

TC Document

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Support for the Modernization Process of the Brazilian Federal Revenue
▪ TC Number:	BR-T1446
▪ Team Leader/Members:	Maria Cristina Mac Dowell (IFD/FMM) Team Leader; Calijuri, Monica (IFD/FMM) Alternate Team Leader; Bando Grana, Rosangela (SPD/SDV); Celeste Marzo, Cristina (LEG/SGO); Da Cruz, Adriana Almeida (CSC/CDR); De Assis Bueno, Fabia Maria (VPC/FMP); De Freitas Severino, Ligia (CSC/CDR); Ferreira, Soraya Naffah (IFD/FMM); Gonzalez Alzualde, Yohana Beatriz (IFD/CTI); Kevish, Maria Lorena (IFD/FMM); Reyes-Tagle, Gerardo (IFD/FMM); Valente Lins, Paula (CSC/CDR)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	08 Jun 2020.
▪ Beneficiary:	Secretaria Especial da Receita Federal do Brasil
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$300,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 Months
▪ Required start date:	July 2020
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CSC/CDR-Country Office Brazil
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

- II.1 This Technical Cooperation (TC) is designed to support the Federal Revenue Agency of Brazil (Receita Federal do Brasil, RFB) in its efforts to strengthen and modernize its institutional capacity to respond effectively to the COVID-19 crisis, during and post-pandemic, by incorporating good international tax administration practices and adopting digital technologies to improve strategic management. The products of this TC will enable the RFB to implement effective risk management (compliance and institutional risks); create an input-output matrix to allow the execution of economic-fiscal projections and the elaboration of sectoral indicators; improve tax collection through the recovery of tax arrears; and review and revise reform alternatives to tax litigation process, which will contribute to have a better management and more effective tax revenue collection. Overall, it is expected that this TC will

support the government to reach the fiscal consolidation needed in the post-pandemic period.

- II.2 After contracting by almost 7% during the 2015-2016 recession, real GDP grew only 1.1% per year in 2017 – 2019. In this context, the government has increased its efforts to achieve fiscal consolidation and compliance with the federal expenditure ceiling. Pension reforms were passed last year, and other reforms were underway, such as the reform to the fiscal federalism framework. Also, the Government and the Congress are also working on the preparation of reforms in the tax system and public administration, which are critical for improving efficiency and the sustainability of the fiscal policy.
- II.3 But in February, like the rest of the world, the COVID-19 pandemic stroke and authorities in Brazil started dealing with its consequences. The Brazilian authorities declared the state of emergency on March 20th and invoked the escape clause of the constitutional expenditure ceiling to accommodate the exceptional health care expenditures to alleviate the pandemic's impact. The government has implemented several measures that include programs to support the income and employment, strengthening the budget of health care, social transfers, financial assistance to states and municipalities, financial support to small business, tax moratorium, import arrangements, among others. The total fiscal impact of the measures that have been announced is R\$350 billion, that means 3.8% of the GDP.
- II.4 Despite these essential efforts to contain the virus, it is spreading fast in Brazil. And while not reaching its peak yet, as of June 1st, it has already hit hard the country's economy. According to the FOCUS Report¹ of the Central Bank of Brazil, growth expectations for 2020 have fallen to -25%, much lower than the 2.3% forecasted at the beginning of the year. The public calamity resulting from the outbreak of COVID-19 will affect the national economy, with a cooling of the trajectory of economic recovery that was being built and, consequently, a significant decrease in the tax collection of the federal government needed to finance current and future fiscal stimulus packages, as well as to retake the fiscal sustainability path. The revenue recuperation plan post-COVID-19 will demand more support to increase the effectiveness of RFB to increase tax revenues, justifying the scope of this TC.
- II.5 To identify the weaknesses in the tax system, in the beginning of this year it was conducted an assessment using Tax Administration Assessment Tool (TADAT), which identified four main areas to be developed to reach good international standards, as follow: (i) Performance Outcome Area (POA) 2 – Effective Risk Management; (ii) POA 5 – Timely Payment of Tax; (iii) POA 6 – Accurate Reporting in Declarations; and (iv) POA 7 – Effective Tax Dispute Resolution. In this context, the RFB has requested Bank's support to strengthen these areas to recover the revenue lost during the pandemic. Attending this request, this TC will provide studies and lessons learned based on RFB's experience in Brazil that eventually could be shared or replicated in other countries in the region.
- II.6 In the last 20 years, the IDB has been supporting the Government of Brazil with several programs, in particular with subnational states as such (PNAFE 980/0C-BR); CCLIP-PROFISCO I (BR-X1005); Fiscal modernizing in Sao Paulo State; modernization of fiscal management of Bahia State (1727/0C-BR); fiscal balance programs in the states of Amazonas, Alagoas, Bahia, Pernambuco and Rio Grande

¹ Focus Report, 05/31/2020.

do Sul.² At the federal level, the IDB has provided support to modernizing the RFB (SRF, 1996) and the Program of Fiscal and Administrative Management Modernization for municipalities (PNAFM I / 1194/OC-BR, II / 2248/OC-BR y III / 3391/OC-BR). Also, since 2017, the Bank is providing support to the following states under CCLIP PROFISCO II (BR-X1039): Piauí (4460/OC-BR); Maranhão (4458/OC-BR); Ceará (4436/OC-BR); Pará (4459/OC-BR); Pernambuco (4554/OC-BR); Mato Grosso do Sul (4597/OC-BR); São Paulo (4706/OC-BR); and Espírito Santo (4741/OC-BR). The current Technical Cooperation will complement, at the federal level, those previous programs carried out at the subnational level, strengthening the RFB processes, towards a better efficiency and effectiveness.

- II.7 This TC is consistent with the Update to the Institutional Strategy (UIS) 2020-2023 (AB-3190-2) and is strategically aligned with the development challenge of productivity and innovation by improving the revenue management through the intensive use of digital tools. The TC is also aligned with the cross-cutting theme of institutional capacity and the rule of law,³ by strengthening the tax systems and management and planning of public resources and with the objectives of the Strategic Program for the Development of Institutions Financed with Ordinary Capital (INS) (GN-2819-1). Besides, this TC will contribute to the following Corporate Results Framework (CRF) 2016-2019 (GN-2727-12) indicator: government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery and new operations supporting digital technology.
- II.8 Besides, this TC is aligned to the Bank Country Strategy of Brazil 2019-2022 (GN-2973) through the following strategic objectives: (i) build a more effective public sector that promotes fiscal sustainability; and (ii) reduce social inequality and inequality of opportunity by enhancing public policy efficiency. In addition, the project aligns with the cross-cutting theme of innovation and transformation.

III. Description of activities/components and budget

- III.1 **Component I. Strategic management in Tax Administration (US\$150,000).** The objective of this component is to support RFB to improve strategic management. This component will finance technical assistance and studies requested by the RFB regarding the following subcomponents:
- a) **Proposal of a comprehensive risk management process.** This will allow the RFB manage its activities using risks criteria and ensure business continuity for the post pandemic activities. This subcomponent includes: (i) studies for the implementation of an effective risk management process, both for compliance and operational risks, including business continuity strategies; and (ii) one international workshop to be hosted by RFB to discuss good practices in risk management.
 - b) **Proposal of input-output matrix using data from fiscal electronic documents.** This will allow to simulate the effect in the tax bases due to changes in fiscal policy and also to estimate the relative impact in tax revenue collection of the economic sectors, before and after the pandemic, among others. This subcomponent includes (i) one study explaining alternative solutions for database modeling, in order to support the development of input-output matrices originating mainly from

² Fiscal balance programs financed by the Bank through loans to support policy reforms (PBL.: 2081/OC-BR; 2841/OC-BR; 2850/OC-BR; 3039/OC-BR; 3061/OC-BR; 3138/OC-BR; and 3139/OC-BR.

³ It will also contribute to increasing the capacity of the public sector and civil service to deliver services, fight corruption, and enforce the rule of law (point 2b of AB-3008).

tax data, as well as the development of sectoral economic indicators, comprising: a) database structure; b) data flow management from electronic invoices and tax files in general, and statistical sources; c) access policy; and d) possible technological tools for its implementation, among other aspects; (ii) one study to explore combined solutions to treat outliers data in the context of electronic tax invoices and other tax files that will be used to capture data to build input-output matrixes and sector indicators (this study should include statistical methods and possible software tools used for this purpose); (iii) one study to build input-output matrixes originating from tax data consistent with the System of National Accounts - that is - to detect conceptual and temporal divergences between tax data and the National Accounts, lack of information, as well as to set methods to reconcile tax data with National Accounts; and (iv) one study to address the problems of building regional input-output matrices, especially the reconciliation with the National Accounts at the state level.

3.2 Component II. Tax arrears recovery and tax dispute resolution (US\$150,000).

The objective of this component is to support RFB to increase tax revenues after the COVID-19 pandemic, recovering existing tax arrears and speeding up tax resolution processes. This component will finance the technical assistance and studies requested by the RFB regarding the following subcomponents:

- a) **Improve the debt recovery procedures.** In the end of 2019, the total amount of active credits in the tax arrears portfolio reached R\$1.86 trillion, from which, collection portfolio is R\$156.20 billion, while the installment debt portfolio is R\$224.58 billion. It represents a huge opportunity to increase tax revenue after post-covid. The support of this TC includes technical assistance, studies and seminars to modernize the procedures according to best international practices to increase the effectiveness of collection.
- b) **Review the process of tax dispute resolution.** The amount of tax cases dispute pending resolution in Brazil reaches R\$3.4 trillion, which means 50% of GDP. The situation is worsened due to the large number of tax rules⁴ and absence of alternative forms of conflict resolution, causing overlap of decision-making boards and extremely slowness, generating a high stock of cases pending resolution⁵. The support of this TC includes: (i) one study to review, under international good practices, alternative solutions to minimize conflicts and expedite the process of dispute resolution, with a proposal of improvement in the current process; and (ii) two international seminars hosted by RFB to discuss foreign experiences in both topics (one seminar per topic).

- 3.3 The total amount of this TC is U\$300,000.00, whose source of financing will be the Strategic Program for the Development of Institutions Financed with Ordinary Capital.

Indicative Budget

	Descripción	Banco*	Local	Total
Component I	Strategic management in Tax Administration	150,000	0	150,000
	Consultancy for input-output matrix design	60,000		60,000
	Consultancy for development of a comprehensive risk management model	60,000		60,000

⁴ In the period between 1988 - 2018 were enacted 20 thousand rules per year, in average. From 1988 (Constitution) to 2018, more than 290 thousand rules were enacted.

⁵ In the first stage of dispute resolution, there is an average of 265.000 cases in stock

	Seminars and dissemination	30,000		30,000
Component II	Tax arrears recovery and tax dispute resolution	150,000	0	150,000
	Consultancy for tax arrears recovery model.	60,000		60,000
	Consultancy for tax dispute resolution model	60,000		60,000
	Seminars and dissemination	30,000		30,000
TOTAL		300,000	0	300,000

IV. Executing agency and execution structure

- IV.1 The Bank will be the executing agency through the Fiscal and Municipal Management Division (FMM/CBR), through its Representation in Brazil, as requested in the TC request letter received from the beneficiary entity. FMM/CBR has extensive experience in supporting technical assistance in public management and was the Division responsible for implementation and supervision of seven Technical Cooperation with the same scheme in the last ten years with positive results. The beneficiary agency and the Bank mutually agree that contracting by the Bank would enhance independence.
- IV.2 The Bank and the specific personnel involved, have experience on the components of this TC, which qualifies for the selection and contracting of consulting services that, where appropriate, are required. The Bank as the executing agency of this TC may also guarantee that the products meet the appropriate quality standards and their applicability to other countries in the region and provide them with technical and operational advice.
- IV.3 Moreover, the Bank will actively seek close collaboration during the implementation process with other entities, as the Inter-American Center of Tax Administrations (CIAT) and the IMF, as part of the effort to transfer the experience of good international practices in the areas of tax administration. It is important to notice that the RFB's project "Tax Gap and Product Input Matrix", which has been carried out in coordination with Instituto Brasileiro de Geografia e Estatística (IBGE), includes the IMF and the IDB as supporters. The IMF has been providing technical assistance to estimate tax gap and the Bank will provide knowledge to develop the input-output matrix.
- IV.4 All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP 1155-4 for consulting firms for services of an intellectual nature and; (c) GN 2303-28 for logistics and other related services. The Bank will supervise the consulting services and the RFB will provide technical inputs to the consultants' reports.

V. Major issues

- V.1 The main risk associated to this TC is the eventual discontinuation of the implementation of government's initiatives due to the COVID crisis in 2020, such as social distance and travel restrictions measures that could delay the preparation of reports, meetings and seminars. The mitigation would consist of online meetings and remote consulting. Also, as stated in the Country Strategy the: (i) macroeconomic risks associated with the possible deterioration of the external context and with progress in fiscal consolidation; and (ii) institutional weaknesses could delay execution. However, considering the high interest and active engagement of the

competent entities to be beneficiary of this TC, the risk will be mitigated by focusing on technological and operational aspects that will reduce the risks.

- V.2 **Sustainability.** To contribute to the sustainability of the products financed by this TC among the Brazilian public institutions, all activities will be carried out with the support of public servants in the Ministry of Finance, *Instituto Brasileiro de Geografia e Estatística* (IBGE) and Tax Administration officials. This project will provide methodological guidelines as well as recommendations. It will substantially support in the training of human resources to increase the efficiency of RFB. In order to ensure the sustainability and continuity, this TC is included in the Strategic Plan of RFB, as part of the strategic actions.

VI. Exceptions to Bank policy

- VI.1 No exceptions to Bank policy.

VII. Environmental and Social Strategy

- VII.1 Given the nature of the TC, no negative environmental impacts are foreseen. The TC will support the strengthening of processes and capacities of the tax administration, for which reason public works or infrastructure will not be financed. In accordance with the Bank's Environment and Safeguards Compliance Policy (OP703), this operation has been classified in category "C". See [Safeguards Policy Filter Report \(SPF\)](#) and the [Safeguard Screening Form \(SSF\)](#).

Required Annexes:

[Request from the Client - BR-T1446](#)

[Results Matrix - BR-T1446](#)

[Terms of Reference - BR-T1446](#)

[Procurement Plan - BR-T1446](#)