

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	BRAZIL/CSC - Southern Cone
▪ 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; REYES-TAGLE, GERARDO (IFD/FMM); CELESTE MARZO, CRISTINA (LEG/SGO); FERREIRA, SORAYA NAFFAH (IFD/FMM); KEVISH, MARIA LORENA (IFD/FMM); BANDO GRANA, ROSANGELA (SPD/SDV); DE ASSIS BUENO, FABIA MARIA (VPC/FMP); DA CRUZ, ADRIANA ALMEIDA (CSC/CDR); GONZALEZ ALZUALDE, YOHANA BEATRIZ (IFD/CTI); VALENTE LINS, PAULA (CSC/CDR); DE FREITAS SEVERINO, LIGIA (CSC/CDR); VILLELA DE TOLEDO ESTEVANATO, LEISE (VPC/FMP); REIS FELIX, ROBERTA (CSC/CDR)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	08 Jun 2020
▪ Beneficiary:	Brasil
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$300,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	24 months
▪ 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. Objective and Justification

- 2.1 Subsidize the process of modernization of the tax administration of the federal government of Brazil.
- 2.2 This Technical Cooperation (TC) is designed to support the Federal Revenue Agency of Brasil (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.

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.

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 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. 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.

### III. Description of Activities and Outputs

- 3.1 **Component I: Strategic management in Tax Administration.** The objective of this component is to support RFB to improve strategic management.
- 3.2 **Component II: Tax arrears recovery and tax dispute resolution .** The objective of this component is to support RFB to increase tax revenues after the Covid pandemic, recovering existing tax arrears and speeding up tax resolution processes.

### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Strategic management in Tax Administration	US\$150,000.00	US\$0.00	US\$150,000.00
Tax arrears recovery and tax dispute resolution	US\$150,000.00	US\$0.00	US\$150,000.00
<b>Total</b>	<b>US\$300,000.00</b>	<b>US\$0.00</b>	<b>US\$300,000.00</b>

### V. Executing Agency and Execution Structure

- 5.1 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 entities. 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.

- 5.2 In the last 20 years, the IDB has been supported the Government of Brazil with several programs, in particular with subnational states as such (PNAFE 980/OC-BR); CCLIP PROFISCO I (BR-X1005); Fiscal modernizing in Sao Paulo State; modernization of fiscal management of Bahia State (1727/OC-BR); fiscal balance programs in the states of Amazonas, Alagoas, Bahia, Pernambuco and Rio Grande do Sul . 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).

## **VI. Project Risks and Issues**

- 6.1 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.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".