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**BRAZIL**

**PROFISCO – RIO DE JANEIRO  
FISCAL MANAGEMENT MODERNIZATION PROGRAM OF THE  
STATE OF RIO DE JANEIRO (PROFAZ/RJ) (PROFISCO/RJ)  
(BR-L1239)**

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

**LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, and rationale .....	1
B.	Objective, components, and cost .....	4
C.	Key results indicators .....	7
II.	FINANCING STRUCTURE AND MAIN RISKS .....	8
A.	Financing, procurement, and contractual conditions .....	8
B.	Environmental and social safeguard risks .....	9
C.	Fiduciary risk .....	10
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	10
A.	Summary of institutional arrangements for implementation .....	10
B.	Summary of arrangements for monitoring results .....	11

ANNEXES	
Annex I: Development Effectiveness Matrix (DEM) (summary)	
Annex II: Results Framework	
Annex III: Procurement Plan (summary table)	
TECHNICAL REFERENCES	
Required	Link
1. Annual work plan (AWP) – 18 months	<a href="#">IDBDOCS2143862</a>
2. Monitoring and Evaluation System	<a href="#">IDBDOCS2139639</a>
3. Procurement Plan – 18 months (itemized table)	<a href="#">IDBDOCS2141445</a>
Additional	Link
1. Matrix of problems/causes/solutions/outcomes	<a href="#">IDBDOCS2143815</a>
2. Program financial analysis	<a href="#">IDBDOCS2142789</a>
3. Institutional arrangements and program execution mechanism	<a href="#">IDBDOCS2142795</a>
4. State law authorizing the credit operation	<a href="#">IDBDOCS2142834</a>
5. Report on fiscal management of the State of Rio de Janeiro	<a href="#">IDBDOCS2143002</a>
6. Contract with BNDES (PMAE)	<a href="#">IDBDOCS2143025</a>
7. Fiduciary risk analysis	<a href="#">IDBDOCS2143046</a>
8. Frame of reference for the CCLIP-PROFISCO credit line, approved by the Brazilian government	<a href="#">IDBDOCS2143050</a>
9. Operating Regulations of the CCLIP-PROFISCO credit line and annexes	<a href="#">IDBDOCS2143732</a>
10. Letter requesting a five-year grace period	<a href="#">IDBDOCS2206523</a>
11. Table of indicators	<a href="#">IDBDOCS2141421</a>

## ABBREVIATIONS

AGE	State Auditor General
ATI	Information Technology Advisor
AWP	Annual work plan
BNDES	Banco Nacional de Desenvolvimento Econômico y Social [National Economic and Social Development Bank]
CadSinc	Catastro Nacional Sincronizado [National Synchronized Registry]
CCLIP	Conditional credit line for investment projects
CTCE	Corregedoria Tributária de Controle Externo [External Control Tax Magistrate]
DUB	Documento único de benefícios fiscais [tax benefits certificate]
ECD	Escrituração contábil digital [digital accounting records]
ECF	Emissão de cupons fiscais [receipt issuing equipment]
EFD	Escrituração fiscal digital [digital tax records]
ESAF	Escola de Administração Fazendária do Ministério da Fazenda [School of Public Finance Administration of the Ministry of Finance of the Federative Republic of Brazil]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre operações relativas à circulação de mercadorias [goods and services sales tax]
IPVA	Imposto sobre a propriedade de veículos automotores [motor vehicle ownership tax]
IT	Information technology
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NCI	Net current income
NF-e	Nota fiscal eletrônica [electronic tax invoice]
PAF	Programa de Reestruturação e Ajuste Fiscal [Fiscal Adjustment and Restructuring Program for the Brazilian States]
PCU	Program coordination unit
PMAE	Programa de Modernização da Administração das Receitas e da Gestão Fiscal, Financeira e Patrimonial das Administrações Estaduais [Program for the Modernization of Revenue Administration and Fiscal, Financial and Asset Management in State Revenue Services]
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for Brazilian States]
PROFAZ/RJ	Programa de Modernização da Gestão Fazendária do Estado de Rio de Janeiro [Fiscal Management Modernization Program of the State of Rio de Janeiro]
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Finance Administrations in Brazil]

RFB	Secretaria da Receita Federal do Brasil [Federal Department of the Revenue]
RJ	Rio de Janeiro
SEFAZ/RJ	Secretaria de Estado de Fazenda do Rio de Janeiro [State of Rio de Janeiro Department of Finance]
SOA	Service oriented architecture
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
TCE/RJ	Tribunal de Contas do Estado de Rio de Janeiro [Rio de Janeiro Audit Office]

## PROJECT SUMMARY

### BRAZIL PROFISCO – RIO DE JANEIRO FISCAL MANAGEMENT MODERNIZATION PROGRAM OF THE STATE OF RIO DE JANEIRO (PROFAZ/RJ) (PROFISCO/RJ) (BR-L1239)

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

Financial Terms and Conditions			
Borrower: The State of Rio de Janeiro		Amortization period:	20 years
Guarantor: Federative Republic of Brazil		Grace period:	5 years
Executing agency: The State of Rio de Janeiro, acting through its Department of Finance (SEFAZ/RJ)		Disbursement period:	4 years
Source	Amount (US\$)	Inspection and supervision fee:	*
		Interest rate:	LIBOR
IDB (Ordinary Capital)	US\$19,759,050	Credit fee:	*
Local	US\$ 2,540,950	Currency:	U.S. dollars from the Single Currency Facility of the Bank's OC
Total	US\$22,300,000		
Project at a Glance			
<b>Objective and description:</b>			
<b>Objective:</b> The program's general objective is to make fiscal management in the State of Rio de Janeiro more efficient and transparent, in order to: (i) enhance the planning, budget, and financial instruments that support decision-making; (i) increase the state's internally generated revenue; (iii) enhance transparency mechanisms and the efficiency, effectiveness, and control of public expenditure; and (iv) improve the quality of services provided to taxpayers by the State of Rio de Janeiro Department of Finance (SEFAZ/RJ).			
<b>Description:</b> The program comes 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), which was approved by the Bank's Board of Executive Directors on 5 November 2008 pursuant to Resolution DE-132/08. It has four components with their respective subcomponents:			
1. <b>Integrated strategic management:</b> (i) institutional strengthening and improved strategic management; and (ii) national and international interagency cooperation.			
2. <b>Tax administration and tax litigation:</b> (i) more efficient and effective tax administration; and (ii) improved management of the taxpayer registry and implementation of the Sistema Público de Escrituração Digital [Digital Public Accounting System] (SPED).			
3. <b>Financial and property management, and internal control:</b> (i) more efficient and effective financial management; and (ii) improved internal control and audit mechanisms.			
4. <b>Management of strategic resources:</b> (i) enhancement of mechanisms for transparency and communication with society; (ii) management modernization and upgrading of information and communication technology services; and (iii) improved human resources management.			
<b>Special contractual conditions:</b> As a condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence, to the Bank's satisfaction, that the program Operating Regulations have entered into force (see paragraph 3.5).			
<b>Exception to Bank policies:</b> The borrower requests authorization to use Brazilian federal legislation on procurement and contracting as described in paragraph 2.3, and to use direct contracting as described in paragraph 2.4.			

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

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 This program comes 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), which was approved by the Bank’s Board of Executive Directors on 5 November 2008 pursuant to Resolution DE-132/08. One of the PROFISCO program objectives is to build upon actions taken under the Bank-financed National Fiscal Administration Program for Brazilian States (PNAFE), which is regarded as a major source of support for the federal government’s Fiscal Adjustment and Restructuring Program (PAF) for the Brazilian states.
- 1.2 **Socioeconomic context.** The State of Rio de Janeiro is one of Brazil’s 27 federative units. It is located in Brazil’s southeast region with an area of 43,767 square kilometers and an estimated population of 15.4 million (IBGE/2007), 96% of whom live in urban areas, and 4% in rural areas. The state contributes 11.6% of the country’s GDP. The sector breakdown of the state economy is as follows: trade, 58.1%; industry, 25.3%; services, 16.1%; and agriculture, 0.5%. The state’s human development index (HDI) of 0.807 is just slightly above the national average, 0.766 (United Nations/2000).
- 1.3 **Fiscal context.** The State of Rio de Janeiro is meeting its commitments to the federal government under the PAF, as well as the requirements the Fiscal Responsibility Law (LRF). The table below summarizes some key fiscal indicators:

Table 1.1. Fiscal Performance

Specification	Actual 2007 (R\$ millions)	Actual 2008 (R\$ millions)	Variation	
			Value	%
I. Nonfinancial revenue	34,472	40,753	6,281	18.2
II. Nonfinancial expenditure	30,980	35,830	4,850	15.6
III. Primary surplus (I – II)	3,492	4,923	1,431	41.0
IV. Nominal interest	2,373	2,514	141	5.9
V. Investments	1,348	1,754	406	30.1
VI. Net current income (NCI)	26,850	31,831	4,981	18.6
VII. Personnel expenditure	7,025	7,609	584	8.3
VIII. Personnel / NCI	<b>25.2%</b>	<b>23.9%</b>		
IX. Consolidated debt	46,575	51,042	4,467	9.6
X. Debt / NCI	<b>173.5%</b>	<b>160.3%</b>		

Source: Management and budget execution reports. National Treasury Secretariat.

[http://www.tesouro.fazenda.gov.br/estados\\_municipios/sistn.asp](http://www.tesouro.fazenda.gov.br/estados_municipios/sistn.asp)

- 1.4 The primary surplus in 2008 was R\$4.293 billion, 41% higher than the previous year. This increase was due to an 18.2% rise in nonfinancial revenue, exceeding the 15.6% increase in nonfinancial expenditure. This growth in the primary surplus in



- 2008 enabled the government to prepare for the impact of the financial crisis, safeguarding the resources of the state employee pension plan, Rioprevidência, to guarantee payment of benefits to retired civil servants and pensioners in future periods.
- 1.5 The world economic crisis is affecting the development of the state economy, reducing internal revenue collections, federal transfers, export revenue and, consequently, public investment. The economic slowdown was attenuated in Brazil by the country's relative macroeconomic stability and the proactive economic stimulus measures adopted by the federal government. This program will help mitigate the effects of the crisis on the state's finances by supporting improved collections and quality in public spending.
  - 1.6 **Institutional context.** Three agencies are responsible for fiscal management in the State of Rio de Janeiro: (i) the Secretaria de Estado de Fazenda [State of Rio de Janeiro Department of Finance] (SEFAZ/RJ), which executes economic, budget, finance, tax, and fiscal policy; (ii) the Secretaria de Estado de Planejamento e Gestão [State of Rio de Janeiro Planning and Management Department] (SEPLAG/RJ), which plans and coordinates government actions; and (iii) the Procuradoria Geral do Estado [State of Rio de Janeiro Attorney General's Office], which conducts court litigation proceedings.
  - 1.7 The institutional authority of SEFAZ/RJ is concentrated in the areas of taxation, collection and compliance; financial administration; fiscal policy; economic studies; internal audit; public expenditure and debt; administrative/tax litigation; and collection of adjudicated tax claims. SEFAZ/RJ operates out of the following decentralized units: 24 regional fiscal inspection stations in the interior and 10 in the capital, 12 specialized inspection stations and 10 interstate control posts.
  - 1.8 **Organizational structure.** SEFAZ/RJ is organized as follows: (i) the top tier of hierarchy consists of the Finance Secretary, six Undersecretaries (General, Legal Affairs, Collections and Tax Administration, Finance, Fiscal Policy, and Economic Studies), the State Comptroller General (CGE), the State Auditor General (AGE), and the External Control Tax Magistrate (CTCE); (ii) the second tier comprises the Information Technology Advisor (ATI), the Office of the Director for Administration and Finance, and 14 superintendencies; and (iii) collegiate bodies: Taxpayer Council, Fiscal Review Board, Executive Council on Compliance, Board of Ethics, Information Technology Users Committee, Academic Council of the Rio de Janeiro State Finance School, and the Fiscal Incentives and Benefits Committee.
  - 1.9 **Human resources.** SEFAZ/RJ has 2,646 employees, 1,949 (74%) of whom are permanent staff, and 697 (26%) temporary. The permanent staff are all employed under the civil service system and deployed in eight specific areas of fiscal management. The number of temporary staff will be reduced gradually, following the public competitions currently underway to fill tax inspector positions.
  - 1.10 **Accomplishments.** A number of activities by the State of Rio de Janeiro in the past two years sought to modernize tax management, in particular the following:

- a. **Tax administration and tax litigation:** (i) three public competitions (the first in 18 years) to hire 240 tax inspectors; (ii) introduction of the simplified tax regime for small businesses (Simples Nacional), introduction of the electronic tax invoice (known by its Portuguese-language acronym, NF-e), development of the Digital Public Accounting System (SPED), and implementation of the Taxpayer Council resource control system; (iii) studies under way to assess the impact of new tax incentives and implementation of the tax benefits certificate (DUB); and (iv) cross-checking credit card company data against the data bank of Brazil's Federal Department of the Revenue (RFB).
  - b. **Financial and property management, and internal control:** (i) early retirement program for decentralized agencies and payroll audits, reducing personnel expenditure by about R\$50 million a year (approximately 0.4% of personnel expenditure); (ii) implementation of the project to restructure the state's social security; (iii) implementation of the program to reduce previous year liabilities; and (iv) posting the supplier payment schedule on the SEFAZ/RJ portal.
  - c. **Organization and strategic management:** (i) development of the state strategic plan (2007-2011); and (ii) reviewing the structure of the Executive Branch, paring down the number of departments from 30 to 19, and reviewing the structure of SEFAZ/RJ, including downsizing and reforming the decentralized customer service centers.
- 1.11 **Challenges for the State's fiscal area.**<sup>1</sup> Despite these accomplishments, some specific areas need support to address the following problems:
- a. **Integrated strategic management.** Low efficiency and lack of coordination for planning, decision-making, and implementation of actions by the various SEFAZ/RJ departments. The chief causes further aggravating the problem include: (i) lack of a systemic vision to identify problems and their solutions; (ii) inefficient organizational processes in the absence of a business vision or standardized, documented procedures, and excessive bureaucracy; (iii) insufficient basis for decision-making and medium- and long-term planning; and (iv) insufficient involvement by SEFAZ/RJ in fiscal management events.
  - b. **Tax administration and tax litigation.** The state collections potential is not used to its fullest extent owing to: (i) low reliability or accessibility of registry data on the goods and services sales tax (ICMS); (ii) weak data processing mechanisms for economic/fiscal data; (iii) tax inspection inefficiencies, with makeshift fiscal planning and taxpayer selection tools; (iv) insufficient control of receipt issuing equipment (ECF) at retail businesses; (v) arrears in payment of the motor vehicle ownership tax (IPVA); (vi) shortcomings in interstate

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<sup>1</sup> The technical reference, "Matrix of problems/causes/solutions/outcomes," describes each of the problems related to the four challenge areas.

inspection of goods subject to tax substitution; (vii) weaknesses in taxpayer/citizen services; (viii) absence of ex post verification for maintenance/renewal of the conditions for access to tax concessions; (ix) difficulty in use and access to legislation for in-state and out-of-state public; and (x) lack of control and standardization of the tax administrative process.

- c. **Financial and property management, and internal control.** Problems with budgetary, financial, and asset management; internal control; and transparency of public accounts due to: (i) scant integration of collection, budget, finance, asset, payroll, procurement, and accounting registry data; (ii) no projection of public service costs; and (iii) ineffectiveness of government audit processes.
- d. **Management of strategic resources.** Unsatisfactory response by SEFAZ/RJ to internal and external requests for services and information, due mainly to: (i) insufficient channels of communication with citizens; (ii) obsolete and low-performing information technology infrastructure; (iii) shortcomings in intersystem data integration; (iv) few training opportunities for government employees; and (v) weaknesses in internal communication mechanisms.

## **B. Objective, components, and cost**

- 1.12 **Objective.** The program's general objective is to make fiscal management in the State of Rio de Janeiro more efficient and transparent, in order to: (i) enhance the planning, budget and financial instruments that support decision-making; (ii) increase the state's internally generated revenue; (iii) enhance transparency mechanisms and the efficiency, effectiveness, and control of public expenditure; and (iv) improve the quality of services provided to taxpayers by the State of Rio de Janeiro Department of Finance (SEFAZ/RJ).
- 1.13 The program has four components:
- 1.14 **Component I. Integrated strategic management (US\$1,448,000).** This component will include the following subcomponents and respective outputs:
  - a. **Institutional strengthening and improved strategic management.** This subcomponent will finance implementation of the following models<sup>2</sup>: (i) strategic and organizational planning; (ii) process management; and (iii) medium-term projection of economic/fiscal variables.
  - b. **National and international interagency cooperation.** This subcomponent will finance implementation of a national and international interagency cooperation program.
- 1.15 **Component II. Tax administration and litigation (US\$6,221,000).** This component includes the following subcomponents and respective outputs:

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<sup>2</sup> Implementation of the models includes: diagnostic assessment of current conditions, business model options and procedures, computerized systems, upgrading the physical and technological infrastructure, and staff training.

- a. **More efficient and effective tax administration.** This subcomponent will finance implementation of: (i) a restructured model for ICMS taxpayer registry data; (ii) a model for economic/fiscal data management; (iii) definition and implementation of a model for planning, execution, and control of business compliance inspections; (iv) an ECF control system; (v) an IPVA management model; (vi) a goods-in-transit inspection model; (vii) a model to manage the grant/renewal of tax concessions; (viii) a state tax legislation management model; (ix) an electronic tax administration process; and (x) the expansion of online taxpayer services.
  - b. **Improved management of the taxpayer registry and implementation of the Digital Public Accounting System (SPED).**<sup>3</sup> This subcomponent will finance the modernization and expansion of information technology (IT) infrastructure for implementation of the electronic tax invoice (NF-e) and the SPED.
- 1.16 **Component III. Financial and property management and internal control (US\$6,544,000).** This component will include the following subcomponents and respective outputs:
- a. **More efficient and effective financial management.** This subcomponent will finance implementation of: (i) an integrated financial management system; and (ii) an appropriation and cost accounting model.
  - b. **Improved audit and internal control mechanisms.** This subcomponent will finance the development of the state's internal control management model.
- 1.17 **Component IV. Management of strategic resources (US\$7,486,000).** This component will include the following subcomponents and respective outputs:
- a. **Enhanced mechanisms for transparency and communication with society.** This subcomponent will finance the dissemination of the Fiscal Education Program.
  - b. **Management modernization and upgrading of information and communication technology services.** This subcomponent will finance: (i) development of the IT management model; (ii) the data security model; and (iii) implementation of Service Oriented Architecture (SOA).
  - c. **Improved human resources management.** This subcomponent will finance implementation of: (i) the talent management and training and development program for SEFAZ/RJ staff; (ii) the physical and virtual SEFAZ/RJ library; and (iii) the communication model.
- 1.18 **Overall budget.** The total estimated cost of the program is US\$22.3 million. Of that amount, the Bank will finance up to US\$19,759,050 equivalent with resources

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<sup>3</sup> This subcomponent is financed by the Program for the Modernization of Revenue Administration and Fiscal, Financial, and Asset Management in State Revenue Services of the National Economic and Social Development Bank (PMAE/BNDES), which will provide local counterpart for the program.

from the Single Currency Facility of the Ordinary Capital (OC). the State of Rio de Janeiro will provide US\$2,540,950 in counterpart resources.<sup>4</sup> Table 1.2 shows the structure of program financing. No budgetary provision has been made for the inspection and supervision fee or credit fee, because these will be paid out of the state's own funds.

**Table 1.2. Overall Budget for Program BR-L1239  
by Source of Financing (in U.S. dollars)**

Categories*	IDB	Local	TOTAL	%
<b>1. Program management</b>	<b>245,550</b>	-	<b>245,550</b>	<b>1.10</b>
1.1 Program management	115,550	-	115,550	
1.2 Monitoring and evaluation	130,000	-	130,000	
<b>2. Direct costs</b>	<b>19,158,000</b>	<b>2,540,950</b>	<b>21,698,950</b>	<b>97.31</b>
2.1 Integrated strategic management	1,448,000	-	1,448,000	
2.2 Tax administration and litigation	3,680,000	2,540,950	6,220,950	
2.3 Financial and property management and internal control	6,544,000	-	6,544,000	
2.4 Management of strategic resources	7,486,000	-	7,486,000	
<b>3. Unallocated costs</b>	<b>355,500</b>	-	<b>455,500</b>	<b>1.59</b>
<b>TOTAL</b>	<b>19,759,050</b>	<b>2,540,950</b>	<b>22,300,000</b>	
<b>%</b>	<b>88.6%</b>	<b>11.4%</b>	<b>100%</b>	<b>100%</b>

\* The borrower will pay the interest and loan charges out of resources not included in the program.

1.19 **Disbursement schedule.**<sup>5</sup> Funds will be disbursed over four years, running from the effective date of the loan contract, in accordance with the disbursement schedule in Table 1.3 below.

**Table 1.3. Disbursement Schedule (in U.S. dollars)**

Source	2010	2011	2012	2013	Total	%
<b>IDB</b>	3,688,510	6,091,350	6,070,800	3,908,390	<b>19,759,050</b>	88.6
<b>Local</b>	2,540,950	-	-	-	<b>2,540,950</b>	11.4
<b>Total</b>	<b>6,229,460</b>	<b>6,091,350</b>	<b>6,070,800</b>	<b>3,908,390</b>	<b>22,300,000</b>	<b>100</b>
<b>Percentage</b>	<b>27.93%</b>	<b>27.32%</b>	<b>27.22%</b>	<b>17.53%</b>	<b>100%</b>	

1.20 **Financial analysis.** Given the smaller scale of the operation, the project team decided to perform a simple comparative analysis between incremental financial costs and the benefits associated with the implementation of just two program

<sup>4</sup> Resources under the contract entered into by the State of Rio de Janeiro with BNDES for the PMAE program will form part of the local counterpart contribution, in addition to the state's own resources. (See technical reference "BNDES contract (PMAE).")

<sup>5</sup> In accordance with documents GN-2264-4 and GN-2246-7, the borrower elected a five-year grace period, although the disbursement period will be four years. (See technical reference, "Letter requesting a five-year grace period," submitted by the Finance Department.)

outputs (see technical reference). Accordingly, the financial analysis reflects a conservative increase in revenue collection of just 1% from improvement of ICMS and the IPVA management. The following parameters were used: (i) 10-year horizon; (ii) discount rate of 12.5% per annum; and (iii) 2.5% annual GDP growth rate.

- 1.21 According to this analysis, in the fourth year of disbursement of the loan proceeds (2013), a net financial benefit of US\$63 million in present-value terms is projected for the project. Ten years after the start of execution (2019), a cumulative net financial benefit of US\$329 million in present-value terms is projected. Therefore, from the financial standpoint, the project is justified.

### C. Key results indicators

- 1.22 The most significant expected outcomes by the end of program execution are:
- a. **PAF targets met.** Because this project is under the CCLIP-PROFISCO program, which is afforded special treatment by the federal government, the borrower commits to observe, throughout project execution, all PAF-related commitments with the federal government relating to the following indicators: (i) trend of the ratio between debt and net real income (NRI); (ii) primary result; (iii) payroll expenses / net current income (NCI); (iv) own income; and (v) other current expenditure / NCI. These fiscal targets may be renegotiated with the National Treasury Department of the Ministry of Finance (STN/MF), with the revised values being applied as agreed upon.
  - b. **PROFAZ/RJ outcomes:** (i) meet 70% of the targets set in the strategic plan; (ii) shorten to two days the average time for a retail business to obtain an ICMS registration; (iii) increase ICMS revenue collected by 5% (adjusted for monetary and GDP variance); (iv) increase IPVA revenue by 30% through collection efforts; (v) shorten to 180 days the average time between the filing and the decision in a protest/appeal case; (vi) shorten the mean time to access tax invoice data from 30 days to real time; (vii) shorten the time to close the monthly ledgers from 20 to 5 days; (viii) shorten the mean time required by the State Auditor General (AGE) for disbursement officer accountability processes from 80 to 50 days; and (ix) increase the availability of the SEFAZ/RJ IT environment from 90% to 99%.
- 1.23 In terms of benefits at the state level, the program will contribute to: (i) a sustainable fiscal balance, with impact on the state's economy; (ii) an expansion of the state's investment capacity; and (iii) an increase in taxpayer/citizen satisfaction. At the national level, the Project will contribute to: (i) the facilitation of interstate commerce; (ii) a reduction in tax evasion and fraud; (iii) improvement of the national tax system; and (iv) integration of the state and national tax authorities.

## II. FINANCING STRUCTURE AND MAIN RISKS

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

- 2.1 **Procurement.** Goods and works for the program will be procured, and consulting services contracted, in accordance with the respective Bank policies, 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 (NCB) 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 to select 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.
- 2.2 The Bank may recognize the following Brazilian federal procurement processes, provided that the corresponding standard bidding document is used: (i) electronic auction, using the ComprasNet system or Banco do Brasil's e-bidding system for the procurement of off-the-shelf goods and services with an estimated cost of US\$5 million or less; (ii) price list for off-the-shelf goods with an estimated cost of US\$5 million or less, with prior Bank authorization of the list; and (iii) live auction for the procurement of off-the-shelf goods and services, with an estimated cost of US\$100,000 or less. The Bank may, at any time during program execution, review the use of one or more procurement processes described in this paragraph.
- 2.3 **Brazilian national legislation.** As an exception to Bank policies, the borrower may utilize Brazilian federal legislation for works valued at no more than US\$25 million per contract, and for goods and nonconsulting services valued at no more than US\$5 million per contract, provided that the requirements of the Bank's procurement policies are met, particularly as they relate to: (i) the origin of the goods; (ii) the nationality of the vendors; (iii) changes in purchase orders; (iv) prohibition of price bands; and (v) publication in a major national daily newspaper. The borrower will also indicate in the corresponding procurement plan whether it has opted for Brazilian federal legislation.
- 2.4 **Direct contracting.** As an exception to Bank policies, the borrower may directly contract the services of the Escola de Administração Fazendária do Ministério da Fazenda [School of Public Finance Administration of the Ministry of Finance of the Federative Republic of Brazil] (ESAF) to provide training to state government employees. It may also directly contract the state school of government or finance for the same purpose, provided that the Bank has previously determined that the institution possesses the institutional and fiduciary capacity to provide such services. If loan proceeds are to be transferred to ESAF or to the state government or finance school, where the latter has separate legal status and is part of the borrower's decentralized institutions, the borrower will provide, to the Bank's satisfaction and prior to the transfer, the legal instrument whereby the institutions

assume at least the following obligations: (i) to conduct all procurements of goods or subcontracting of consultants to provide such services, in accordance with the procurement and contracting policies established in the loan contract entered into between the Bank and the borrower; and (ii) to allow the Bank and the program auditors access to the relevant supporting documentation on procurement and contracting.

- 2.5 **Review by the Bank.** The project team performed an analysis of the executing agency's capacity to administer procurements. Based on this analysis, it was determined that all procurement processes, regardless of value, will be subject to ex ante review by the Bank in the first 12 months of program execution. Thereafter, as it deems necessary, the Bank may conduct ex ante reviews only of direct contracting, contracting of consulting firms for fees above US\$250,000; contracting of individual consultants for fees above US\$200,000; contracting of goods and nonconsulting services for amounts above US\$5 million; and contracting of works for amounts above US\$25 million.
- 2.6 **Advance contracting and retroactive financing.** The Bank may recognize up to US\$1 million against the loan proceeds, and up to US\$2,540,950 against the local counterpart contribution, for program preparation expenditures incurred by the borrower. Such expenditures will be recognized only if incurred up to 18 months prior to the date of approval of this operation by the Board of Executive Directors, and no earlier than the date of approval of the project profile by Bank Management (17 July 2009).<sup>6</sup> The state incurred such retroactive expenditures to assure a higher quality for the project and make a start before project approval. The expenditures included preinvestment activities such as preliminary consulting work and purchase orders for equipment to make equipment available in line with the project execution timetable, thereby gaining a significant economic advantage. These procedures are consistent with the policy on retroactive expenditures (Operational Policy OP-504).
- 2.7 **Exchange activities and technical cooperation.** The borrower may participate in domestic and international fiscal integration and cooperation activities, particularly in the areas of sharing technical solutions, information exchange, knowledge transfer, formation of thematic networks, and promoting interagency cooperation

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

- 2.8 With regard to environmental issues, the program was classified as category "C," according to the criteria of the Bank's Sustainable Finance Toolkit. This is consistent with the project team's assessment, as the project involves the institutional modernization of a state finance department. Consequently, preparation of an environmental strategy is not considered necessary for the program.

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<sup>6</sup> Procurements considered for this purpose are specified in the Procurement Plan and AWP for the first 18 months of program execution (see technical reference).



**C. Fiduciary risk**

- 2.9 The main risks are as follows: (i) the executing agency's insufficient experience in the Bank procurement policies; this risk will be mitigated by training the SEFAZ/RJ team in the application of these policies, adopting standardized models, and using national legislation for the procurement and contracting of works, goods, and services (as described in paragraph 2.3); (ii) possible changes in the executing agency's team or the program priorities as a result of changes in the state government following the 2010 elections; to mitigate this risk, the executing agency's program coordination unit (PCU) team is made up of permanent state government employees; (iii) the team's low project management capacity; this risk will be mitigated through implementation of a monitoring and evaluation system and project management training for the team; and (iv) little integration of fiscal management at the national level; this risk will be mitigated through the state's accession to the Comissão de Gestão Fazendária [Finance Management Commission], created by the Conselho Nacional de Política Fazendária [National Financial Policy Council] to coordinate and harmonize technical issues in the programs to modernize the fiscal management of Brazil's states and federal district, and promote cooperation and integration among tax authorities, sharing of solutions and outputs, and the exchange of know-how and technical solutions under the PROFISCO program. A full description of the results of the analysis and the risk matrix are included in the program technical files.

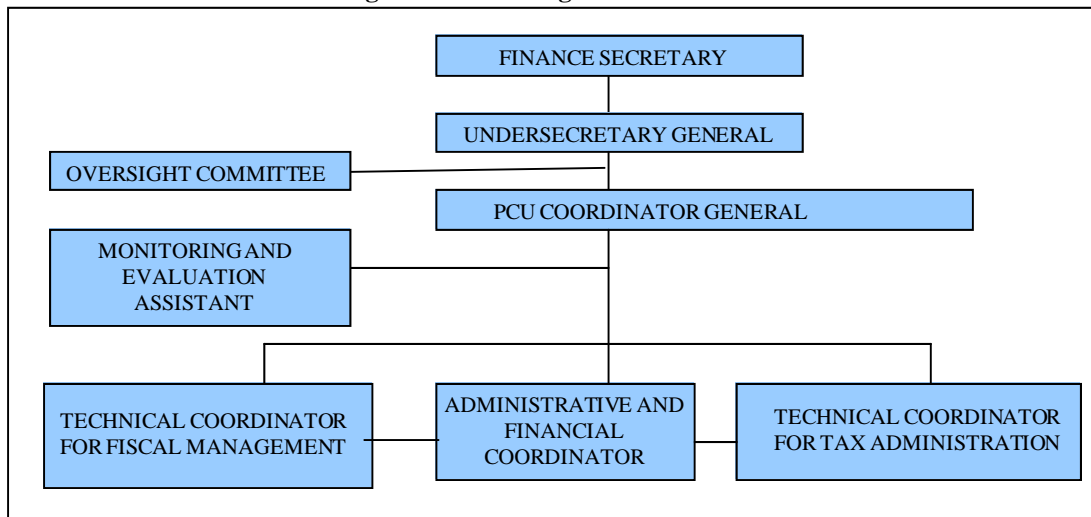
**III. IMPLEMENTATION AND MANAGEMENT PLAN**

**A. Summary of institutional arrangements for implementation**

- 3.1 The borrower of this operation will be the State of Rio de Janeiro. The Federative Republic of Brazil will serve as guarantor of the financial obligations of the program. The executing agency will be the State of Rio de Janeiro, acting through its Finance Department (SEFAZ/RJ).
- 3.2 The program execution structure comprises an Oversight Committee and a PCU established within the Office of the Undersecretary General for Finance pursuant to SEFAZ Resolution 246 of 28 October 2009. The Oversight Committee, comprised of the finance undersecretaries and the general coordinator of the PCU, will set program priorities and guidelines and provide strategic support. The PCU is made up of state government personnel, including: (i) a general coordinator, (ii) a technical coordinator of tax administration; (iii) a technical coordinator of fiscal management; (iv) an administrative/financial coordinator; and (v) a technical coordinator for monitoring and evaluation (see Figure 3.1).
- 3.3 The PCU will have the following responsibilities: (i) submit disbursement requests to the Bank with the relevant supporting documentation; (ii) supervise bidding and procurement processes for goods, works, and the selection and contracting of services for the project, in accordance with the Procurement Plan and Bank policies; (iii) maintain a financial accounting system for the project that complies

with the Bank's applicable policies; (iv) deliver project execution reports and summaries; (v) deliver annual work plans and update procurement plans; (vi) retain the respective invoices, contracts, and payment orders, and provide them to the Bank and the project auditors upon request; and (vii) ensure that the works and goods procured with project resources are maintained in accordance with generally applicable technical standards.

**Figure 3.1. PCU Organizational Chart**



- 3.4 In addition to this basic structure, staff will be appointed from the areas involved in the program as leaders for outputs. The idea is to avoid creating structures parallel to the formal SEFAZ/RJ structure, and to engage managers and their technical teams in the development and implementation of solutions during program execution.
- 3.5 **Operating Regulations.** The project will be executed in accordance with Operating Regulations previously approved by the Bank as part of the CCLIP-PROFISCO credit line. These include eligibility criteria for the borrower, the project, and the outputs eligible for financing. **As a condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence that the program Operating Regulations have entered into force.**
- 3.6 In the event that goods acquired with program resources are transferred to other state agencies, the beneficiary agencies must first commit to properly operate and maintain them.
- B. Summary of arrangements for monitoring results**
- 3.7 Program monitoring will be based on the schedule of activities and the physical and financial itemization of the outputs contained in the AWP and the descriptions of the procurement and contracting processes included in the Procurement Plan.

- 3.8 Program evaluation will be based on the targets and the respective annual indicators for outputs and outcomes contained in the program Results Matrix. The matrix provides two levels of indicators relating to annual targets and their respective baseline: (i) Level 1, Execution of the output; and (ii) Level 2, Scope of the outcomes. Program monitoring will be done by the PCU team itself, supported by consultants. An internal monitoring system will be developed to generate six-monthly progress reports on the output and outcome indicators.
- 3.9 **Semiannual progress reports.** The borrower will deliver semiannual progress reports to the Bank, sending 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 (CadSinc) and SPED, consisting of the electronic tax invoice (NF-e), digital accounting records (ECD) and digital tax records (EFD).
- 3.10 **Annual work plan (AWP) for the first 18 months.** The borrower has delivered, and the Bank has validated, the draft AWP for the first 18 months running from the loan contract signature date.
- 3.11 **Procurement plan for the first 18 months.** The borrower has delivered, and the Bank has validated, the draft procurement plan for the first 18 months of program execution.
- 3.12 **Audited financial statements (AFSs).** The project's financial statements will be audited annually by an independent firm of auditors accepted by the Bank, or by the State of Rio de Janeiro Audit Office (TCE/RJ), if accredited by the Bank.

## **Annex I**

This annex is confidential.

## BR-L1239

### RESULTS FRAMEWORK

	Base 2008	Year 2010	Year 2011	Year 2012	Year 2013	Target	Comments
<b>COMPONENT I: INTEGRATED STRATEGIC MANAGEMENT</b>							
<b>Subcomponent 1: INSTITUTIONAL STRENGTHENING AND IMPROVED STRATEGIC MANAGEMENT</b>							
<b>Outputs</b>							
Institutional planning model implemented	The agency has no strategic plan of action	9 areas				9 areas (SGF, SUBREC, SUBFIN, SUPOF, SSEE, SJUR, CGE, AGE, ATI) set targets in accordance with the strategic plan.	
<b>Outcomes</b>							
Targets met, as set in the institutional strategic plan	0				70%	70% of the targets set in the strategic plan are met.	
<b>COMPONENT II: TAX ADMINISTRATION AND LITIGATION</b>							
<b>Subcomponent 1: MORE EFFICIENT AND EFFECTIVE TAX ADMINISTRATION</b>							
<b>Outputs</b>							
Model ICMS taxpayer registry data restructured and implemented	Discrepancies go unreported				Discrepancy reporting implemented	Registry data discrepancy report implemented.	
IPVA management model implemented	There is no IPVA current account data bank at SEFAZ/RJ				Data bank implemented	IPVA current account registry data bank implemented at SEFAZ/RJ.	
Goods-in-transit inspection model implemented	0		One pilot solution adopted			One currency inspection pilot solution adopted.	
Online taxpayer service	6 services	15 services	25 services			25 online services available to taxpayers.	

	Base 2008	Year 2010	Year 2011	Year 2012	Year 2013	Target	Comments
<b>Outcomes</b>							
Shorten to two days the average time for a retail business to obtain an ICMS registration	> 30 days				2 days	Average time for a retail business to obtain an ICMS registration shortened to two days.	
Increase ICMS revenue collected	R\$17.692 billion				R\$18.577 billion	ICMS revenue collected increased by 5% (adjusted for monetary and GDP variance).	The launch mission will adjust the baseline to reflect 2009 data
Increase IPVA revenue collected	R\$1.237 billion				R\$1.361 billion	IPVA revenue increased by 30% through collection efforts.	
Time required to decide a tax credit case	The processing time is currently more than 500 days			360 days	180 days	Average time between the filing and the decision in a protest/appeal case shortened to 180 days.	
<b>Subcomponent 2: IMPROVED MANAGEMENT OF THE TAXPAYER REGISTRY AND IMPLEMENTATION OF THE DIGITAL PUBLIC ACCOUNTING SYSTEM (SPED)</b>							
<b>Outputs</b>							
Availability of the IT infrastructure to facilitate rollout of the NF-e, SPED and CadSinc	2.7 TB	10 TB				SPED-related storage and data processing capacity expanded 250%.	
<b>Outcomes</b>							
Shorten the mean time to access tax invoice data	30 days				Access in real time	Data accessible in real time	

	Base 2008	Year 2010	Year 2011	Year 2012	Year 2013	Target	Comments
<b>COMPONENT III: FINANCIAL AND PROPERTY MANAGEMENT AND INTERNAL CONTROL</b>							
<b>Subcomponent 1: MORE EFFICIENT AND EFFECTIVE FINANCIAL MANAGEMENT</b>							
<b>Outputs</b>							
Integrated financial management system implemented	Information on daily collections by tax category from the banking network is entered manually in the financial management system				100%	100% of the bank data is transmitted electronically by the banking network to the financial management system.	
<b>Outcomes</b>							
Shorten the time to close monthly ledgers	20 days				5 days	Time required to close the monthly ledgers shortened to 5 days.	
<b>Subcomponent 2: IMPROVED AUDIT AND INTERNAL CONTROL MECHANISMS</b>							
<b>Outputs</b>							
State Internal Control management model updated	0			30%	100%	100% of audit sector organs use the computerized system.	
<b>Outcomes</b>							
Shorten the mean time required by the State Auditor General (AGE) for disbursement officer accountability processes	80 days				50 days	Mean time shortened to 50 days.	

	Base 2008	Year 2010	Year 2011	Year 2012	Year 2013	Target	Comments
<b>COMPONENT IV: MANAGEMENT OF STRATEGIC RESOURCES</b>							
<b>Subcomponent 1: ENHANCED MECHANISMS FOR TRANSPARENCY AND COMMUNICATION WITH SOCIETY</b>							
<b>Outcomes</b>							
Dissemination of Fiscal Education Program	5	10	15	20	25	25 municipios benefit from fiscal education actions.	
<b>Subcomponent 2: MANAGEMENT MODERNIZATION AND UPGRADING OF INFORMATION AND COMMUNICATION TECHNOLOGY SERVICES</b>							
<b>Outputs</b>							
Implementation of the Service Oriented Architecture (SOA)	0				100%	100% of the new systems adopt the SOA methodology.	
<b>Outcomes</b>							
Increased data processing availability	90%		92%	94%	99%	Data processing availability at 99%.	



**BR-L1239**  
**PROCUREMENT PLAN – 18 MONTHS (SUMMARY TABLE)**

Contract description	PP/AWP linked output	Estimated cost (US\$)	Procurement method (1)	Review (2)	Source (%)		Estimated dates		Comments
					IDB	Local	Publication of notice	Completion of contract	
<b>CONSULTING SERVICES</b>									
Strategic planning and institutional management	1.1	150,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2011	
Management of SEFAZ/RJ institutional processes	1.2	180,000	IDB QCBS	Ex ante	100%		Q2 2010	Q3 2012	
Management of ICMS taxpayer registry	3.1	150,000	IDB QCBS	Ex ante	100%		Q4 2009	Q1 2011	
System development: (i) ICMS taxpayer registry; (ii) inspection of goods in transit	3.1 and 3.6	450,000	IDB QCBS	Ex ante	100%		Q3 2010	Q4 2013	
Inspection of goods in transit	3.6	210,000	IDB QCBS	Ex ante	100%		Q4 2009	Q1 2011	
Taxpayer services using workflow tools	3.7	480,000	IDB QCBS	Ex ante	100%		Q4 2009	Q1 2011	
Monitoring and implementation of the Integrated Financial Management System	6.1	440,000	IDB QCBS	Ex ante	100%		Q2 2010	Q4 2013	
Financial management standards and procedures	8.1	60,000	IDB QCBS	Ex ante	100%		Q2 2010	Q2 2011	
Risk management	8.1	78,000	IDB QCBS	Ex ante	100%		Q2 2010	Q3 2011	
Monitoring and evaluation model for the Fiscal Education Program	9.1	15,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2011	
IT strategic plan	10.1	75,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2011	
Consolidation of IT services (virtualization)	10.1	75,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2012	
MPS-BR-C software development model	10.1	150,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2012	
Physical and logical data security	10.2	90,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2012	

\* Exchange rate used: US\$ = R\$2.

Contract description	PP/AWP linked output	Estimated cost (US\$)	Procurement method (1)	Review (2)	Source (%)		Estimated dates		Comments
					IDB	Local	Publication of notice	Completion of contract	
Implementation of the Service Oriented Architecture (SOA)	10.3	90,000	IDB QCBS	Ex ante	100%		Q1 2010	Q2 2011	
Survey of demand and development of continuing education program	11.1	60,000	IDB QCBS	Ex ante	100%		Q2 2010	Q3 2011	
Independent external audit	A.1	30,000	IDB QCBS	Ex post	100%		Q1 2010	Q2 2012	IDB AF-200
<b>TOTAL</b>		<b>2,783,000</b>							
<b>TECHNICAL SERVICES (excl. consulting services)</b>									
Interagency cooperation seminar	2.1	50,000	e-AUC	Ex post	100%		Q1 2011	Q4 2011	Banco do Brasil electronic auction will be used
Fiscal Education event	9.1	10,000	e-AUC	Ex post	100%		Q3 2010	Q4 2010	
Production of an institutional film of the Fiscal Education Program	9.1	15,000	e-AUC	Ex post	100%		Q3 2010	Q4 2011	
Teaching and promotional material of the Fiscal Education Program	9.1	25,000	e-AUC	Ex post	100%		Q3 2010	Q4 2013	
<b>TOTAL</b>		<b>100,000</b>							
<b>GOODS</b>									
Monitoring and evaluation tool for the Institutional Strategic Plan	1.1	105,000	e-AUC	Ex post	100%		Q1 2010	Q2 2011	Banco do Brasil electronic auction will be used
BPM tool	1.2	250,000	e-AUC	Ex post	100%		Q2 2010	Q3 2011	
Electronic Document Handling tool	1.2	300,000	e-AUC	Ex post	100%		Q2 2010	Q3 2011	
Extended range scanner	1.2	25,000	e-AUC	Ex post	100%		Q3 2010	Q4 2011	

Contract description	PP/AWP linked output	Estimated cost (US\$)	Procurement method (1)	Review (2)	Source (%)		Estimated dates		Comments
					IDB	Local	Publication of notice	Completion of contract	
Mobile unit for inspection of goods in transit	3.6	225,000	e-AUC	Ex post	100%		Q1 2011	Q2 2012	
Integrated Financial Management System	6.1	4,900,000	IDB ICB	Ex ante	100%		Q4 2009	Q1 2013	
Digital camera	8.1	5,000	e-AUC	Ex post	100%		Q2 2010	Q1 2011	Banco do Brasil electronic auction will be used
Pen drive	8.1	3,750	e-AUC	Ex post	100%		Q2 2010	Q1 2011	
Videoconference	9.1 and 12.2	150,500	e-AUC	Ex post	100%		Q2 2010	Q3 2011	
Virtualized network servers	10.1	1,574,250	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Data storage device	10.1	500,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Backup libraries	10.1	410,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Data communication (switches)	10.1	500,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Storage device communication	10.1	76,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
IT strategic management software license	10.1	275,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Virtualization of client/server applications	10.1	225,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Workstation virtualization	10.1	307,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	
Data security equipment and systems: (Antivirus, Antispam, active network monitoring and Intrusion detection systems)	10.2	275,000	e-AUC	Ex post	100%		Q1 2010	Q2 2012	

Contract description	PP/AWP linked output	Estimated cost (US\$)	Procurement method (1)	Review (2)	Source (%)		Estimated dates		Comments
					IDB	Local	Publication of notice	Completion of contract	
e-Learning tool	11.1	19,500	e-AUC	Ex post	100%		Q3 2010	Q4 2011	
Skills and competencies development tool	11.1	100,000	e-AUC	Ex post	100%		Q3 2010	Q4 2011	
Electronic choice selector device	11.1	7,000	e-AUC	Ex post	100%		Q3 2010	Q4 2011	
Project management tool	A.2	100,000	e-AUC	Ex post	100%		Q4 2009	Q1 2011	
<b>TOTAL</b>		<b>10,333,000</b>							
<b>WORKS</b>									
Engineering services to install a 63 square-meter VAULT, with related infrastructure, and preventive and corrective services, to safeguard the availability of SEFAZ/RJ information and communication services, protecting them from the threat of fire, heat, smoke, water, unauthorized access, break-in, dust, humidity, and other hazards.	10.2	1,500,000	IDB NCB	Ex ante	100%				
<b>TOTAL</b>		<b>1,500,000</b>							
<b>GRAND TOTAL</b>		<b>14,716,000</b>							
<b>% PER SOURCE</b>									

1. **Bidding/selection methods:** (a) **IDB:** International competitive bidding; **NCB:** National competitive bidding; **PC:** Price comparison; **DC:** Direct contracting; **QCBS:** Quality- and cost-based selection; **CQS:** Selection based on the consultants' qualifications; **LCS:** Least-cost selection; **FBS:** Fixed budget selection; **SSS:** Single-source selection; **IC:** Individual consultant; (b) **Law 8666:** INV: Invitation; **CDP:** Price quotes; **C:** Competition; **e-AUC:** Electronic auction; **REG PR:** Price list.

2. Ex post or ex ante.