

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**FISCAL MODERNIZATION PROJECT OF THE STATE OF SERGIPE  
(PROMOFAZ)**

**(PROFISCO/SE - BR-L1254)**

**INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT  
LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM  
TO SUPPORT THE MANAGEMENT AND INTEGRATION OF  
FINANCE ADMINISTRATIONS IN BRAZIL**

**(PROFISCO - BR-X1005)**

**LOAN PROPOSAL**

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ELECTRONIC LINKS	
REQUIRED	Link
1. Annual work plan (AWP) for the project – 18 months	<a href="#">IDBDocs35127846</a>
2. Monitoring and evaluation system	<a href="#">IDBDocs35127849</a>
3. Procurement plan – 18 months (detailed)	<a href="#">IDBDocs35128737</a>
ADDITIONAL	Link
1. Matrix of problems: diagnostic summary of fiscal management	<a href="#">IDBDocs35122040</a>
2. Table of indicators	<a href="#">IDBDocs35128180</a>
3. Project financial analysis	<a href="#">IDBDocs35143951</a>
4. Project institutional arrangements and execution mechanism	<a href="#">IDBDocs35127837</a>
5. State law authorizing the credit operation	<a href="#">IDBDocs35127840</a>
6. Decree establishing the State of Sergipe Project Coordination Unit (PCU/SE)	<a href="#">IDBDocs35128458</a>
7. Fiscal management report of the State of Sergipe	<a href="#">IDBDocs35129551</a>
8. Frame of reference for the PROFISCO CCLIP approved by the Brazilian government	<a href="#">IDBDocs35129556</a>
9. Operating Regulations (OR) of the PROFISCO CCLIP and annexes	<a href="#">IDBDocs35129561</a>
10. Diagnostic macro	<a href="#">IDBDocs35129957</a>
11. Project Completion Report (PCR) on Sergipe PNAFE [National Fiscal Administration Program for Brazilian States]	<a href="#">IDBDocs35129846</a>
12. Environmental classification and social safeguard	<a href="#">IDBDocs35117742</a>

## ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional Credit Line for Investment Projects
CSN	Cadastro Sincronizado Nacional [National Synchronized Registry]
DAE	Documento de Arrecadação Estadual [State tax return]
ESAF	Escola de Administração Fazendária do Ministério da Fazenda [School of Public Finance Administration of the Ministry of Finance]
ICMS	Imposto sobre a circulação de mercadorias e serviços [Tax on circulation of goods and services]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NCI	Net current income
NF-e	Nota Fiscal Eletrônica [Electronic tax invoice]
OC	Ordinary Capital
PCU	Project Coordination Unit
PDSF	Programa de Desenvolvimento do Servidor da Administração Fazendária [Finance Administration Staff Development Program]
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]
SAFIC	Sistema de Administração Financeira e Contabilidade do Estado [State Computerized Financial Administration and Accounting System]
SAP	Sistema de Seguimiento de los Procesos Administrativo-Fiscal y Judicial [system for monitoring fiscal-administrative and judicial processes]
SEFAZ/SE	Secretaria de Estado da Fazenda de Sergipe [State of Sergipe Department of the Treasury]
SEPLAN/SE	Secretaria de Estado do Planejamento de Sergipe [State Planning Department]
SIC	Sistema de Informações do Contribuinte [Taxpayer Information System]
SUPERFIP	Superintendência-Geral de Finanças Públicas [Superintendency of Public Finance]

## PROJECT SUMMARY

### BRAZIL

#### FISCAL MODERNIZATION PROJECT OF THE STATE OF SERGIPE (PROMOFAZ) (PROFISCO/SE - BR- L1254)

#### INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION OF FINANCE ADMINISTRATIONS IN BRAZIL (PROFISCO - BR-X1005)

Financial Terms and Conditions			
<b>Borrower:</b> State of Sergipe		<b>Amortization period:</b>	20 years
<b>Guarantor:</b> Federative Republic of Brazil		<b>Grace period:</b>	5 years
<b>Executing agency:</b> State of Sergipe, through the Secretaria de Estado da Fazenda de Sergipe [State of Sergipe Department of the Treasury] (SEFAZ/SE)		<b>Disbursement period:</b>	5 years
<b>Source</b>	<b>Amount</b>	<b>Inspection and supervision fee:</b>	*
IDB (Ordinary Capital)	US\$5,788,000	<b>Interest rate:</b>	LIBOR
Local	US\$2,171,000	<b>Credit fee:</b>	*
Total	US\$7,959,000	<b>Currency:</b>	U.S. dollars from the Single Currency Facility of the OC
Project at a glance			
<b>Objectives and description:</b> Objective: The general objective of the project is to promote the strengthening of fiscal management in the State of Sergipe, by improving the strategic planning instruments, increasing own revenue, and offering better services to the citizens. Description: The project has four components that in turn have subcomponents: <ol style="list-style-type: none"> <li>1. Component I – Integration of finance administration: (i) improved organization and integration of finance administration; and (ii) national and international interagency cooperation.</li> <li>2. Component II – Tax administration and tax litigation: actions aimed at improving the efficiency and effectiveness of tax administration.</li> <li>3. Component III – Financial and property administration, and internal oversight of fiscal management: more efficient and effective financial administration.</li> <li>4. Component IV – Corporate resource management: (i) enhancement of transparency mechanisms for fiscal management and communication with society; and (ii) improved human resource management in the finance area.</li> </ol>			
<b>Special contractual conditions:</b> Prior to the first disbursement of the loan proceeds, the borrower will submit evidence to the Bank for verification that the PROFISCO Operating Regulations have entered into force (see paragraph 3.7).			
<b>Exceptions to Bank policies:</b> 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 2.3.			
<b>Project qualifies as:</b> not applicable      SEQ [ ]      PTI [ ]      Sector [ ]      Geographic [ ]      Headcount [ ]			

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

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, challenges, and rationale

- 1.1 This is an operation under the conditional credit line for investment projects (CCLIP), “Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO - BR-X1005),” which was approved by the Bank’s Board of Executive Directors on 5 November 2008 pursuant to Resolution DE-132/08.
- 1.2 **Socioeconomic context.** The State of Sergipe is one of Brazil’s 27 federal subdivisions. It is located in the northeast region, occupies an area of 21,910.4 km<sup>2</sup>, and has a population of approximately 1.9 million, 72% of whom are located in urban areas and 28% in rural areas. The state’s economy is based on services (53%), industry (31.4%), commerce (10.7%), and agriculture (4.9%). In 2006, the state accounted for 0.63% of national gross domestic product (R\$15.1 billion).
- 1.3 **Fiscal context.** The State of Sergipe is substantially complying with the Fiscal Responsibility Law (LRF), maintaining a balanced fiscal position, although spending on Legislative Branch staff is higher than the 3% limit established by the law. Because this target was not met, the State of Sergipe had to obtain a preliminary action from the Supreme Court of Justice allowing it to receive external funds stemming from loan operations and agreements. All the other conditions necessary for borrowing required by the LRF are being met. Fiscal performance for 2007 and 2008 is presented in Table 1.1.

**Table 1.1: Fiscal performance of the State of Sergipe (in R\$)**

Specification	2007 outturn	2008 outturn	Variation	
			Value	%
I. Nonfinancial income	3,655,518,995	4,462,555,070	807,036,075	22.08
II. Nonfinancial expenditure	3,213,537,905	4,053,643,964	840,106,059	26.14
III. Primary result (I-II)	441,981,089	408,911,106	(33,069,984)	-7.48
IV. Nominal interest	90,430,116	78,842,590	(11,587,526)	-12.81
V. Investments	135,254,923	241,969,424	106,714,501	78.90
VI. Net current income (NCI)	3,102,888,852	3,799,764,115	696,875,264	22.46
VII. Payroll expenses	1,676,405,671	1,866,019,786	189,614,116	11.31
VIII. Payroll/NCI	<b>54.03%</b>	<b>49.11%</b>		-9.10
IX. Consolidated debt	1,825,257,385	1,592,452,806	(232,804,579)	-12.75
X. Debt/NCI	<b>58.82%</b>	<b>41.91%</b>		-28.76

Source: SEFAZ/SE/SUPERFIP/Fiscal management reports

- 1.4 **Institutional considerations.** The State of Sergipe’s fiscal management is conducted by the following three institutions: (i) the State Department of the Treasury (SEFAZ/SE), which programs, organizes, executes, and manages state

public finances, collection, inspection, and imposition of penalties, with a view to maximizing revenue and optimizing expenditures for the political and economic development of the state and social welfare; (ii) the State Planning Department (SEPLAN/SE), which plans and coordinates government action; and (iii) the Office of the State Attorney General (PGE/SE), the agency responsible for tax litigation.

- 1.5 **Human Resources.** To fulfill its mission, SEFAZ/SE has 1,189 permanent staff members, distributed across 16 professions, two of which are specific to fiscal administration: technical tax auditor I (mid-level) and technical tax auditor II (senior level). SEFAZ/SE also has 676 employees distributed across 28 temporary positions.
- 1.6 **Organizational structure.** To fulfill its mission, SEFAZ/SE consists of the following decentralized units: 12 taxpayer service centers (CEACs); 17 tax inspection stations; one warehouse for confiscated goods; two units for inspection of goods in transit; and one central registry for tax invoices.
- 1.7 **Progress achieved.** Between 1997 and 2008, progress in fiscal management has been observed, stemming from the wide-ranging process of institutional development and strengthening, largely financed by the Bank under the National Fiscal Administration Program for Brazilian States (PNAFE). Notable progress occurred in the following areas:
  - a. **Organization and strategic management.** (i) strategic planning exercise for the 1999-2002, 2004-2007, and 2007-2010 periods; and (ii) implementation of the Treasury internal administration system (SAIF).
  - b. **Tax administration and litigation:** (i) implementation of the electronic tax invoice (NF-e) functionality and of the National Synchronized Registry (CSN); (ii) implementation of the Taxpayer Information System (SIC), which consolidates and administers data from the taxpayer registry; (iii) review and consolidation of legislation related to the tax on circulation of goods and services (ICMS); (iv) implementation of the State Collection System (SAE), to support management of the State tax collection process; (v) creation and on-line implementation of the State tax collection form (DAE); (vi) implementation of the goods-in-transit information system; (vii) implementation of the Tax Audit System; and (viii) implementation of the system for monitoring fiscal-administrative and judicial processes (SAP).
  - c. **Management of strategic resources:** (i) formulation of the information technology master plan for SEFAZ/SE; (ii) implementation of the Taxpayer Service System; (iii) placement on line of various taxpayer services; (iv) implementation of a helpdesk system; (v) update of the information technology infrastructure and connection with various business areas, allowing the use of Web technology; (vi) creation of the ongoing development program for finance administration staff; and (vii) implementation of the tax education program of Sergipe.

1.8 **Challenges for the future.**<sup>1</sup> Despite the progress achieved, there is still a need for support in specific areas, for the following reasons:

- a. **Organization and strategic management.** Deficient strategic planning leading to inefficient use of SEFAZ/SE resources, caused primarily by: (i) organizational culture that does not respect strategic plan targets; (ii) deficiency in the instruments that support planning and monitoring of strategic plan actions; (iii) low quality of operational management monitoring information for decision making; and (iv) poor application of solutions presented at national finance administration forums.
- b. **Tax administration and litigation.** Poor development of the State's revenue collection potential resulting from: (i) difficulty managing activities related to control of goods in transit; (ii) vulnerability in the infrastructure and instruments for control over goods in transit; (iii) lack of support instruments for fiscal intelligence actions; (iv) lack of integration between fiscal intelligence and fiscal action planning; and (v) lack of cross-referencing and analysis of fiscal-economic information.
- c. **Financial management.** Deficient budget, financial, accounting, and property management by the State, caused primarily by: (i) the lack of integration of budget execution information with the State's other operational information; (ii) lack of integrated vision of State property management; (iii) obsolescent State Computerized Financial Administration and Accounting System (SAFIC); (iv) management analyses performed manually with strong likelihood of errors being included; and (v) difficulty in collecting, consolidating, analyzing, and consulting fiscal economic data, due to absence of suitable methodologies and tools.
- d. **Management of corporate resources.** Deficient services for taxpayers outside the state capital, stemming primarily from: (i) insufficient service centers; (ii) underuse of services available on the web; (iii) difficulty managing SEFAZ/SE human resources, as a result of a lack of planning; (iv) dissociation between strategic planning and training activities; and (v) absence of competency profiles for finance positions.

**B. Objective, components, and cost of the project**

- 1.9 The general objective of the project is to promote the strengthening of fiscal management in the State of Sergipe, by improving the strategic planning instruments, increasing own revenue, and offering better services to the citizens. The project will finance outputs structured under four components and their respective subcomponents, as follows:

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<sup>1</sup> The electronic link [Matriz de problemas - Síntesis diagnóstico de la gestión fiscal](#) [Problems matrix – diagnostic summary of fiscal management] describes in detail each of the four problems presented in the challenges.



- 1.10 **Component I – Integration of finance administration (US\$539,548).** This component has the following subcomponents and respective outputs:
- a. **Organizational development and integration of finance administration.** This subcomponent will finance the implementation of a new strategic management and planning model,<sup>2</sup> including computerized tools for monitoring performance indicators.
  - b. **National and international interagency cooperation.** This subcomponent will finance implementation of a program for staff to participate in national forums, in order to share best practices, methodologies, and applications among national finance authorities.
- 1.11 **Component II – Tax administration and litigation (US\$2,640,729).** This component has the following subcomponent and respective outputs:
- a. **More efficient and effective tax administration.** This subcomponent will finance the implementation of the following models: (i) inspection of goods in transit, incorporating tools for controlling goods traffic, the election and risk analysis of suppliers and carriers; and (ii) fiscal intelligence for selecting and auditing taxpayers, including tools and equipment for comparison of data for inspection.
- 1.12 **Component III – Financial and property administration and internal oversight of fiscal management (US\$3,443,221).** This component has the following subcomponent and respective outputs:
- a. **More efficient and effective financial administration.** This subcomponent will finance the implementation of: (i) a new public management model that incorporates budget planning/preparation/execution, financial execution, accounting, and auditing, based on a management information system; and (ii) a tax, budget, financial, and accounting information management model, through a business intelligence tool, to subsidize audit actions.
- 1.13 **Component IV – Corporate resource management (US\$864,407).** This component has the following subcomponents and respective outputs:
- a. **Enhancement of transparency mechanisms for fiscal management and communication with society.** This subcomponent will finance the enhancement of the process of providing services to citizens residing outside the capital, using a mobile unit to service municípios that do not have brick-and-mortar service centers.
  - b. **Improved human resources management in the finance area.** This subcomponent will finance the implementation of a new human resource

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<sup>2</sup> For all outputs financing the implementation of a model, this process provides for the following actions: diagnostic assessment of the current situation, alternative business models and their respective procedures, information systems, updated physical and technological infrastructure, and staff training.

management model in SEFAZ/SE, through the restructuring of skill profiles and staff mapping.

- 1.14 **Overall budget.** The total value of the project is US\$7,959,000. Of that amount, US\$5,788,000 (73%) will be financed by the Bank, and US\$2,171,000 (27%) will be the local counterpart contribution, as indicated in the overall budget presented in Table 1.2.<sup>3</sup>

**Table 1.2 - Overall budget for project BR-L1254, by source (in US\$)**

CATEGORIES	IDB	Local	TOTAL	%
<b>1. Project administration</b>	<b>345,763</b>	-	<b>345,763</b>	<b>40.34%</b>
1.1 Project management	188,701	-	188,701	
1.2 Monitoring	107,062	-	107,062	
1.3 Evaluation	50,000		50,000	
<b>2. Direct costs</b>	<b>5,364,034</b>	<b>2,123,871</b>	<b>7,487,905</b>	<b>94.08%</b>
2.1 Integration of finance administration	322,881	216,667	539,548	
2.2 Tax administration and litigation	2,132,254	508,475	2,640,729	
2.3 Financial and property administration and internal oversight of fiscal management	2,044,492	1,398,729	3,443,221	
2.4 Corporate resource management	864,407	-	864,407	
<b>3. Contingencies</b>	<b>78,203</b>	<b>47,129</b>	<b>125,332</b>	<b>1.58%</b>
<b>TOTAL</b>	<b>5,788,000</b>	<b>2,171,000</b>	<b>7,959,000</b>	<b>100.0%</b>
<b>PERCENTAGE</b>	<b>73%</b>	<b>27%</b>	<b>100.0%</b>	

- 1.15 **Financial planning and disbursements.** To ensure efficient implementation, the Bank will disburse the loan proceeds according to the program's actual cash flow needs. The executing agency will periodically update its financial plan, estimating the funding needed to execute the program in accordance with its budget, work plan, and commitments undertaken.
- 1.16 **Disbursement schedule.** Disbursements will be made over a five-year period running from the entry into force of the loan contract, in accordance with the disbursement schedule shown in Table 1.3 below.

<sup>3</sup> No provision is made in the budget for the inspection and supervision fee or the credit fee, because these will be paid by the State from its own funds.

**Table 1.3: Disbursement schedule**  
(in US\$ millions)

SOURCE	2010	2011	2012	2013	2014	Total	%
IDB	0.09	1.06	2.84	1.70	0.09	5.78	73
Local	0.76	1.16	0.25	-	-	2.17	27
<b>Total</b>	<b>0.85</b>	<b>2.22</b>	<b>3.09</b>	<b>1.70</b>	<b>0.09</b>	<b>7.95</b>	<b>100</b>
%	10.09	27.97	39.4 6	21.71	0.77	100	

1.17 **Financial analysis.** In view of the small scale of the operation, the project team made a simple comparative analysis of incremental financial costs and benefits related to the implementation of the model for the inspection of goods in transit. An increase in collection is expected based on the improvement of supplier and carrier selection criteria and savings will stem from the reduction in the time trucks spend at tax inspection stations. The calculation parameters used were: (i) a 10-year horizon; (ii) a discount rate of 12.5% per year; and (iii) a growth rate of 2.5% per year.

1.18 Taking into account the output analyzed<sup>4</sup> and the project execution period, and considering the costs of the loan operation, the project is viable from the cost-benefit standpoint. Taking into account the cumulative values related to the increase in ICMS revenues and the reduction in expenditure stemming from the implementation of the output analyzed, the cumulative value by 2013 will be higher than the total value of the Bank loan.

### C. Key results indicators

1.19 **Outcomes.**<sup>5</sup> The most significant expected outcomes by the end of project execution are: (i) one million vehicles per year with vehicle identification registration from tax inspection stations, subjected to the selection criteria established in the new model for the inspection of goods in transit; (ii) a 50% reduction in the average time vehicles remain at tax inspection stations; (iii) a 1% increase in ICMS collection, not including natural increase; (iv) a reduction in the average time it takes to prepare the State's monthly balance sheets from 17 to 7 days; (v) 10% increase in web-generated state tax returns (DAE) from taxpayers located outside the state capital; and (vi) increase in total training from 20% to 60% aimed at fulfilling SEFAZ/SE's strategic objectives.

1.20 The impacts expected from project execution are: (i) more effective tackling of tax evasion, especially in goods transit operations; (ii) improved budget and financial

<sup>4</sup> Electronic link [Análisis financiero del proyecto](#) [Financial Analysis of the Project].

<sup>5</sup> The electronic link [Matriz de problemas - Síntesis diagnóstico de la gestión fiscal](#) [Problems matrix – diagnostic summary of fiscal management] provides a list of the physical targets and outcomes for each output of each component/subcomponent of the project.

planning and execution by the State; (iii) strengthening of the relationship between the tax authorities and the taxpayer; (iv) improved quality of the decision-making process; and (v) improved human resource action planning.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing, procurement, and contractual conditions

- 2.1 **Procurement.** Goods and works for the project will be procured, and consulting services contracted, in accordance with the Bank policies as set out, respectively, in documents GN-2349-7 and GN-2350-7, both of July 2006. International competitive bidding (ICB) will be used for the procurement of goods and related services with an estimated cost of US\$5 million or more. National competitive bidding will be used for the procurement of goods and related services with an estimated cost of US\$100,000 or more, and less than US\$5 million. The shopping method may be used for procurements under US\$100,000. International publicity will be required for the selection of consulting services with an estimated cost of US\$200,000 or more. The short list of consulting firms for work with an estimated cost of less than US\$1 million may be comprised entirely of national consultants. A special bid committee was set up within SEFAZ/SE to deal with project contracts and be responsible for all procurement-related matters.
- 2.2 **National legislation.** The borrower may follow Brazilian national legislation for procurement processes in the case of works for amounts not exceeding US\$25 million per contract, and in the case of goods and nonconsulting services for amounts not exceeding US\$5 million per contract, provided that the requirements of the Bank's procurement policies are satisfied, particularly as they relate to: (i) the origin of the goods; (ii) the nationality of the suppliers; (iii) changes in purchase orders; (iv) prohibition of price bands; and (v) publication in a major national newspaper. The borrower will also indicate in the corresponding procurement plan whether it has opted to apply Brazilian national legislation.
- 2.3 **Direct contracting.** In the context of the state project, the borrower may directly contract the services of the Escola de Administração Fazendária [School of Public Finance Administration] (ESAF) of the Ministry of Finance.<sup>6</sup> The borrower may also directly contract the state's school of government or finance to provide training services, provided the Bank determines that such school has the installed capacity to provide the aforementioned services. Before transferring loan proceeds to the borrower's school of government or finance, when it has its own legal status, or to ESAF, the borrower will submit an appropriate legal instrument to the Bank, in which the respective school undertakes to: (i) use the procurement and contracting policies set out in the respective loan contract between the State of Sergipe and the Bank, if it procures goods or subcontracts consulting services for the provision of

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<sup>6</sup> When the PROFISCO CCLIP was approved, the Bank agreed to the direct contracting of ESAF, for the benefit of all projects drawing upon it.

the services in question; and (ii) allow the Bank and project auditors access to documentation supporting such procurement and contracting processes.

- 2.4 **Review by the Bank.** The project team performed an analysis of the executing agency's capacity to manage procurement. Based on that analysis, it was established that during the first 18 months of project execution, all processes for the contracting of consulting services, irrespective of their amount, will be subject to ex ante review by the Bank. Based on the reviews already conducted, the Bank may establish that the other consulting service contracting processes for amounts below US\$200,000 equivalent will be subject to ex post review. Procurement processes for goods below US\$5 million equivalent will be subject to the Bank's ex post review.
- 2.5 **Advance procurement and retroactive financing.** The Bank may recognize up to US\$1 million from the local counterpart contribution for reimbursement of expenses incurred by the borrower in preparing the program. Eligible expenditures will be limited to those incurred within the 18 months preceding the date of approval of the operation by the Bank's Board of Executive Directors, but no earlier than the date that the Bank's Management approved the project profile (1 December 2009).<sup>7</sup> The retroactive expenses incurred by the State were aimed at ensuring superior quality for the project and moving it forward prior to approval. To that end, preinvestment activities were carried out, such as preliminary consulting assignments and equipment purchase orders, to synchronize their availability with the project execution schedule and obtain a significant economic advantage. These procedures are consistent with the provisions of the policy governing retroactive financing (OP-504).
- 2.6 **Dissemination and technical cooperation.** The borrower may participate in national and international fiscal integration and cooperation activities, particularly in the areas of dissemination of technical solutions, information sharing, knowledge transfer, formation of thematic networks, and interagency cooperation.

## **B. Environmental and social safeguard risks**

- 2.7 On environmental issues, the project has been classified as a category "C" operation under the criteria of the Bank's sustainable finance toolkit. This is consistent with the evaluation made by the project team, since the operation involves the institutional modernization of a finance department. Consequently, preparation of an environmental strategy for the project is not considered necessary.

## **C. Fiduciary risk**

- 2.8 **Lack of experience in procurement using the Bank's policies.** This risk will be mitigated through training for the Project Coordination Unit (PCU) and the SEFAZ/SE staff responsible for bidding processes.

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<sup>7</sup> The procurements to be considered for this purpose are indicated in the electronic links of the procurement plan ([PA](#)) and annual work plan ([POA](#)) for the first 18 months of the project.

- 2.9 **Low project management capacity.** This risk will be mitigated through use of the monitoring and evaluation system developed for the PROFISCO CCLIP individual operations, training for PCU staff in project management, and the use of performance and outcome indicators. A permanent advisory position for advisory support in the area of monitoring and evaluation has been created in the PCU for that purpose.

**D. Other key issues and risks**

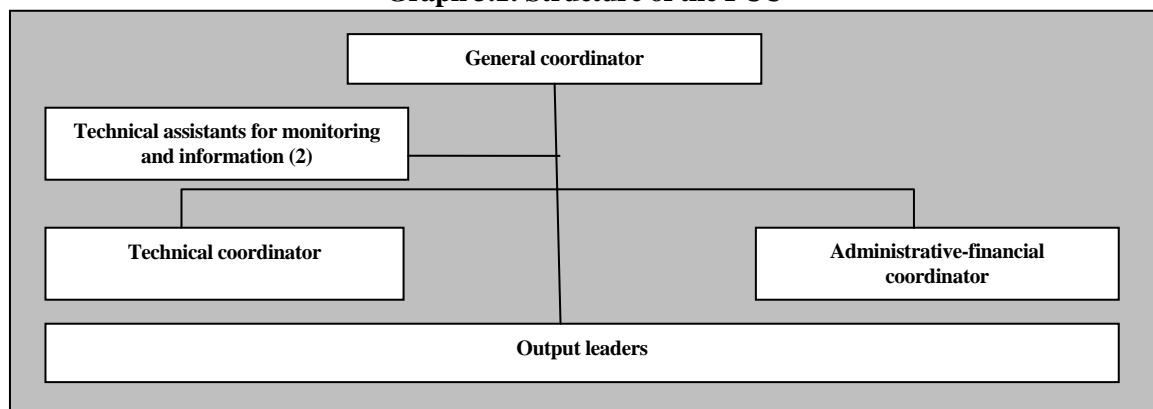
- 2.10 **Little integration of fiscal management at the national level.** This risk will be mitigated through the signature of an agreement for the State to participate in the Comissão de Gestão Fazendária [Finance Management Commission], specially created as part of the Conselho Nacional de Política Fazendária [National Financial Policy Council] (CONFAZ) to promote the sharing of experiences and dissemination of technical solutions under PROFISCO.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of the institutional agreement for implementation**

- 3.1 The borrower will be the State of Sergipe, and the guarantor of the financial obligations of the loan will be the Federative Republic of Brazil. The executing agency for the project will be the Government of the State of Sergipe, acting through the State of Sergipe Department of the Treasury (SEFAZ/SE), where the PCU, attached to the Office of the Secretary, was set up.
- 3.2 The basic structure of the PCU is comprised of career employees of the State of Sergipe as follows: (i) a general coordinator; (ii) a technical coordinator; (iii) an administrative-financial coordinator; and (iv) technical assistants for monitoring and information.

**Graph 3.1: Structure of the PCU**



3.3 In addition to the basic structure, the PCU will have output leaders.<sup>8</sup>

**B. Summary of arrangements for monitoring results**

3.4 The project will be monitored by two PCU staff members, who will perform their functions based on the programming of activities and the itemized physical and financial description of the outputs contained in the annual work plan (AWP), and on the descriptions of procurement and contracting processes included in the procurement plan.

3.5 Project follow-up will be done by an PCU staff member who will perform his or her functions based on the programming of activities and the physical and financial data related to the outputs contained in the AWP, and on the descriptions of procurement and contracting processes included in the procurement plan.

3.6 The following instruments will be used in planning, monitoring, and evaluating the project:

3.7 **Program Operating Regulations.** This instrument establishes the general rules for implementing PROFISCO, including coordination of activities among the various areas involved. **Presentation for verification by the Bank of evidence that the Operating Regulations have entered into force will be a condition precedent to the first disbursement of the loan proceeds.**

3.8 **AWP for the first 18 months.** 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.

3.9 **Procurement plan for the first 18 months.** This instrument provides the Bank with a draft annual procurement plan, and releases data to the public on all procurements to be conducted during a given period of project execution, in accordance with the policies set out in documents GN-2349-7 and GN-2350-7.

3.10 **Semiannual progress reports.** The purpose of the reports is to present the Bank with the results achieved in executing the AWP and the procurement plan, with regard to monitoring the execution process and the request for and release of disbursements. The borrower will deliver the semiannual reports to the Bank, described in Clause 7.03(a)(i) of the Bank's General Conditions, and will send copies to the Office of the Executive Secretary of the Ministry of Finance of the Federative Republic of Brazil. These reports will contain information on the current implementation status of the following national integration actions, regardless of the source of financing: National Synchronized Registry (CSN) and Digital Public Accounting System (SPED), consisting of the electronic tax invoice (NF-e), digital accounting records (ECD), and digital tax records (EFD).

3.11 **Audited financial statements and semiannual reports on ex post review of procurement and disbursements.** Within 120 days of the close of each fiscal year,

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<sup>8</sup> El enlace electrónico [Arreglo institucional y mecanismo de ejecución del proyecto](#) contains details of that session.

the executing agency will deliver the program's annual financial statements to the Bank, audited by an independent firm of certified public accountants.



Development Effectiveness Matrix  
Summary

Indicator	Score	Maximum Score
<b>I. Strategic Relevance</b>	<b>Low</b>	
<b>1. IDB Strategic Development Objectives</b>	<b>0.7</b>	<b>10</b>
Country Diversification	0.7	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.0	3.5
Beneficiary Target Population	0.0	2
<b>2. Country Strategy Development Objectives</b>	<b>0.4</b>	<b>10</b>
Country Strategy Sector Diagnosis	0.0	6
Country Strategy sector objective & indicator	0.4	4
<b>II. Development Outcomes - Evaluability</b>	<b>Satisfactory</b>	
<b>3. Evidence-based Assessment &amp; Solution</b>	<b>6.1</b>	<b>10</b>
<b>4. Evaluation &amp; Monitoring Plan</b>	<b>5.1</b>	<b>10</b>
<b>5. Cost-Benefit or Cost-Effectiveness</b>	<b>7.0</b>	<b>10</b>
<b>6. Risks &amp; Mitigation Monitoring Matrix</b>	<b>7.5</b>	<b>10</b>
<b>III. IDB's Role - Additionality</b>		
<b>7. Additionality</b>	<b>4.0</b>	<b>10</b>
Technical Assistance provided prior to the project	0.0	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4.0	4
Improvements in environmental, health and labor performance	0.0	3

**I. Strategic Relevance:** This operation is being executed in Brazil, considered a Group A country, through a conditional credit line for investment projects (CCLIP). Its objective is not connected to the Bank's current corporate initiatives. It is not clearly indicated whether country systems will be used. The country strategy that would cover the project approval period is not in effect.

**II. Evaluability:** The project's diagnostic assessment is good in terms of identifying the deficiencies encountered. The weakness lies in the definition of outputs for some components, which generates a break in the vertical logic of the project. The indicators are all SMART and measurable outcomes are adequately identified. Monitoring mechanisms have been established and a budget allocated for that activity. However, there is no precise evaluation plan with the main activities to be carried out or the persons responsible for each of them. There is a cost-effectiveness analysis for the financial component. The project is classified as a "C" operation. The main environmental and social risks have been identified as have the required mitigation measures. No indicators are presented that would make it possible to follow up on implementation of those mitigation measures.

**III. Additionality:** The project is expected to improve the integrated financial administration system of Sergipe and to generate the capacity for results-based planning and management.

## RESULTS MATRIX

### BR-L1254

Objective	The general objective of the project is to promote the strengthening of fiscal management in the State of Sergipe, by improving the strategic planning instruments, increasing own revenue, and offering better services to the citizens.							
COMPONENT I: INTEGRATED FINANCE ADMINISTRATION								
Description:	2008 baseline	Year 1/10	Year 2/11	Year 3/12	Year 4/13	Year 5/14	Target	Comment
Subcomponent 1 IMPROVED ORGANIZATION AND INTEGRATION OF FINANCE ADMINISTRATION								
Outputs								
New strategic management and planning model implemented	0	0	3 superintendencies	3 superintendencies and 15 management/advisory offices	3 superintendencies and 15 management/advisory offices	3 superintendencies and 15 management/advisory offices	3 superintendencies and 15 management/advisory offices of SEFAZ have target plans evaluated annually	
Outcomes								
Increase in the percentage of the annual plan of SEFAZ targets that are reached	0%	0%	60%	65%	70%	80%	80% of targets established in the plan are reached	Only Strategic Planning
Subcomponent 2 NATIONAL AND INTERNATIONAL INTERAGENCY COOPERATION								
Outputs								
Staff participation in national forums for purposes of integration	0	30	30	30	30	30	Participation by 30 technical staff annually	
Outcomes								
Share successful technical solutions with other States	0	0	0	0	1	1	Dissemination of at least two fiscal management solutions	

<b>COMPONENT II: TAX ADMINISTRATION AND LITIGATION</b>								
<b>Description:</b>	<b>2008 baseline</b>	<b>Year 1/10</b>	<b>Year 2/11</b>	<b>Year 3/12</b>	<b>Year 4/13</b>	<b>Year 5/14</b>	<b>Target</b>	<b>Comment</b>
<b>Subcomponent 3 MORE EFFICIENT AND EFFECTIVE TAX ADMINISTRATION</b>								
<b>Outputs</b>								
New model for inspection of goods in transit implemented	0%	0%	0%	50%	80%	100%	100% of vehicles with vehicle identification registration at tax inspection stations subjected to selection criteria established under the new model for inspection of goods in transit	
New fiscal intelligence model in place	47			50	53	56	20% increase in the number of reports generated by the fiscal intelligence group	
<b>Outcomes</b>								
Reduction in average amount of time vehicles spend at fiscal inspection stations	4 hours	4 hours	4 hours	3.5 hours	3 hours	2 hours	50% reduction in the average amount of time vehicles spend at fiscal inspection stations	
Increase in total ICMS collected	R\$ 1.327 billion					R\$ 1.340 billion	1% increase in ICMS collection (discounting natural growth)	
<b>Component III: FINANCIAL AND PROPERTY ADMINISTRATION, AND INTERNAL OVERSIGHT OF FISCAL MANAGEMENT</b>								
<b>Description:</b>	<b>2008 baseline</b>	<b>Year 1/10</b>	<b>Year 2/11</b>	<b>Year 3/12</b>	<b>Year 4/13</b>	<b>Year 5/14</b>	<b>Target</b>	<b>Comment</b>
<b>Subcomponent 6 MORE EFFICIENT AND EFFECTIVE FINANCIAL MANAGEMENT</b>								
<b>Outputs</b>								
New integrated public management model in place	0%	0%	0%	100%	100%	100%	100% of executive branch management units are using the human resource management system (SIGEP) to execute their respective budgets	
Model for processing economic-tax data in place	0%	0%	80%	100%	100%	100%	100% of queries to the State's financial-budget system are processed through the economic-tax information management tool	

Description:	2008 baseline	Year 1/10	Year 2/11	Year 3/12	Year 4/13	Year 5/14	Target	Comment
<b>Outcomes</b>								
Reduction in the amount of time required to issue the State's financial-accounting reports	17	17	17	10	07	07	Reduction in the amount of time required for monthly closing of the State's accounts from 17 to 7 days	
Reduction in the amount of time required to prepare financial consultations for the State's Accounting System	80	80	60	50	30	30	Reduction in the average amount of time required to prepare the annual draft budget act from 80 to 30 days	
<b>Component IV: MANAGEMENT OF CORPORATE RESOURCES</b>								
Description:	2008 baseline	Year 1/10	Year 2/11	Year 3/12	Year 4/13	Year 5/14	Target	Comment
<b>Subcomponent 9 ENHANCEMENT OF TRANSPARENCY MECHANISMS FOR FISCAL MANAGEMENT AND COMMUNICATION WITH SOCIETY</b>								
<b>Outputs</b>								
Service to citizens outside the state capital expanded	11	11	11	11	24	37	Brick-and-mortar service centers expanded to 37 municípios	
<b>Outcomes</b>								
Number of face-to-face inquiries addressed outside the state capital	0				13	26	Serve at least 26 municípios through mobile CEACs	
<b>Subcomponent 11 IMPROVED HUMAN RESOURCES MANAGEMENT IN THE FINANCE AREA</b>								
<b>Outputs</b>								
New human resource development model for SEFAZ in place	0%	0%	0%	50%	100%	100%	100% of managers with competency profiles mapped and development plan prepared	
<b>Outcomes</b>								
Training more directly aimed at addressing SEFAZ strategic objectives	20%			40%	50%	60%	Increase to at least 60% of training aimed at fulfilling SEFAZ strategic objectives	

## PROCUREMENT PLAN – SUMMARY

### BR-L1254

Reference number	Description of contract and estimated cost of procurement	Procurement method <sup>1</sup>	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification  (Yes/No)	Estimated dates		Status (pending, in process, awarded, canceled)	Remarks
				IDB %	Local/other %		Publication of specific procurement notice	Contract term		
1. GOODS										
1.1	Kit of IT equipment to support inspection of goods in transit (netbooks and printers) Estimated cost: US\$57,062	Electronic auction (EA-Comprasnet)	Ex post	100.0%			QIII 2011	QIV 2012	Pending	
1.2	Weigh station kit as detailed in bid form 25D_Det EqApoyo Estimated cost: US\$849,153	Electronic auction (EA-Comprasnet)	Ex ante	100.0%			QIII 2011	QII 2012	Pending	
1.3	Kit to support implementation of the new goods-in-transit inspection model as detailed in bid form 25D_Det EqApoyo Estimated cost: US\$34,232	Shopping	Ex post	100.0%			QIV 2011	QIII 2012	Pending	
1.4	Vehicles for good-in-transit inspection as detailed in bid form 25D_Det EqApoyo Estimated cost: US\$1,203,390	Electronic auction (EA-Comprasnet)	Ex post	58%	42%		QIV 2011	QI 2012	Pending	

<sup>1</sup> **ICB:** International competitive bidding; **LIB:** Limited international bidding; **NCB:** National competitive bidding; **S:** shopping; **DC:** Direct contracting; **FA:** Force account; **PSA:** Procurement through specialized agencies; **PAs:** Procurement agents; **IA:** Inspection agencies; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate/Build, operate, transfer/Build, own, operate, transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under Loans Guaranteed by the Bank; **PCP:** Community participation procurement; **QCBS:** Quality- and cost-based selection; **QBS:** Quality-based selection; **FBS:** Selection under a fixed budget; **LCS:** Least-cost selection; **CQS:** Selection based on the consultants' qualifications; **SSS:** Single-source selection; **EA:** Electronic auction.

Reference number	Description of contract and estimated cost of procurement	Procurement method <sup>1</sup>	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, canceled)	Remarks
				IDB %	Local/other %		Publication of specific procurement notice	Contract term		
1.5	Kit of equipment to support project administration (notebook, printer, and multimedia projector) Estimated cost: US\$10,169	Shopping	Ex post	100.0%			QIII 2011	QIII 2014	Pending	
1.6	Project management and monitoring software Estimated cost: US\$45,198	Shopping	Ex post	100.0%			QII 2011	QII 2014	Pending	
<b>2. CONSULTING SERVICES</b>										
2.1	Development and implementation of new planning and strategic management model Estimated cost: US\$254,237	Direct contracting	Not applicable		100.0%		QII 2011	QII 2012	Pending	
2.2	Adaptation of goods-in-transit information system and software for equipment integration Estimated cost: US\$140,678	Selection based on the consultants' qualifications (CQS)	Prior	100.0%			QIII 2011	QIV 2012	Pending	
2.3	Adaptation of State of Pernambuco business model to State of Sergipe and planning and monitoring of SIGEP implementation Estimated cost: US\$1,033,898	Direct contracting	Not applicable		100.0%		QII 2010	QII 2012	In execution	
2.4	Adaptation of e-Fisco for SIGEP Estimated cost: US\$2,118,644	Law 8666 – direct contracting	Not applicable		100%		QII 2011	QII 2012	Pending	
2.5	Adaptation of public management tools - planning, budget, accounting, and public finance Estimated cost: US\$33,898	Selection based on the consultants' qualifications (CQS)	Ex post	100.0%			QIV 2011	QII 2012	Pending	

Reference number	Description of contract and estimated cost of procurement	Procurement method <sup>1</sup>	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/No)	Estimated dates		Status (pending, in process, awarded, canceled)	Remarks
				IDB %	Local/other %		Publication of specific procurement notice	Contract term		
2.6	<b>SIGEP digital certification</b> Estimated cost: US\$12,712	Selection based on the consultants' qualifications (CQS)	Ex post	100.0%			QIV 2011	QIII 2012	Pending	
2.7	<b>Implementation of on-line Business Intelligence (BI) visits</b> Estimated cost US\$169,492	Electronic auction (EA-Comprasnet)	Not applicable		100.0%		QIII 2011	QII 2012	Pending	
2.8	<b>Support for preparation of terms of reference and for description of technical solutions</b> Estimated cost: US\$27,119	Individual consultant	Ex post	100.0%			QII 2011	QI 2012	Pending	
2.9	<b>External audit</b> Estimated cost: US\$84,746	Quality- and cost-based selection (QCBS)	Ex ante	100.0%			QII 2011	QII 2014	Pending	