.

⁵⁰ Lack of consolidated data on court proceedings that would make it possible to analyze fiscal risk.

⁵¹ "*Ronda no Bairro*" was only implemented in the city of Manaus. It is due to be rolled out to 14 more cities in the state in 2013 and 2014.

⁵² There are no mechanisms for evaluating police performance.

⁵³ Absence of community councils to foster coordination between these bodies.

and “Public expenditure managed at the decentralized level as a percentage of total public expenditure.” The program is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in relation to: (i) improving public service delivery; (ii) generating revenues; (iii) strengthening fiscal sustainability; and (iv) reducing insecurity and violence.

- 1.19 Over the last 15 years the Bank has been one of Brazil’s main partners in the process of decentralizing and modernizing fiscal management, having successfully executed several operations at all three levels of government. The Bank has been leading a major sector dialogue with fiscal authorities, through credit operations, technical cooperation operations, seminars, and studies⁵⁴ such as: (i) the National Fiscal Administration Support Program for Brazilian States (PNAFE) (980/OC-BR) approved in 1996; (ii) the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (PNAFM) (1194/OC-BR) approved in 1999; and (iii) the Program to Support the Integration and Management of Tax Administrations in Brazil PROFISCO (BR-X1005) approved in 2008 and for which the maximum amount was increased in 2013. These activities have fostered greater integration between Brazil’s various tax authorities.⁵⁵
- 1.20 The Bank has also been supporting states through programs for fiscal balance consolidation (PROCONFIS), which aim to promote economic and social development, expand the space for investment, and improve the quality of public spending and the delivery of services to citizens. PROCONFIS AM incorporates successful experiences from similar projects in Brazil,⁵⁶ implemented by the states of Bahia and Rio Grande do Sul.
- 1.21 In the public revenue area, PROCONFIS AM envisages policies focused on expanding the use and processing of electronic tax invoice (NF-e) data, which provided the aforementioned states with a significant increase in ICMS revenues.⁵⁷ In the public spending area, policies to strengthen public procurement planning and expand the use of electronic auctions⁵⁸ and price lists⁵⁹ stand out, having enabled

⁵⁴ See: (i) Tax Reform in Brazil–IDB 2003; (ii) The Political Economy of Fiscal Reform in Brazil–IDB 2010; and (iii) Structural Reforms in Brazil–IDB 2012.

⁵⁵ See Brazil sector note and study on the impact of PNAFE ([OEL21](#)).

⁵⁶ PRONCOFIS Bahia (2081/OC-BR); PRONCOFIS Rio Grande del Sur (2850/OC-BR); and PROCONFIS Bahia II (2841/OC-BR).

⁵⁷ (i) PROCONFIS BA: from R\$8.767 billion in 2007 to R\$9.851 billion in 2009 (Source: PCR/BA); (ii) PROCONFIS RS: from R\$19.5 billion in 2011 to R\$21.3 billion in 2012 (Source: SEFAZ/RS); and (iii) PROCONFIS BA II: from R\$12.1 billion in 2011 to R\$15.5 billion in December 2013 (Source: SEFAZ/BA – projection based on values from January to August 2013 of R\$10.2 billion). (All in nominal values).

⁵⁸ (i) PROCONFIS BA: R\$20 million in 2007 to R\$10 million in 2009 in the contracting of security and cleaning services (Source PCR/BA); and (ii) PROCONFIS BA II: R\$567 million in 2011 to R\$434 million in August 2013 in the contracting of third-party services (Source: Technical Note SAEB/BA). (All in nominal values).

⁵⁹ PROCONFIS RS: reduction from R\$530 million in 2011 to R\$505 million in August 2013 in procurement of consumables and equipment (Source: Technical Note SEFAZ/RS). (All in nominal values).

considerable savings in the states that implemented them. Additionally, the program's value added is that in addition to promoting a series of reforms in the fiscal area, it also incorporates policy actions in the citizen security sector, which is a priority for the government.

- 1.22 The Bank and the State of Amazonas have been working on the preparation of an investment operation (PROFISCO-AM, BR-L1388), the objective of which is to improve the efficiency and transparency of the state's fiscal management, through the financing of activities aimed at modernizing its management instruments and/or systems. Thus, PROFISCO-AM will make it possible to consolidate the operational foundations for implementing the policies that are the subject of this operation. There are thus synergies and complementarities between this and the proposed operation.
- 1.23 **Collaboration between Bank divisions.** The breadth of the proposed policy framework called for coordination with other Bank sectors. The project is therefore a "double booking" between IFD/FMM and IFD/ICS.

E. Program objectives and description

- 1.24 The program's objective is to promote the fiscal sustainability of the State of Amazonas to enable it to resume the levels of state investment necessary to deliver public services. To that end, the program will support policy actions aimed at: (i) increasing tax revenues; (ii) improving financial management of both expenses and liabilities; and (iii) rationalizing the use of resources in the citizen security area.
- 1.25 The program will benefit: (i) the Government of Amazonas, through an increase in the resources available for implementing its public policies; (ii) taxpayers, through more equitable tax collection; and (iii) the population as a whole, by contributing to an increase in public investments and improved services, primarily in the citizen security area.

F. Program components

- 1.26 The program has been structured as a policy-based loan and incorporates policy actions in the areas of fiscal sustainability, tax collection, expenditure management and public debt, and management of citizen security resources, grouped into four components described below along with their objectives. The conditions described in the Policy Matrix (Annex II) will be implemented in two stages, with a view to consolidating institutional ownership and sustainability. The first stage will mainly be aimed at laying the legal groundwork for the program, by issuing the relevant regulatory instruments, such as decrees, resolutions, and institutional adjustments needed to adopt new policies. The second stage mainly comprises policy actions to support the implementation of management mechanisms⁶⁰ that make it possible to implement the policy measures from the first stage to strengthen the program's continuity and effectiveness.

⁶⁰ Procedures, processes, systems, methods, committees, etc.

- 1.27 **Component I. Macroeconomic stability and fiscal sustainability.** The objective is to support the policies of the fiscal adjustment program, which is governed by the following concepts: (i) reduce public debt; and (ii) generate a sustainable primary surplus. Disbursement of the two tranches of this operation is conditional upon maintaining a macroeconomic and fiscal sustainability environment that is appropriate and consistent with the program's objectives.
- 1.28 **Component II. Public revenue management.** The objective is to boost tax revenue collection and make enforced collection more effective. The policy actions focus on:
- a. In strategic planning, supporting the consolidation of results-based management within SEFAZ and monitoring and evaluation procedures.
 - b. In the case of compliance, regulating and implementing procedures to improve collection by: (i) controlling retail transactions through the electronic consumer tax invoice (NFC-e) regulations; (ii) cross-checking information to identify tax irregularities, coordinated by a specific tax intelligence area; and (iii) controlling the transit and outflow of goods to the state of Roraima.⁶¹
 - c. In the enforced collection process, to optimize the collection of tax claims: (i) improving the administrative collection of tax claims; (ii) implementing seizure of property of taxpayers registered as having adjudicated tax debt; (iii) adopting criminal investigations of tax fraud; and (iv) closing legal proceedings barred by statute of limitations and where there is no possibility of recovery.
 - d. Implementing control instruments and procedures in the supervision and assessment of tax incentives granted in the Manaus duty-free zone.
- 1.29 **Component III. Financial management of public resources.** The objective is to improve the efficiency of budget, financial resource and asset, and public debt and investment management. The policy actions focus on:
- a. In budget management, (i) ensuring that program resources are earmarked to a budget item to finance multiyear plan investment spending; (ii) improving control over budget execution; and (iii) fine-tuning the administrative debt enforcement process with the state tax authorities by allowing the automatic deduction of tax debts from State creditors.⁶²
 - b. In the management of financial resources and assets, promoting: (i) the streamlining of public accounts payments; (ii) more efficient management of outsourced service contracts; (iii) fine-tuning of the public procurement process; (iv) adoption of a chart of accounts compatible with international

⁶¹ There is only one highway leading to the neighboring state of Roraima, which is at the far north of the country. Goods destined for Roraima therefore go through Amazonas.

⁶² This refers to offsetting the tax and nontax claims of individuals and firms liable to pay the state's adjudicated tax debt and having receivables due from the public treasury.

accounting standards; and (v) fine-tuning of state real and movable asset management.

- c. In liability management, strengthening control over consolidated public debt and contingent liabilities. In public investments, promoting the planning of public-private partnership processes.

1.30 **Component IV. Management of citizen security expenditures.** The objective is to achieve rational resource use in the citizen security area.⁶³ The policy actions are geared towards:

- a. Efficiency gains in the delivery of security services, through the regulation and implementation of an integrated civil and military police management model, by means of Integrated Citizen Security Areas (AISCs),⁶⁴ coordinated by an organizational unit responsible for the priority setting and coordination of the integrated system of state public safety actions, including monitoring and control of the efficiency and effectiveness of sector spending.⁶⁵
- b. Improved services and rational spending in public safety through: (i) the regulation and implementation of intergovernmental coordination mechanisms and citizen participation; (ii) the adoption of instruments to evaluate the productivity and performance of police activity; and (iii) implementation of police unit cost and results management.
- c. Lastly, institutionalization of transparency with the disclosure of crime rates and police unit expenditures.⁶⁶

⁶³ The policy measures will make it possible to fine-tune the intervention model based on the *Ronda no Bairro* program, supporting the establishment of a regulatory, operational, and incentives structure that enhances the efficiency of the security services provided by the police. Hopefully, at the same time as the crime rate is being cut and the feeling of safety is improving, the use of resources allocated to the sector will be rationalized, by eliminating duplication and improving social oversight.

⁶⁴ The AISC management model envisages: integrated action by the police forces based on sensible territorial alignment and integrated work routines; joint financial and budget management and planning; police performance and productivity evaluation, monitoring, coordination, and planning by area; participatory citizen security management at the local level, through coordination with Interactive Citizen Security Community Councils.

⁶⁵ Police force integration is intended to eliminate duplication of similar activities by the civil and military police and to promote resource sharing (facilities, telecommunications, transportation, etc.).

⁶⁶ The design of the program has taken into account matters related to external citizen oversight and transparency in the activities to support the police, in accordance with the Operational Guidelines for Program Design and Execution in the Area of Civic Coexistence and Public Safety (document GN-2535-1.) Implementation of the Community Security Councils and periodic publication of crime statistics and spending in the DIPs will provide citizens with the tools needed to exercise social oversight of police activity and propose improvements for their performance (see policy measures (iii) and (v)).

II. FINANCING STRUCTURE, OUTCOMES, AND RISKS

A. Amount and financing instrument

- 2.1 This operation is structured as a multi-tranche policy-based loan based on the guidelines and directives established in the “New Lending Framework. Assessment report and recommendations” (document GN-2200-13) and the corresponding “Policy-based loans. Guidelines for preparation and implementation” (document CS-3633). The government has chosen the policy-based sector loan approach in view of the comparative advantages of this lending instrument: it requires a single External Financing Commission (COFIEX) recommendation by the Government of Brazil, and a single approval by the Senate, and the policy measures for the two tranches have been predefined. This operation will be financed with funds from the Flexible Financing Facility (FFF) of the Bank’s Ordinary Capital (OC) in United States dollars. The loan totals US\$184 million, to be disbursed in two tranches. The first tranche will be in the amount of US\$165.6 million, leaving US\$18.4 million for the second tranche. The size of the first tranche is justified by the State’s financing needs (see paragraph 1.8) pursuant to document CS-3633.
- 2.2 This operation will be complemented by parallel lending from the World Bank to support the same program with US\$216 million, as approved by COFIEX.⁶⁷ The World Bank’s policy loan will support the same sectors as this program. Consequently the Bank’s team has shared all the technical documents prepared for this operation with the World Bank team.

B. Key outcome and impact indicators

- 2.3 In order to measure the impacts and outcomes of the program’s reforms and policy measures, a results matrix was prepared jointly with the borrower ([see OEL4](#)). The outcomes will be monitored and evaluated by mutual agreement with the borrower. The main expected impact is the increase in public investment levels from 2.2% of GDP in 2012 to 2.7% of GDP in 2015.
- 2.4 The main projected outcomes in 2015 are: (i) an increase of R\$266 million in sales tax (ICMS) revenue collection from declared tax liabilities (from R\$2.509 billion in 2012 to R\$2.775 billion); (ii) an increase of R\$182 million in ICMS revenue collection from tax intelligence actions (from R\$835 million in 2012 to R\$1.017 billion); (iii) a reduction of R\$61 million in service contracting expenditures (from R\$1.087 billion in 2012 to R\$1.026 billion); and (vi) a 32%

⁶⁷ The state’s financing requirements for 2014 were US\$1.8 billion, of which the program will provide 10%. Source: Amazonas fiscal adjustment program, 2012-2014.

reduction in the DIP annual operating costs (from R\$25.9 million in 2011 to R\$17.7 million)⁶⁸.

C. Economic rationale and debt sustainability analysis

- 2.5 **Economic rationale.** In the economic evaluation, the following project actions were selected: (i) improvements in the collection of taxpayers' declared but unpaid debt; (ii) restructuring of the tax intelligence area; and (iii) standardization of service contracting and the review of electrical power demand contracts.
- 2.6 Based on conservative estimates, beginning in 2015: (i) improvements in the procedures for collecting taxpayers' declared but unpaid debts, yielding an annual benefit of US\$11.7 million through increased ICMS revenue collection; (ii) a benefit of US\$27.95 million by virtue of increased ICMS collection with the restructuring of the tax intelligence area; and (iii) savings of US\$17.55 million in public expenditure with the standardization of service contracting processes.
- 2.7 The economic evaluation of the project yields an internal rate of return of 29% and a net present value of US\$114 million, discounted at a rate of 12.5%, therefore justifying the Bank's financing.
- 2.8 **Amazonas debt sustainability analysis.**⁶⁹ Amazonas's public debt reached R\$3.8 billion in 2012, equivalent to 5.6% of the state's GDP and 32% of its net current income. Approximately 73% of public debt corresponds to domestic debt, while 84% of external debt is with multilateral agencies, the IDB being the largest source of external financing (R\$840 million). External debt represents potential risks for the State given its exposure to the volatility of the LIBOR rate and the growing depreciation of the real against the dollar, observed since the start of 2013 (see footnote 3). The State of Amazonas's main creditor is the Federal Government, which renegotiated its debt in 1997.⁷⁰ It accounted for 27% of total debt in 2012. Most of its debt is indexed for inflation with an average interest rate of 5.7% in 2012. Between 2005 and 2012 the State's public debt remained constant at levels of around 6% of GDP.
- 2.9 In an extreme scenario of low GDP growth, continuous depreciation of the exchange rate, and constant primary deficit (similar to that in 2013), the debt is expected not to exceed 12% of GDP, a level not considered a risk scenario. For the debt to have a long-term sustainable path, it is essential that the primary deficit be reversed in the short term and that current expenditure be reduced, to allow the State to maintain its historic levels of public investment.

⁶⁸ The reduction in the annual average cost of the DIPs incorporates a 70% improvement in the cost/crime ratio (see Technical Note: Cost of AISCs in Manaus), which means an expected reduction of 30% in three years in the total number of crimes through the end of 2015. The integration of the police forces aimed at improving police performance in fighting crime will make it possible to eliminate duplication of efforts with a view to sharing resources among the police forces (facilities, telecommunications, transportation, etc.).

⁶⁹ Study of the Public Finances and Fiscal Sustainability of the State of Amazonas.

⁷⁰ Law 9,496 of 1997.

D. Social and environmental safeguards

- 2.10 The program will not generate direct or indirect negative environmental impacts pursuant to the results of the evaluation (Directive B.13 of the Bank).

E. Fiduciary risks

- 2.11 The program's loan proceeds will be paid into a general treasury account from which its financing requirements will be met. No significant fiduciary risk is therefore envisaged since the State of Amazonas as executing agency, through its SEFAZ, has the necessary financial management instruments and control systems.

F. Other risks

- 2.12 The operation is considered low risk. The political context through to the end of this operation's disbursement period does not present difficulties liable to affect achievement of the outcomes, given that the project has support from Amazonas's strategic sectors. The main risks identified, based on the risk analysis, relate to sustainability, development, governance, and reputation.
- 2.13 The most significant risk is associated with sustainability. This risk would materialize if the policy actions are discontinued in the medium to long term. However, the government is committed to the program and has given it priority, given that: (i) the state recently approved the consultation letter for an investment operation for institutional/fiscal strengthening (PROFISCO-AM); and (ii) all the agencies involved have actively participated in preparing the program.
- 2.14 The project's second risk concerns development and is associated with the possibility that the fiscal space it generates is not utilized to carry out public investment to maintain the quality of public services. To mitigate this risk, the Policy Matrix includes a condition to ensure that the loan proceeds are allocated to investments in the multiyear plan, thereby demonstrating the government's commitment to restoring public investment levels.
- 2.15 A third risk is associated with governance, as the special contractual conditions precedent to the first disbursement may fail to be met due to changes to and/or rotation of, state employees. However, given that the program's disbursements are envisaged for 2013 and early 2014, there would not be significant changes in the state administration. Thus, the risks that might have an impact on policy decisions concerning program objectives and on the Government of Amazonas's level of commitment to the program are reduced.
- 2.16 Lastly, there may be a negative impact on the image of the Bank and/or the Government of Amazonas if crime rates rise during the program period. The Bank and the Government of Amazonas took care to introduce security spending cuts only to eliminate duplication by the civil and military police, with the aim of having them share resources (facilities, telecommunications, transport, etc.), provided such cuts did not affect performance in terms of preventing and combating crime.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Program execution and administration

- 3.1 The executing agency will be the State of Amazonas, through its SEFAZ/AM, responsible for fulfillment of the actions in the Policy Matrix. SEFAZ/AM will: (i) coordinate with other government bodies involved in the operation; (ii) monitor and promote actions to achieve the policy objectives; and (iii) prepare the reports on fulfillment of the disbursement conditions and other reports, including disbursement audit reports, within the agreed deadlines.

B. Monitoring and evaluation of results

- 3.2 The project team, supported by specialized consulting firms, will monitor and evaluate the program using a monitoring and evaluation plan. A reflexive evaluation of the program is envisaged, in which the results obtained will be compared with the baseline. The project completion report will be produced within three months after the second tranche of the operation has been disbursed. The borrower will be responsible for compiling and processing all the data necessary to evaluate the operation, including the financial costs.

IV. POLICY LETTER

- 4.1 The Policy Matrix (Annex II) for the proposed operation is aligned with the [Policy Letter](#) from the Government of the State of Amazonas.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals	i) Ratio of actual to potential tax revenues, and ii) Public expenditure managed at the decentralized level as % of total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Public financial systems implemented or upgraded, and ii) Municipal and other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	i) Improvement of the fiscal position of the states and greater availability of investment resources, ii) Increase in the fiscal transparency index at the subnational level, with improved accessibility to finance portals, and iii) More effective public spending on security.	
Country Program Results Matrix	GN-2696	The intervention is not included in the 2013 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
	8.3		10
3. Evidence-based Assessment & Solution	7.7	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	7.1	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
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			

The State of Amazonas is the largest state in Brazil and, as described in the document, only one country in the world has a higher population density: Mongolia. Amazonas has had economic growth rates which have been above the national average and to ensure the future maintenance of these high rates and greater social equity, the State has undertaken a wide program of investment in areas such as security, education and health.

Although Amazonas shows tax effort levels above the Brazilian average for states, the State does have challenges in financing spending in areas that show structural high growth rates, such as security. In order to cope with these investment needs, it requires efforts in tax management, financial management and addressing challenges in priority areas of spending. The project includes actions in revenue management, public financial management and expenditure management in the security area.

The results matrix includes outcome indicators and presents a comprehensive set of product indicators which are closely related to the policy matrix. However not all indicators are SMART. On the issue of citizen safety an indicator, "average cost integrated police unit", is proposed which is not specific and which corresponds to an efficiency and not effectiveness level.

The documentation includes a financial analysis that presents the expected additional value associated to the implementation of three of the measures of the program: improving collection processes, tax intelligence restructuring and contract standardization. The monitoring and evaluation annex proposes a reflexive and an ex-post evaluation of the financial results of the three indicators included in the ex-ante appraisal.

POLICY MATRIX

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
Program objective: To promote the State's fiscal sustainability in order to resume the levels of state investment necessary to deliver public services.		
COMPONENT I. MACROECONOMIC STABILITY AND FISCAL SUSTAINABILITY		
Support the policies of the fiscal adjustment program (PAF) governed by the concepts of: (i) reducing public borrowing; and (ii) generating a sustainable primary surplus.	(i) Maintenance of a macroeconomic context in the state that is conducive to achieving program objectives. Means of verification: Independent macroeconomic assessment (IMA) prepared by the Bank.	(i) Maintenance of a macroeconomic context in the state that is conducive to achieving program objectives. Means of verification: Independent macroeconomic assessment prepared by the Bank.
	(ii) Fulfillment of fiscal targets I and II agreed upon with the federal government under the PAF. Means of verification: Official document of the National Treasury Department (STN), reporting on compliance with the PAF I and II fiscal targets, complemented by a report from the Amazonas State Finance Department (SEFAZ/AM) for the months not covered by the STN report, which must match the information send by the STN.	(ii) Fulfillment of fiscal targets I and II agreed upon with the federal government under the PAF. Means of verification: Official STN document reporting on compliance with the PAF I and II fiscal targets, complemented by a report from SEFAZ/AM for the months not covered by the STN report, which must match the information send by the STN.
COMPONENT II. PUBLIC REVENUE MANAGEMENT		
Boost tax revenue collection and make enforced collection more effective.	(i) Regulation of the indicator-driven management model based on strategic planning within the Finance Department. Means of verification: 1. SEFAZ/AM Ordinance establishing the SEFAZ strategic plan for the 2013-2014 period, published in the Official Gazette of the State (DOE) 2. Strategic plan for the 2013-2014 period published on the SEFAZ portal. 3. SEFAZ/AM Ordinance, approving the indicator-driven management model, with definition of monitoring and evaluation procedures, published in the DOE.	(i) Implementation of SEFAZ strategic planning and corresponding monitoring and evaluation procedures. Means of verification: Management contracts signed in four SEFAZ strategic areas: budget, revenue, treasury, and administration and public expenditure.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(ii) Regulations on the consumers' electronic tax invoice (NFC-e) in the State of Amazonas, to improve control over retail trade.</p> <p>Means of verification: State Executive Branch Decree with regulations on the NFC-e in the State of Amazonas, published in the DOE.</p>	<p>(ii) Implementation of the NFC-e in the State of Amazonas.</p> <p>Means of verification: SEFAZ/AM resolution with regulations on the procedures for adopting the consumers' electronic tax invoice, form 65, published in the DOE.</p>
	<p>(iii) Restructuring of the SEFAZ tax intelligence area through creation of a specific management unit.</p> <p>Means of verification: SEFAZ/AM ordinance defining competencies of the tax intelligence area, published in the DOE.</p>	<p>(iii) Implementation of procedures and methodology for consolidating and processing data.</p> <p>Means of verification: SEFAZ/AM ordinance establishing procedures and methodology for consolidating and processing data, published in the DOE.</p>
	<p>(iv) Regulations on the transit and outflow of goods to the state of Roraima.</p> <p>Means of verification: SEFAZ/AM resolution regulating procedures to monitor through traffic and outflows of goods to the state of Roraima, published in DOE.</p>	<p>(iv) Implementation of model to monitor through traffic and outflows of goods to the state of Roraima.</p> <p>Means of verification: Independent consulting report verifying the implementation and operation of the new model.</p>
	<p>(v) Regulations on the process of administrative collection to optimize recovery of tax claims.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch Decree establishing the Electronic Administrative Tax Proceedings (PTA-e) and standardizing the adjudicated tax debt register of declared and unpaid liabilities. 2. State Executive Branch Decree establishing the SEFAZ official electronic gazette and electronic tax residence (DT-e), published in the DOE. 	<p>(v) Implementation of procedures for administrative collection to optimize recovery of tax claims.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. SEFAZ/AM ordinance defining operational procedures for the implementation of PTA-e, published in the DOE. 2. SEFAZ/AM ordinance establishing procedures for implementing DT-e and DOE SEFAZ, published in the DOE.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(vi) Regulations on procedures for investigating the assets of state tax debtors at the national level, to increase the efficiency of the real estate seizure process.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> Office of the State Attorney General (PGE) ordinance issuing regulations for cases and procedures related to asset investigation of tax debtors at the national level, published in the DOE. 	<p>(vi) Implementation of asset investigation procedures for state tax debtors at the national level.</p> <p>Means of verification:</p> <p>PGE outcomes report, verifying the implementation of procedures and new system for asset investigation.</p>
	<p>(vii) Draft legislation to implement new procedures to authorize the requirement by the state treasury to end court proceedings in specific situations.</p> <p>Means of verification:</p> <p>Message from the Governor and bill sent to Legislative Assembly, published on the Legislative Assembly portal.</p>	<p>(vii) Integration of the agencies involved in investigation of tax offenses</p> <p>Means of verification:</p> <p>Excerpt of cooperation agreement between PGE, SEFAZ, and the State Public Prosecutor's Office, published in the DOE.</p>
	<p>(viii) Creation of a working group to monitor, evaluate, and inspect business activities benefiting from tax incentives, to improve controls and inspection of tax incentives granted in the Manaus duty-free area.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> Decree by the State Executive Branch creating the working group to monitor, evaluate, and inspect business activities benefiting from tax incentives, published in the DOE. Decree by the State Executive Branch extending the activity of the working group to monitor, evaluate, and inspect business activities benefiting from tax incentives, published in the DOE. 	<p>(viii) Implementation of procedures for the control and inspection of tax incentives granted in the Manaus duty-free zone.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> SEPLAN (State Planning and Economic Development Department) Order 54/2013 complementing the provisions of SEPLAN Ordinance 51/2012, on the provision of information by companies receiving incentives for the registry of companies in the state industrial hub, published in the DOE. Technical cooperation agreement signed by SEPLAN and SEFAZ for the exchange of registry, tax, and economic information on companies receiving tax incentives.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
COMPONENT III. FINANCIAL MANAGEMENT OF PUBLIC RESOURCES		
To improve the efficiency of budget, financial resource and asset, and public debt and investment management.	<p>(i) Creation of an exclusive budget item for program resources allocated to investment expenses envisaged in the multiyear plan.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch Decree opening the additional budget credit for the PROCONFIS AM program. 2. (SEFAZ/AM technical note, through its Executive Secretariat on Budget, showing the program's sources of investment. 	<p>(i) Creation of an exclusive budget item for program resources assigned to investment expenses envisaged in the multiyear plan.</p> <p>Means of verification:</p> <p>Annual budget bill issued by the State Executive Branch, sent to the State Legislative Assembly, providing for a specific source of resources for the PROCONFIS AM program.</p>
	<p>(ii) Regulations on expense procedures to improve budget preparation and monitor budget execution.</p> <p>Means of verification:</p> <p>State Executive Branch Decree with regulations on the monitoring of budget expenditures by the Executive Branch regarding the provision of electricity, telephone, water, and sewerage services, payroll, and counterpart of loan agreements and/or transactions, published in the DOE.</p>	<p>(ii) Implementation of operational procedures for planning resources assigned under the Annual Budget Law of the units/entities comprising the State Executive Branch.</p> <p>Means of verification:</p> <p>Independent consultant's report verifying the submission of work plans by unit/entities comprising the State Executive Branch for execution of the annual budget in the selected areas.</p>
	<p>(iii) Creation of the concept of "<i>sujeição passiva solidária</i>" in SEFAZ.¹</p> <p>Means of verification:</p> <p>SEFAZ/AM Resolution approving the concept of <i>sujeição passiva solidária</i>, published in the online state gazette (DO-e).</p>	<p>(iii) Legislative proposal to institute a registry of state debtors through regulations for its creation.</p> <p>Means of verification:</p> <p>Message from the Governor and bill sent to Legislative Assembly establishing the registry of state debtors, published on the Legislative Assembly portal.</p>

¹ *Sujeição passiva solidária* status assigns responsibility for the payment of the tax due on a transaction or service to the persons with a common interest in the situation constituting the fact or event giving rise to the main obligation.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(iv) Regulations on the new model of public accounts management, including setting up the associated IT system.</p> <p>Means of verification: State Executive Branch decree creating the public accounts management system (SGCP), published in the DOE.</p>	<p>(iv) Implementation of the public accounts management model for electricity supply services.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. SEFAZ/AM resolution with regulations on the execution of the electronic process of supplying electricity by concession, authorized by the Executive Branch, including the timetable for implementation of these services in the SGCP. 2. Independent consultant's report verifying: (a) payments by means of the integrated financial management system (AFI) relating to electricity expenses; (b) circularization (confirmation audit) of payments for electricity issued by the SGCP.
	<p>(v) Regulations on contracting and execution procedures for outsourced services to improve contract planning and management.</p> <p>Means of verification: State Executive Branch decree creating the contract management system in the State Executive Branch, force account, independent bodies, and foundations, published in the DOE.</p>	<p>(v) Implementation of a new model for contracting third-party services and contract management.</p> <p>Means of verification: Independent consultant's report verifying implementation of planning processes for the contracting of services and management of contracts.</p>
	<p>(vi) Strengthening of the State public procurement management model by defining a new regulatory framework for public procurement.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch decree establishing the use of the price list (revoking Decree 24,052 and other related decrees), published in the DOE. 2. State Executive Branch decree establishing the procurement management model (revoking Decree 25,374 and other related decrees), published in the DOE. 	<p>(vi) Implementation of a pilot project based on the procurement management model, including the price list bidding plan, the electronic procurement process, and procurement plan, except for the price list.</p> <p>Means of verification: Independent consultant's report confirming implementation of: (a) pilot bidding plan for the price list for the purchase of materials, executed by SEFAZ; (b) pilot electronic purchasing module of the State procurement system (e-Compras AM), for procurement involving amounts of up to R\$8,000, managed by SEFAZ; (c) pilot materials purchasing plan via other modalities, except the State Executive Branch price list, involving the SEFAZ management unit.</p>

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(vii) Approval of the implementation schedule for the State's new public accounting procedures in accordance with Brazil's new accounting rules applicable to the public sector (NBCASP) - International Public Sector Accounting Standards (IPSAS), together with the creation of a working group.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch decree approving the implementation timetable for the new rules applied to public accounting within the Amazonas Executive Branch. 2. SEFAZ ordinance appointing the members of the accounting working group (GTCON/AM). 3. SEFAZ technical note indicating the stages of implementation of the NBCASP-IPSAS in the State of Amazonas. 	<p>(vii) Implementation of the first stage of the new public sector accounting procedures in the State of Amazonas.</p> <p>Means of verification:</p> <p>Report on the State chart of accounts, reconciling NBCASP-IPSAS, issued from the AFI system.</p>
	<p>(viii) Regulations on the procedures for State materials and assets control and their management system (Ajuri system).</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch decree establishing the asset control system (Ajuri system) and regulations on the procurement of movable and immovable assets, published in the DOE. 2. State Executive Branch decree establishing the materials management system and regulations on the reception of goods, published in the DOE. 	<p>(viii) Implementation of the State assets and materials management system, including the applicable timetable.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. SEFAZ/AM resolution establishing the implementation stages and schedule for the Ajuri System - Balance, published in the DOE. 2. Administration and Management Department (SEAD) rules establishing the implementation stages and schedule for the Ajuri System - Assets, published in the DOE.
		<p>(ix) Regulations on the criteria for analysis of economic/financial feasibility studies on potential public-private partnership projects and operation of the PPP management unit, by establishing an operations manual.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. SEPLAN ordinance regulating the analysis criteria for economic/financial feasibility studies, published in the DOE. 2. SEPLAN ordinance establishing the operations manual of PPP program management unit procedures, published in the DOE.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(ix) Regulations on the procedures for strengthening the management and control of the funded public debt and contingent liabilities stemming from legal proceedings.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. SEFAZ ordinance regulating the procedures for the management and control of public debt and contingent liabilities stemming from legal proceedings, published in the DOE. 2. State Executive Branch decree regulating the technical supervision of the indirect administration legal services by the Office of the Attorney General (PGE). 	<p>(x) Implementation of information exchange procedures between the PGE and SEFAZ for the management of contingent liabilities by SEFAZ and the monitoring and forecasting procedures of the public debt and balance service.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. Excerpt of the technical cooperation agreement between SEFAZ and the PGE establishing the exchange of information, published in the DOE. 2. SEFAZ technical note with the work plan published on its intranet portal.

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
COMPONENT IV. MANAGEMENT OF CITIZEN SECURITY EXPENDITURES²		
Rational resource use in the citizen security area.	<p>(i) Regulations for the civil and military police integrated management model, to achieve rational spending and improve service delivery, by implementing integrated citizen security areas (AISC).</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch decree fine-tuning and expanding the <i>Ronda no Bairro</i> program, through integrated public safety areas (AISCs), specifying its implementation in twelve municipalities in the Manaus metropolitan region and the interior, published in the DOE. 2. State Executive Branch decree establishing integrated work routines for civil and military police in Amazonas in the context of the <i>Ronda no Bairro</i> program in the AISCs, published in the DOE. 3. State Executive Branch decree creating the Integrated Commission for the Systematization of the Operating Procedures of the Amazonas Civil and Military Police. 	<p>(i) Implementation of the AISC public safety management model for three municípios in the Manaus metropolitan area (Mancapuru, Iranduba, and Itacoatiara) and 11 in the interior (Coari, Humaitá, Parintins, Tefé, Tabatinga, São Gabriel de la Cachoeira, Labrea, Eirunepe, Boca del Acre, Maues, and Manicore), including the integrated operating procedures.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. Public Safety Department ordinance specifying the standardization of procedures for the integrated work routine of the Amazonas civil and military police. 2. Ordinances of the General Commander of the Military Police and the General Delegate of the Civil Police published in the respective internal bulletins, stating the appointment of staff for the Integrated Police District (DIP). 3. Public Safety Department ordinance publishing the summaries of the standard operating procedures (SOPs) in the DOE and dissemination of the complete SOPs on the Public Safety Department website.
	<p>(ii) Implementation of an organizational unit in charge of priority setting and coordination of the Integrated System of Public Safety Actions, including the monitoring and control of the efficiency and effectiveness of spending in the sector.</p> <p>Means of verification:</p> <p>State Executive Branch decree approving the internal regulations of the Office of the Deputy Executive Secretary responsible for the <i>Ronda no Bairro</i> program.</p>	<p>(ii) Approval of an annual AISC action plan setting out objectives, targets, baselines, impact indicators, and monitoring system.</p> <p>Means of verification:</p> <p>Public Safety Department ordinance approving the first annual AISC action plan setting out objectives, targets, and parties responsible for implementation.</p>

² In accordance with the Operational Guidelines for Program Design and Execution in the Area of Civic Coexistence and Public Safety (document GN-2535-1), the design of Component IV has taken into account issues related to external social oversight and transparency in police support activities. Implementation of the Interactive Community Security Councils and periodic publication of crime statistics and spending in the DIPs will provide citizens with the tools needed to exercise social oversight of police activity and propose improvements for their performance (see policy measures (iii) and (v)).

OBJECTIVE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO THE DISBURSEMENT OF THE SECOND TRANCHE
	<p>(iii) Regulations on the intergovernmental coordination and citizen participation mechanisms to improve services and ensure rational expenditure in the public safety area.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. State Executive Branch decree regulating the State Public Safety Council (CONESP) created by Law 79/2007, published in the DOE. 2. State Executive Branch decree approving the internal rules of the Interactive Community Security Councils (CONSEG). 	<p>(iii) Implementation of the intergovernmental coordination and citizen participation mechanisms to improve services and ensure rational expenditure in the public safety area.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. Report from the Public Safety Department, including minutes of the AISC CONESP and CONSEG meetings. 2. Summaries of the Technical Cooperation Agreements establishing the responsibilities between the State and the municipalities in which the AISCs are located (3 municipalities in the Manaus metropolitan area and 2 in the interior), published in the DOE.
	<p>(iv) Creation of an integrated commission to define a system for evaluating the performance and productivity of police activity and the cost of police units based on managing for results, in order to improve the sector's efficiency and effectiveness.</p> <p>Means of verification:</p> <p>State Executive Branch decree creating the Integrated Commission for the Systematization of the Operational Costs and Performance Evaluation of the Amazonas Civil and Military Police to define a system for measuring the productivity of police work.</p>	<p>(iv) Implementation of performance and productivity evaluation of police work in the capital, including a proposal for incentives for meeting targets.</p> <p>Means of verification:</p> <ol style="list-style-type: none"> 1. Public Safety Department ordinance defining productivity indicators for police work. 2. Public Safety Department report on police performance in the capital's DIPs. 3. Public Safety Department report including the proposed system of incentives for meeting targets, approved by the Secretary for Public Safety, the General Commander of the Military Police, and the General Delegate of the Civil Police.
	<p>(v) Institutionalization of transparency through disclosure of crime rates and police unit expenditures.</p> <p>Means of verification:</p> <p>State Executive Branch decree creating the AISC Information System (e-Seguridad Ciudadana) of the State of Amazonas, and regulations on the disclosure of crime rates, expenditures by AISCs and DIPs, when created, and police performance indicators in the State of Amazonas in the regions reached by the Integrated Public Safety System (SISP).</p>	<p>(v) Disclosure of crime rates and expenditures of police units on the website of the Public Safety Department, thus expanding access to information.</p> <p>Means of verification:</p> <p>Independent consultant's report confirming that DIP expenses and the State's crime rate figures (homicides, assault, larceny, robbery, theft, use and possession of drugs, possession and carrying of arms, vehicle theft) in regions covered by the SISP are available on the portal and updated and published quarterly.</p>