

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF
MARANHÃO – PROFISCO II – MA**

(BR-L1500)

**FOURTH INDIVIDUAL LOAN UNDER THE CONDITIONAL CREDIT LINE FOR
INVESTMENT PROJECTS (CCLIP)**

**FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL –
PROFISCO II**

(BR-X1039)

LOAN PROPOSAL

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CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, rationale.....	1
B.	Objectives, components, and cost	9
C.	Key results indicators	12
II.	FINANCING STRUCTURE AND MAIN RISKS	13
A.	Financing instruments	13
B.	Environmental and social risks	14
C.	Fiduciary risks	14
D.	Other project risks	14
III.	IMPLEMENTATION AND MANAGEMENT PLAN	15
A.	Summary of implementation arrangements	15
B.	Summary of results monitoring arrangements	17

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS
REQUIRED
1. Multiyear Execution Plan and Annual Work Plan
2. Monitoring and Evaluation Plan
3. Procurement Plan
OPTIONAL
1. Economic analysis of the project
2. Itemized budget
3. Matrix of problems, causes, and solutions
4. Fiscal management diagnostic report: MD-GEFIS
5. Program Operating Regulations
6. Maranhão State revenue performance
7. Revenue from the goods and services sales tax (ICMS)
8. Details of SEFAZ-MA computer processing power
9. Level of confidence in the way tax violations are verified
10. Final status report of the Maranhão individual project
11. Details of lessons learned from the Bank's previous experiences
12. Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF) for classification of projects

ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CIAT	Inter-American Center of Tax Administration
COGEF	Comissão de Gestão Fazendária [Treasury Management Commission]
CONFAZ	Conselho Nacional de Política Fazendária [Treasury Policy Council]
ECD	Escrituração contábil digital [digital bookkeeping]
EFD	Escrituração fiscal digital [digital tax accounting]
GDP	Gross domestic product
GIA-ST	Guia Nacional de Informação e Apuração do ICMS – Substituição Tributária [National guide to ICMS information and settlement – tax withholding]
ICMS	Imposto sobre circulação de mercadorias e serviços [goods and services sales tax]
IPVA	Imposto sobre a propriedade de veículos automotores [Motor vehicle ownership tax]
IT	Information technology
ITCD	Imposto sobre transmissão “causa mortis” e doação de bens e direitos [Inheritance and gifts tax]
MD-GEFIS	Maturidade e Desempenho da Gestão Fiscal [Fiscal management maturity and performance assessment]
NFC-e	Nota fiscal de consumidor eletrônica [electronic sales invoice]
PAF	Programa de Ajuste Fiscal [Fiscal Adjustment Program]
PCU	Project coordination unit
PGE/MA	Procuradoria Geral do Estado do Maranhão [Office of the Maranhão State Attorney General]
PMR	Progress monitoring report
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Finance Administrations in Brazil]
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National Network for Simplifying the Registration and Legalization of Enterprises and Businesses]
SEFAZ/MA	Secretaria de Fazenda do Estado do Maranhão [Maranhão State Finance Department]
SEPLAN/MA	Secretaria do Planejamento do Estado do Maranhão [Maranhão State Planning Department]
SIAF	Sistema Integrado de Administração Financeira [Integrated Financial Administration System]
SIAT	Sistema Integrado de Administração Tributária [Integrated Tax Administration System]
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
SSS	Single source selection
TCE/MA	Tribunal de Contas do Estado do Maranhão [Maranhão State Audit Office]

PROJECT SUMMARY

BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF MARANHÃO – PROFISCO II – MA (BR-L1500)

FOURTH INDIVIDUAL LOAN UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)

FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II (BR-X1039)

Financial Terms and Conditions				
Borrower: State of Maranhão			Flexible Financing Facility^(a)	
Guarantor: Federative Republic of Brazil			Amortization period:	25 years
Executing agency: State of Maranhão, through its Finance Department (SEFAZ/MA)			Disbursement period:	5 years
			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	35,000,000	90	Credit fee:	^(c)
Local	3,900,000	10	Inspection and supervision fee	^(c)
Total	38,900,000	100	Weighted average life:	15.25 years
			Currency of approval:	U.S. dollars
Project at a Glance				
Project objective/description: The project objective is to contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. This project is the fourth individual loan operation under the PROFISCO II CCLIP (BR-X1039).				
Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower's adherence to the program Operating Regulations , previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) creation of the project coordination unit (PCU) and appointment of its members (paragraph 3.4). For other contractual conditions precedent to the first disbursement of the loan, see chapter IV of the Fiduciary Agreements and Requirements (Annex III).				
Special contractual condition of execution: Before starting to execute tax litigation activities under Component II, and the planning and execution of the state budget under Component III, SEFAZ/MA will sign cooperation agreements with the Office of the Maranhão State Attorney General (PGE/MA) and the Maranhão State Planning Department (SEPLAN/MA), respectively, specifying institutional responsibilities in the execution of such activities (paragraph 3.5).				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges:^(d)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes:^(e)	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) 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 policies.

^(d) SI (Social inclusion and equality); PI (Productivity and innovation); and EI (Economic integration).

^(e) GD (Gender equality and diversity); CC (Climate change and environmental sustainability); and IC (Institutional capacity and the rule of law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, rationale

- 1.1 This project is an individual loan operation under the PROFISCO II Conditional Credit Line for Investment Projects (CCLIP) (BR-X1039), which the Government of Brazil has requested from the Bank,¹ with a view to consolidating the progress made by the PROFISCO I CCLIP (BR-X1005) and to continue modernizing the states' fiscal management.
- 1.2 The purpose of PROFISCO I was to promote the integration of tax authorities in Brazil and the modernization of state-level fiscal, financial and property management, by implementing the SPED digital public accounting system² through the electronic sales invoice (NFC-e).³ The positive results achieved by PROFISCO I encouraged the states, with the support of the Federal Ministry of Finance,⁴ to request a new CCLIP from the Bank to continue with the modernization of the states' fiscal management.
- 1.3 The objective of PROFISCO II is to contribute to fiscal sustainability through the modernization of the states' fiscal, financial and public expenditure management. Improved fiscal management should grow tax revenue and make public spending more efficient, thereby enabling the states to deliver better-quality services to their citizens. PROFISCO II will include actions to support the following: (i) integration of SPED through the automation of the tax audit⁵ and the simplification of tax obligations;⁶ (ii) better management of public procurement;⁷ and (iii) strengthening of the processes, methodologies, and technologies promoted by PROFISCO I.
- 1.4 The design of PROFISCO II allows individual operations to be approved under the same objectives, results, components, and products, with unified evaluation and the use of common Operating Regulations.⁸ Execution benefits greatly from the exchange of information and solutions between individual projects and beneficiaries. Under the CCLIP, individual operations will have activities related to: (i) simplification and integration of the business register at the three levels of government; (ii) elimination of manual tax returns by implementing the digital tax accounting (EFD) in SPED; (iii) centralization and automation of the payment of foreign trade

¹ [Ministry of Finance Notice](#). The project has a favorable recommendation from the External Financing Committee (COFIEX), [No. 05/0121](#).

² Digital system that enables companies to submit their accounting and tax records and documents online in an integrated manner to the three levels of government.

³ [McKinsey&Company, 2014](#) NFC-e and SPED increased the risk to taxpayers of evasion being detected and helped to reduce the informality of employment in Brazil from 55% to 40% over the last 10 years.

⁴ [Letter from the Ministers of Finance](#).

⁵ The use of SPED, in conjunction with artificial intelligence, will make it easier to identify tax fraud (Araujo, 2013).

⁶ [World Bank, 2017](#). In Brazil, 2,038 hours/year are spent on tax compliance compared to a regional average of 564 hours.

⁷ National Council of Secretaries of State for Administration, 2016.

⁸ The Operating Regulations are mandatory and must be consulted regularly by executing agencies and their Project Coordination Units (PCUs).

- taxes; and (iv) a technological update of the SIAF integrated financial administration systems,⁹ and their integration with state management systems.
- 1.5 PROFISCO II exploits new digital-economy technologies (artificial intelligence, machine learning, big data, advanced analytics, electronic tax audits, etc.), and automation of the tax process to strengthen fiscal management.¹⁰ In PROFISCO II, borrowers will use the investment loan for specific projects execution modality, since this is a traditional operation in terms of goods and services procurement.
- 1.6 **Economic and fiscal situation in Brazil.** The country faces challenges in maintaining its economic and fiscal sustainability. Its gross domestic product (GDP) shrank by 3.8% in 2015 and by 3.6% in 2016,¹¹ and the growth forecast for 2017 is just 0.3%.¹² The primary surplus of the consolidated public sector averaged 3.4% of GDP in 2002-2008, but this deteriorated to 1.3% in 2009-2015, and, a primary deficit of 2.5% of GDP was recorded in 2016.¹³ Public debt (60% of GDP in 2013) is expected to grow to 76.9% of GDP in 2017 and 84.3% by 2021.¹⁴
- 1.7 The growth slowdown and the situation of federal public finances are undermining fiscal performances at the state level. State tax revenues dropped from 7.6% of GDP in 2008 to 6.9% in 2015,¹⁵ while transfers from the federal government to the states fell by 0.4 percentage points from 2.9% to 2.5% of GDP. Current expenditures increased from 10.2% of GDP¹⁶ in 2011 to 10.9% in 2015, causing primary fiscal outturns to deteriorate to the extent that more than two thirds of the states (19) reported primary deficits in 2014.
- 1.8 **Macroeconomic and fiscal situation in Maranhão.** The state's GDP ranks 17th nationally and fourth in the northeast region, and accounts for 1.3% of national output.¹⁷ The slowdown in the larger Brazilian economy caused the state's GDP to shrink by 3.7% and 4.8%, in 2015 and 2016, respectively.¹⁸ However, an expansion of 2.7% is forecast for 2017, led by growth in the agriculture sector, which produces 17% of the commodities in the state's GDP, and corresponding prices have been trending up on the international market. In 2016, Maranhão tightened its public finances to maintain [fiscal balance](#), in view of Brazil's overall macroeconomic situation. Measures included setting parameters to contain current expenditures and open up fiscal space to increase public investment, which today absorbs 6.6% of net current income (compared to an average of 5.7% in other states).¹⁹ As a result of

⁹ *Benefícios de los SIAF* [SIAF benefits] [Pimenta and Pessoa, 2015](#).

¹⁰ [OECD \(2016\), *Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies*](#).

¹¹ [IBGE, 2017](#).

¹² [IMF, 2017](#).

¹³ [IFI, March 2017](#).

¹⁴ [IFI, February 2017](#).

¹⁵ Rossi, 2016.

¹⁶ [STN, 2016](#).

¹⁷ [IBGE, Municipal GDP, 2002-2014](#).

¹⁸ Maranhão State Institute of Socioeconomic and Cartographic Studies. [Boletim de Conjuntura Econômica Maranhense](#) [Maranhão economic bulletin].

¹⁹ [Industries Federation of the State of Rio de Janeiro, 2017](#).

these adjustments,²⁰ Maranhão met all the goals set by the Fiscal Adjustment Program (PAF) in 2015²¹ and 2016,²² and it has reported declining primary deficits since 2014, and achieved a primary surplus of 0.6% of state GDP in 2016.²³

- 1.9 The impact of the country's economic slowdown on tax collection in Maranhão was largely mitigated by the modernization of the state's fiscal management under the PROFISCO I - Maranhão individual operation (2304/OC BR),²⁴ which contributed to: (i) the growth of internally generated income thanks to increased [revenue from the goods and services sales tax \(ICMS\)](#), which represented 6% of the state's GDP on average between 2009 and 2015, and posted 10.47% real growth between 2015 and 2016;²⁵ (ii) the use of SPED data; (iii) the implementation of results-based management;²⁶ (iv) shortening of the average time taken by administrative collection actions from 96 to 10 days; and (v) an increase in taxpayers' satisfaction with the services provided by SEFAZ/MA.²⁷
- 1.10 **Rationale.** The fact that the national and state macroeconomic context may put Maranhão's fiscal balance at risk underlines the importance of improving its fiscal management,²⁸ with the aim of achieving balanced public accounts and consolidating fiscal sustainability. Although PROFISCO I MA has invested in results-based management, the main emphasis has been to improve the tax administration, by integrating the state's treasury with those of other levels of government through the implementation of SPED; so there have been no comprehensive actions to improve the business environment in the state. In addition to further developing the modernization actions of the first phase, this project will promote the actions described in paragraph 1.3. The diagnostic assessment and actions of this loan were initially analyzed in the fiscal management maturity and performance assessment (MD-GEFIS),²⁹ further elaborated in the [Matrix of Problems, Solutions and Results](#), an instrument used

²⁰ (i) Limit on the growth of current expenses (the personnel expenses/net current income ratio was 38.9% in 2016, the limit being 49%); (ii) an increase in the standard rates: (a) ICMS up from 17% to 18%; (b) the rate on fuels (except diesel) rises from 25% to 26%; (c) the rate on communications increases from 25% to 27%; and (d) the rate on electricity rises from 12% to 18% or from 25% to 27%, depending on consumption; and (iii) the cancellation of tax incentives for specific sectors (commerce and services, whose ICMS revenue shares were 29.3% and 13.3%, respectively).

²¹ [National Treasury Department](#).

²² [PAF report - 2016](#), SEFAZ/MA and National Treasury.

²³ [Fiscal management report – RGF 2016](#) and [RGF 2014](#).

²⁴ [2304/OC-BR. Final progress report](#).

²⁵ Online tax collection, SEFAZ/MA.

²⁶ [Inter-American Center of Tax Administration \(CIAT\), 2014. Optimization of organizational and functional processes – the experience of SEFAZ/MA.](#)

²⁷ [Taxpayer satisfaction attains 69.62% in 2015.](#)

²⁸ The effectiveness of public institutions is hampered by the restrictions faced by their staff, access to information technologies, the availability of financial resources, and the legal framework (Arenas de Mesa, 2016, Finan et al, 2017). Secretariat and Information Technology (IT) staffing is described below (paragraphs 1.11.b. and 1.11.c). SEFAZ/MA's average total budget (2013-2016) was US\$17.5 million, 60% for the payroll and 40% for investments.

²⁹ Methodology applied in February 2017, developed by the Bank, the Treasury Management Commission (COGEF) and the Treasury Policy Council (CONFAZ) of the Ministry of Finance. This methodology identifies the maturity of the fiscal management processes of the states in three areas (fiscal management, tax administration, and financial management and public spending), in accordance with international best practices (PEFA, TADAT, etc.). [Evaluación MD-GEFIS de la Gestión Fiscal de Maranhão.](#)

to define outputs and activities, based on the problems and challenges identified, as described below.

1.11 Fiscal management has weaknesses that compromise SEFAZ/MA's institutional performance. These stem from:

- a. Inefficient alignment of the SEFAZ/MA structure with its organizational strategy, thereby restricting the scope of the agreed-upon institutional results.³⁰ Although a process exists for measuring strategic management results through the [SAM monitoring and evaluation system](#), SEFAZ/MA lacks the following: (i) a process for measuring contributions made toward institutional objectives; (ii) prioritization, decision-making and resource allocation processes; (iii) information technology (IT) planning linked to the SEFAZ/MA [strategic plan](#) and its organizational objectives; (iv) integration between the strategic plan monitoring tool and the IT project management tool; (v) clear and strategic processes to prioritize the project portfolio; (vi) a reliable inventory of SEFAZ/MA projects and processes; (vii) a process improvement methodology; (viii) monitoring of the implementation of process improvement opportunities; (ix) a culture of project monitoring and control processes; and (x) a tool to monitor project performance and processes.
- b. Weak staff contributions to achieving SEFAZ/MA's institutional results, owing to the lack of: (i) a people governance model; (ii) an individual performance appraisal model; (iii) adequate human resource planning;³¹ (iv) mechanisms for recognizing performance and stimulating innovation; (v) criteria for assigning leadership positions; and (vi) a civil servant training plan.³²
- c. There is no strategic alignment between IT and finance management needs,³³ owing to: (i) limited support for the IT area to implement SEFAZ/MA's strategic and operational plans; (ii) few tools for planning and managing IT resources; (iii) lack of prioritization of the delivery of IT solutions without the corresponding system documentation; (iv) inadequate relationship between IT systems, SEFAZ/MA business rules, and systems documentation;³⁴ (v) an obsolete hardware platform, which is unable to meet SEFAZ/MA's new needs;³⁵ (vi) obsolete software development methodologies and technologies in use; (vii) databank and business intelligence solutions acquired in a fragmented

³⁰ SEFAZ/MA executed 49% of its planned budget in 2016, and attained 52% of its strategic planning goals, pursuant to the agreements established by management (SEFAZ/MA).

³¹ SEFAZ/MA has 1,137 permanent employees, but for its management it does not have a database, evaluation methodologies, or procedures to scale up the administrative workforce. In addition, 45% of its staff are higher-level employees.

³² There is a limited supply of training and skill development activities that would enable SEFAZ/MA officials to attain more advanced qualifications. In 2016 SEFAZ/MA staff training actions were allocated 1.8% of the Department's total budget and execution was 0.28% (SEFAZ/MA).

³³ SEFAZ/MA has 1,400 workstations, 70% of them with more than five years of use and [low processing power](#).

³⁴ The Integrated Tax Administration System (SIAT), the main system used by SEFAZ/MA, is executed on the DESKTOP system in Visual Basic, an old and outdated programming language which, besides generating high costs and complexities in terms of maintenance, is difficult to integrate with other systems used in tax administration (Court of Justice, Commercial Board, State Audit Office (TCE/MA), State Transit Department).

³⁵ SEFAZ/MA attained 80% of the maximum storage and processing limit of its 400-terabyte servers.

way; (viii) limited ability to respond to new demands and process the backlog appropriately; and (ix) poor data security.

- d. Inefficient procurement and contracting processes, as a result of the following: (i) procurement management planning is not aligned with organizational objectives, demand is fragmented, so control is weak; (ii) poor quality terms of reference; (iii) contract management is done manually and the audit is performed without predefined criteria; and (iv) there is no monitoring of contractual deadlines.

1.12 As regards the tax administration, tax evasion remains high, thereby undermining revenue performance. Tax evasion in Brazil is estimated to represent 7.6% of GDP,³⁶ reflecting the following:

- a. Deficient monitoring of large-scale taxpayers³⁷ (the energy, communications, foreign trade and fuel sectors), which accounted for 52.7% of total revenue in 2016, due to: (i) lack of a monitoring and control system for specialized sectors; (ii) few auditors with an area of specialization; (iii) little use made of IT; (iv) insufficient availability of information and technological tools; and (v) delays between the occurrence of the taxable event and the constitution of the tax claim when identifying the offense.
- b. Ineffective enforcement actions,³⁸ caused by: (i) poorly systemized inspection actions; (ii) lack of autonomy/difficulties in extracting data and generating reports, and in taxpayer selection criteria; (iii) underuse of technology when applying the tax inspection action model (absence of an integrated system including stages of planning, execution, control and evaluation of actions); (iv) weak integration between the systems that deal with various stages of enforcement action and the use of business intelligence technological resources; (v) underuse of technology for controlling merchandise in transit; (vi) lack of a control system for merchandise in transit (cargo tracking technology not available); (vii) lack of a tool to calculate the tax payable by the taxpayer in transactions with the State; (viii) lack of central control for the real-time monitoring of transit of goods and of a tool for processing using large volumes of data; and (ix) lack of a methodology to handle the large volume of data to track vehicle loads.

³⁶ [SINPROFAZ, 2016. *Sonegação no Brasil: uma estimativa do desvio da arrecadação no exercício de 2015*. \[Tax evasion in Brazil: an estimate of revenue diversion in fiscal 2015\].](#)

³⁷ [Relatório de Arrecadação dos Segmentos de Grandes Contribuintes 2010 – 2016, SEFAZ/MA. \[Report on revenue from large taxpayer segments 2010-2016\].](#)

³⁸ Audit productivity is low (607 audits per year by 81 onsite auditors (2016)), and data accuracy in tax estimates is also poor (10% of the 6,824 tax estimates of 2016 were revised due to data structuring problems). There is also [little confidence](#) in the way tax violations are verified.

- c. Tax compliance is burdensome³⁹ because of the: (i) excessive number of procedures for taxpayers;⁴⁰ (ii) excessive number of procedures to start up a business;⁴¹ and (iii) lack of a register of export goods and ICMS exemptions. This stems from the: (i) high costs of complying with tax obligations due to the lack of integration between digital tax accounting and the state tax declarations filed by the taxpayer; (ii) incipient register of data reception and storage in SEFAZ/MA; (iii) poor quality of the information provided to the EFD and incipient validation thereof in the Federal Revenue Department; (iv) poor knowledge of EFD file generation; (v) lack of an electronic data cross-referencing structure in the reception and processing of SEFAZ/MA files, to validate them in the EFD; (vi) tax declaration inspection reports are not available; (vii) multiple business registers held by different government bodies involving duplication of information; (viii) high transaction costs and slow procedures for opening and registering firms; and (ix) lack of unification for compliance with the payment of foreign trade taxes.⁴²
- d. Weak capacity to recover adjudicated tax claims,⁴³ due to: (i) high rates of delinquency in litigation proceedings within the administrative sphere;⁴⁴ (ii) low quality of violation notifications and their follow-up; (iii) inadequate use of the information systems available to support trial proceedings;⁴⁵ (iv) deficient management of execution and reimbursement procedures; (v) a large volume of credits generated through the Treasury that are held up in the PGE/MA awaiting trial; (vi) incorrect use of the initial PGE/MA request system; (vii) delays in obtaining information for the analysis and substantiation of cases; and (viii) difficulties in obtaining a violation notification because tax claims are not securely constituted.
- e. Weakness in responding to taxpayer demands due to the poor supply of online services and the complexity of consulting state regulations, owing to: (i) inefficiency in attending to taxpayers' demands;⁴⁶ (ii) little advice from SEFAZ/MA in complying with accessory obligations (the taxpayer is

³⁹ In terms of the legal framework, tax legislation is dispersed across at least four laws (ICMS, Motor vehicle ownership tax (IPVA), inheritance and gifts tax (ITCD) and Fees), which adds complexity to the tax administration and makes it difficult for auditors, accountants and taxpayers to consult. There are also four tax declarations: the National guide to ICMS information and settlement – tax withholding (GIA-ST), the Economic Tax Information Statement (DIEF), the ICMS Information and Calculation Statement (DIAP), and the Integrated Information System on Interstate Goods and Services Transactions (Sintegra). These declarations duplicate information and could be consolidated in a single statement.

⁴⁰ In Maranhão there are 19,369,000 taxpayers who must submit the DIEF, GIAST and EFD every month. In 2015 and 2016 omission rates by firms filing tax declarations through SPED in the normal regime were 71.74% and 57.89%, respectively (SEFAZ/MA).

⁴¹ [Business start-up procedures: consultation of viability; basic protocol document of entry; generation of national registry card; state registration.](#)

⁴² The registered value of goods exports according to the Ministry of Development, Industry and Commerce is R\$2,209,000, while the value declared by taxpayers is R\$2,518,000 (SEFAZ/MA).

⁴³ The recovery rate of adjudicated tax debts averaged just 0.64% of the stock outstanding (PGE/MA).

⁴⁴ The average time for which a case remains in the trial process in 108 days in the first instance and 730 days in the second (SEFAZ/MA).

⁴⁵ Court proceedings are recorded manually; currently there are 40,880 adjudicated tax debt documents pending formalization, with an average of 4,395 cases per year (PGE/MA).

⁴⁶ Taxpayer guidance is provided through two communication channels (face-to-face and telephone).

responsible for interpreting the law and for calculating the tax and paying it);⁴⁷ (iii) few channels of assistance and information to customers; (iv) inadequate training for taxpayer-service staff to solve problems related to business processes; (v) inadequate IT functionality and solutions for attending taxpayers in tax offices; (vi) lack of a systematic and objective process for evaluating the service in its multiple dimensions; (vii) high level of taxpayer dissatisfaction due to low rates of resolution and assistance in complex issues (interpretation of legislation); (viii) extensive, scattered, and unconsolidated legislation, and without links between subjects; and (ix) the lack of automated consultation tools.

- f. Low SEFAZ/MA capacity for processing taxes,⁴⁸ due to: (i) a lack of functionality in collection services both for SEFAZ/MA and for taxpayers; (ii) the continuous use of reports produced manually by tax managers; (iii) poor integration of SIAF with collection agents' systems, which prevents automatic transfer to the municípios; (iv) lack of integration of computerized systems and tax collection processes; (v) deficient process of assessing assets and claims; (vi) weak control and lack of security in the information provided by ITCD taxpayers;⁴⁹ (vii) inadequately regulated ITCD resulting in a large number of cancelations and double counting due to data entry errors; and (viii) deficiency of the ITCD current account with respect to the inheritance tax.

1.13 Public expenditure management lacks efficient tools to generate budgetary, financial, and property information on a reliable and timely basis for decision-making and optimization of the use of public resources. This is a consequence of:

- a. Inefficient allocation of resources to public policies and failure to observe the rules of accounting convergence, due to: (i) deficiencies in public administration planning (including the multiyear plan, the Budget Guidelines Law and the Annual Budget Law) and in monitoring its execution;⁵⁰ (ii) limited budgetary planning, which is not results-based and has weak indicators and scant monitoring owing to obsolescence of the current information system; (iii) lack of studies on the impact of public spending to improve the effectiveness of public administration; (iv) difficulty in making management decisions owing to lack of timely information on budgetary resources, expenses, debt, etc.; and (v) nonapplication of the Brazilian Accounting Public Sector Standards and the Accounting Manual Applicable to the Public Sector as a whole.
- b. Impossibility of quantifying the costs of government actions related to management decisions, due to the lack of: (i) strategic cost-management procedures; (ii) specific sectors to manage costs; and (iii) methodologies, indicators, and targets for public expenditure management.

⁴⁷ [2,244 regulatory instruments \(laws, decrees, administrative resolutions, provisional decrees and measures\) published between 2011 and 2017 \(SEFAZ/MA\).](#)

⁴⁸ Taxpayers do not have access to the SIAT, and in 2016 requests to correct ICMS, IPVA and ITCD payments totaled 9,898, 1,462 and 43, respectively (SEFAZ/MA).

⁴⁹ Maranhão collects less revenue from ITCD (0.18% of its total collection) than other states with the same tax potential. [SEFAZ/MA.](#)

⁵⁰ The difference between the budget planned and the budget executed was 34.5% in 2012-2016 [Maranhão State Planning Department \(SEPLAN/MA\).](#)

- 1.14 **The Bank's experience.** The Bank has previously financed programs to improve the fiscal management of the Brazilian states, including, apart from PROFISCO I,⁵¹ the Support Program for Fiscal Modernization of the Brazilian States. At the federal level, this program supported the Federal Revenue Department's Tax Revenue Project;⁵² and it supported the municípios in the Fiscal Management Program for Brazilian Municipalities (PNAFM).⁵³ It also supported the Projects for the Consolidation of Fiscal Balance⁵⁴ of the states of Bahia (2081/OC-BR and 2841/OC-BR), Rio Grande do Sul (2850/OC-BR), Pernambuco (3039/OC-BR), Alagoas (3061/OC BR), and Amazonas (3139/OC-BR).
- 1.15 The midterm evaluation of the PROFISCO I CCLIP found that, between 2009 and 2013, states with a PROFISCO at an advanced stage of execution collected on average 6% more in ICMS revenue than states with a PROFISCO in the early stages. According to [the final progress report of the Maranhão individual project](#), issued in November 2016, the project had satisfactory implementation, having attained 83% of the impact indicators and 62.5% of the originally expected outcomes.⁵⁵
- 1.16 **Lessons learned.** The lessons learned from the PROFISCO I CCLIP and the PROFISCO I Maranhão include the following:
- a. **Design.** An instrument is needed to identify innovative solutions in fiscal management processes, drawing on best practices. For this reason, the MD-GEFIS was developed, which identifies the maturity of the fiscal management processes of the states in three areas (treasury, tax, and financial), where each area includes six specific dimensions,⁵⁶ thereby making it possible to identify where strengthening actions are needed.
 - b. **Development.** Participation by SEFAZ/MA in the Treasury Management Commission ([COGEF](#)) Network led to the exchange of experiences and solutions in fiscal management modernization from other states.
 - c. **Execution.** Some operations need instruments to compensate for implementation delays. For this purpose, the Bank created a monitoring tool known as the implementation acceleration plan, which uses the progress monitoring report (PMR) to identify outputs that are experiencing execution delays: (i) analyzes the delayed activities; and (ii) prepares mitigation measures, including intermediate monitoring indicators until execution is normalized.
 - d. **Results.** It was found that SPED, including the NFC-e, the EFD and the digital accounting system (ECD), were the outputs that contributed most to increasing the efficiency of fiscal oversight in the states. Accordingly, this operation will invest in SPED's further development, expanding the use of the information it generates for the automation of tax audit processes and the simplification of tax obligations.

⁵¹ [BR-X1005: Midterm evaluation, 2014.](#)

⁵² Federal Revenue Department, 1996.

⁵³ 1194/OC-BR, 2248/OC-BR, and 3391/OC-BR.

⁵⁴ Policy-based programs.

⁵⁵ [Degree of fulfillment of PROFISCO I Maranhão.](#)

⁵⁶ [CIAT, June 2017. Tax Administration Review, pp. 65-77: MD-GEFIS: an evaluation proposal.](#)

- 1.17 **The Bank's international experience in other countries of the region.** The Bank's recent experiences with tax administration reforms in Jamaica (2658/OC-JA), Ecuador (3325/OC-EC), Honduras (3541/BL-HO), Peru (3214/OC-PE), El Salvador (3852/OC-ES), and Guatemala (3786/OC-GU), have been considered in this operation, along with those related to the modernization of financial management systems in Honduras (2032/BL-HO), Guatemala (2050/OC-GU and 2766/OC-GU), and Guyana (1550/SF-GY and 1551/SF-GY). The operation also stresses the role of institutional strengthening in fiscal management modernization. Some of the lessons learned are described in more detail at the following [link](#).
- 1.18 **The Bank's strategy with the country.** The project is aligned with the Bank's Country Strategy with Brazil (2016-2018) (document GN-2850) in terms of improving the business climate, strengthening government institutions, and enhancing efficiency in the management of public resources.
- 1.19 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008) and is strategically aligned to the development challenge of productivity and innovation through the outcome indicator of decreasing the ratio of administrative cost of tax collection to total revenue intake. It is also aligned with the crosscutting area of institutional capacity and rule of law, through the impact indicator of an increase in the ratio of the state's tax revenue intake to GDP through increased tax compliance, and with output indicators: government agencies with strengthened systems that benefit from the improvement of public services by strengthening the tax systems⁵⁷ and systems for the management and planning of public resources.⁵⁸ The project contributes to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6), through the indicator on increased taxes collected as a percentage of GDP. It is also aligned with the Institutions for Growth and Social Welfare Sector Strategy (document GN-2587-2), and the Fiscal Policy and Management Sector Framework Document (document GN-2831-3), and the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-3), in the following dimensions: (i) improve the efficiency and quality of expenditure and service delivery; (ii) improve tax collection; and (iii) promote greater transparency and accountability.
- B. Objectives, components, and cost**
- 1.20 The project objective is to contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management.
- 1.21 Stronger public finances, with higher tax revenue and more efficient public expenditure, will enhance fiscal sustainability and benefit the citizens of the states through better provision of quality services. This operation will finance the following components/products:
- 1.22 **Component I. Fiscal management and transparency (US\$17,900,000).** This component seeks to strengthen management instruments, modernize the technological infrastructure, and improve the relationship between the tax authorities and taxpayers. It will finance the following activities:

⁵⁷ The six outputs of Component II contribute directly to attaining the objectives.

⁵⁸ The two outputs of Component III contribute directly to attaining the objectives.

- a. **Strengthening of results-based management.**⁵⁹ This includes: (i) implementation of SEFAZ/MA corporate systems, which entails integration of the strategic monitoring system with the management systems for human resources, technology, and budget, the review of management indicators and targets, and the alignment of SEFAZ/MA resources (human, physical, financial, and technological), together with the universalization of the results-based management culture; and (ii) implementation of the operational risk management model. This model aims to optimize the management of the organization's operational processes and projects, by standardizing and institutionalizing management of the portfolio of projects and processes with computerized registration, monitoring and control, for performance management and operational risk management with a mitigation strategy.
 - b. **Implementation of strategic human resource management,**⁶⁰ through: (i) a strategic management model to update job positions based on skills and criteria for assigning management posts, evaluating performance and individual professional development plans; and (ii) fiscal competency training plans, based on skills management, with training guidelines and alignment with the organizational strategy.
 - c. **Strengthening of IT planning and management,**⁶¹ through: (i) updated systems, with IT plans, documentation of the old systems and their recoding with the new software technologies, updating of the system for managing data security and the architecture of historical IT systems; (ii) implementation of solutions, incorporating artificial intelligence solutions and new technologies (big data and link data); and (iii) implementation of security tools to reinforce the contingency system, implementation of a firewall and a physical security system in the data center and for the databank.
 - d. **Upgrading of procurement and contract management,** by implementing modules for planning, management of procurement and contracts, and supervision of administrative agreements;⁶² including the analysis, modeling and automation of procurement and contract management processes under the development of planning modules, management of contracting processes, and currently-executing contracts and their inspection.
- 1.23 **Component II. Tax administration and litigation (US\$14,931,580).** This component seeks to grow internally generated revenues and simplify tax compliance. It will finance the following activities:
- a. **Better tax monitoring of large-scale taxpayers,**⁶³ through a specialization program in the energy, communications, consolidated foreign trade and fuel sectors, including: (i) a monitoring and control unit for specialized sectors; (ii) training for tax auditors; and (iii) increased use of technological tools to streamline tax inspection processes and make them more secure.

⁵⁹ [Report - Gestión por Resultados Fortalecida \[Results-based management strengthened\].](#)

⁶⁰ [Report - Gestión Estratégica de Personas Implantada \[Strategic people management implemented\].](#)

⁶¹ [Report - Planificación y Gestión de TI Implantada \[IT planning and management implemented\].](#)

⁶² [Report - Planificación, Gestión y Fiscalización de Contratos Administrativos Implantada \[Planning, management and oversight of administrative contracts implemented\].](#)

⁶³ [Report - Fiscalización de Grandes Contribuyentes Consolidada \[Inspection of large-scale taxpayers consolidated\].](#)

- b. **Strengthening of fiscal control and intelligence**,⁶⁴ by: (i) implementing a system for planning, execution, control and evaluation of inspection actions, which consolidates taxpayer selection criteria with an interface that includes various actors in the fiscal action process in its different modalities, and the use of digital certification in communication with the taxpayer; and (ii) modernizing tools to control the transit of goods, including the automation of traffic control and assessment of the tax payable, the implementation of mobile visual controls and control of interstate operations, and the improvement of the infrastructure of the inspection units.⁶⁵
- c. **Simplification of tax compliance**,⁶⁶ by: (i) implementing a system for unifying accessory tax obligations, including online modules of data cross-referencing, online communication to connect the tax office with the taxpayer, and the availability of reports to manage the information obtained from the EFD files; (ii) implementation of the National Network for Simplifying the Registration and Legalization of Enterprises and Businesses (REDESIM), parameterized for the State of Maranhão's specific cadastral events (registration, cancellation and reactivation of the business register); and (iii) implementation of the Foreign Trade Single Window System, by integrating the foreign trade database.
- d. **Strengthening of tax litigation**,⁶⁷ through: (i) more robust procedures in administrative tribunals, through the redesign of organizational processes, the development of a computerized solution to support trial proceedings and the preparation of online manuals, and training for auditors in dealing with notifications of violation, trial procedures and the use of information systems; and (ii) an Integrated Litigation System with the following modules: control, management of the tax claim, analysis of the profile of the adjudicated claim and data cross-referencing, portfolio risk management, enforcement of the tax claim, etc.
- e. **Consolidation of integrated taxpayer assistance**,⁶⁸ by implementing: (i) the integrated taxpayer assistance model, together with the development of manuals and applications, the certification of taxpayer assistance staff, and improvement of the physical and IT infrastructure; and (ii) an advanced tax law search mechanism, including the creation of a databank on legislation, information processing and online consultation of legislation.
- f. **Strengthening of collection services**,⁶⁹ by: (i) making collection services available in the SEFAZ.net system, through the automation of tax collection and control processes, and the integration of tax collection systems and taxpayer assistance that enables automatic generation of management reports and online taxpayer services;⁷⁰ and (ii) improving ITCD management mechanisms, definition of the online declaration model, accreditation of law

⁶⁴ [Report - Fiscalización e Inteligencia Fiscal Fortalecida \[Tax inspection intelligence strengthened\]](#).

⁶⁵ The proposed physical readjustments are on a small scale and merely involve the renovation of existing facilities.

⁶⁶ [Report - Simplificación de Obligaciones Tributarias \[Simplification of tax compliance\]](#).

⁶⁷ [Report - Contencioso Fiscal Fortalecido \[Tax litigation strengthened\]](#).

⁶⁸ [Report - Asistencia Integral al Contribuyente Consolidada \[Comprehensive taxpayer assistance consolidated\]](#).

⁶⁹ [Report - Servicios de Recaudación Fortalecidos \[Revenue services strengthened\]](#).

⁷⁰ This also enables communication between SEFAZ and the private sector.

offices and firms, and automated provision of real estate reference values for calculating the tax base and ITCD current account.

1.24 Component III. Financial management and public expenditure (US\$5,000,000).

This component seeks to increase the efficiency of financial planning and execution and enhance expenditure quality. It will finance the following activities:

- a. **Improvement of state planning, budget, and finances**,⁷¹ through: (i) the definition of a conceptual planning model, which covers the planning, monitoring, and evaluation of the state budget, the economic-financial analysis of investment projects, and creation of an instrument for monitoring key state projects; and (ii) implementation of an integrated tax planning and management system, with the capacity to provide the following: details of the execution of processes and projects; integration with the state payroll; and modules for forecasting the re-estimation of income, issuing reports on funding disbursements, cash flow, property control, public debt, control of payments related to court decisions; and accounting-financial and bank reconciliation, in compliance with the rules of accounting convergence.
- b. **Strengthening of cost management**,⁷² as a result of: (i) the definition of a cost-management model, including modeling for the analysis of investment projects and resource allocation in the execution of public policies; and (ii) a sector-level cost analysis, including the definition of a pilot for sector cost monitoring, control, and analysis.

- 1.25 The project will finance the following for all components: (i) consulting services (individuals and firms) for US\$8.4 million; (ii) nonconsulting services for US\$11.1 million; (iii) goods for a value of US\$17.5 million; and (iv) training for an amount of US\$1.9 million. Civil works are not envisaged; office spaces will be remodeled with hardware installations in the workspace.

C. Key results indicators

- 1.26 **Expected impacts and outcomes.** The expected impacts are: (i) a decrease in the ratio of the state's primary fiscal deficit to GDP; (ii) an increase in the ratio of the state's tax revenue intake to GDP; and (iii) a decrease in the ratio of the state's net current debt to GDP. The expected outcomes are: (i) an increase in the ratio of strategic planning goals met to total planned goals; (ii) a decrease in the ratio of administrative cost of tax collection to total revenue intake; and (iii) a narrowing of the gap between the budget as planned and as executed.

- 1.27 **Economic evaluation.** An [economic analysis](#) made of the project's economic/financial costs and benefits predicted the following results: (i) an increase in tax collection due to the implementation of large taxpayer monitoring, the strengthening of fiscal intelligence and collection services, which will reduce possibilities for evasion and increase the tax claim recovery rate; (ii) benefits for taxpayers through lower compliance costs; and (iii) resource savings for the state with the implementation of process automation and system integration solutions. The integration of systems and redesign of processes will also improve the business environment by reducing the time and costs of taxpayer compliance. By the end of 2027 (i.e. after 10 years), the project's investments will have a net present value of

⁷¹ [Report - Planeamiento, Presupuesto y Finanza Estatal Perfeccionado \[State planning, budget and finance improved\].](#)

⁷² [Report - Modelo de Gestión de Costos Definido \[Cost management model defined\].](#)

US\$32.6 million implying an internal rate of return of 33.8%. The results are robust to the sensitivity analysis performed.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Fulfillment of the eligibility conditions to participate in the PROFISCO II CCLIP (BR-X1039).** The individual operation with Maranhão is the fourth individual loan for specific projects within PROFISCO II CCLIP (BR-X1039). It satisfies the eligibility criteria specified in the policy applicable to the CCLIP (paragraph 1.21 of document GN-2246-9), and its operational guidelines (GN-2246-11), because: (i) it is compatible with the sector and with the components of the PROFISCO II CCLIP; (ii) it is included in the Bank's current programming with Brazil;⁷³ (iii) the state will execute the operation through the Finance Department (SEFAZ/MA), which was the executing agency for the PROFISCO I Maranhão⁷⁴ individual operation (2304/OC-BR), where the PCU will be set up; and (iv) the result of the institutional analysis shows that SEFAZ/MA's capacities have not deteriorated, so the execution and monitoring instruments used in the previous project will also serve for this new operation.⁷⁵ The [final progress report for PROFISCO I MA \(2304/OC-BR\)](#) showed that the objectives were achieved satisfactorily, 100% of proceeds were disbursed, the Bank's contractual requirements and disbursement policies were met, and its accounts were audited, meeting the deadlines and required quality standards.
- 2.2 The project is an investment loan for specific projects, with a total cost of US\$38.9 million, of which the Bank will finance US\$35 million (90% of the project cost) drawn from its Ordinary Capital, and the local counterpart contribution will be US\$3.9 million (10% of the total project cost), as shown in Table 1.
- 2.3 **Disbursement schedule.** Disbursements will be made over a five-year period as shown in Table 2 below.

Table 1. Total Budget (US\$)

Categories	Bank	Local Contribution	Total	%
A. Direct costs	33,931,580	3,900,000	37,831,580	97.30
Component I. Fiscal management and transparency	17,900,000	-	17,900,000	46.00
Component II. Tax administration and litigation	14,931,580	-	14,931,580	38.40
Component III. Financial management and public expenditure	1,100,000	3,900,000	5,000,000	12.90
B. Project management	418,000	-	418,000	1.08
1. Monitoring	178,000	-	178,000	0.46
2. Evaluation	240,000	-	240,000	0.62
C. Contingencies	650,420	-	650,420	1.67
Total	35,000,000	3,900,000	38,900,000	100
Percentage	90	10	100	

⁷³ The aide mémoire updating the 2017 programming with Brazil, signed on 13 November 2017.

⁷⁴ Operation 2304/OC-BR was completed on 29 September 2016.

⁷⁵ The MD-GEFIS methodology, developed by the Bank, COGEF and the National Treasury Policy Council, was used for the institutional analysis of SEFAZ/MA.

Table 2. Disbursement schedule (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	3,150,000	10,150,000	10,150,000	6,300,000	5,250,000	35,000,000
Local	351,000	1,131,000	1,131,000	702,000	585,000	3,900,000
Total	3,501,000	11,281,000	11,281,000	7,002,000	5,835,000	38,900,000
%	9	29	29	18	15	100

B. Environmental and social risks

- 2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (operational policy OP-703) and the results of the Safeguard Policy Filter, this is classified as a Category "C" operation. The project will support the strengthening of tax and financial processes through systems development and institutional strengthening, and no socioenvironmental risks are anticipated. The physical remodeling being proposed is on a small scale and confined to the renovation of existing facilities.

C. Fiduciary risks

- 2.5 The relevant assessment concludes that SEFAZ/MA has a high institutional capacity, with experience in executing operations with the Bank; but, given the complexity and value of the project, fiduciary risk is rated medium.⁷⁶ Delay in the execution of procurement and contracting processes was identified as a risk, because of: (i) the difficulty in preparing the terms of reference; and (ii) the low response capacity of the SEFAZ/MA internal (but PCU-external) and external actors that participate in the internal flows of approval processes. To mitigate this risk: (i) the PCU's planning and monitoring capacities will be strengthened, and key annual processes will be identified; (ii) training events will be held on designing terms of reference and procurement policies; (iii) the PCU will be given support to improve and document process flows; and (iv) a special bidding committee will be set up in SEFAZ/MA to carry out Bank-financed processes without procurement ceilings, as part of the deconcentration of the functions of the central bidding committee.
- 2.6 A delay in the delivery of audited reports that could cause delays in project disbursements was identified as a medium risk.⁷⁷ To mitigate this risk, a diagnostic assessment of the Maranhão State Audit Office (TCE/MA) will be conducted using the IDB/GUS tool to determine its eligibility to performing project audits, through the signing of a memorandum of understanding between TCE/MA and the Bank, and with ongoing training for the TCE/MA auditors.

D. Other project risks

- 2.7 A risk management workshop was held using the Bank's methodology, and the operation was rated medium risk. These risks are:
- Fiscal sustainability (medium risk).** The current economic slowdown in Brazil could hamper government performance, with adverse impacts on tax collection. Preventive mitigation measures include legal or administrative regulations, such as: (i) a cap on the growth of current expenditure (payroll expenses absorbed 38.9% of net current income in 2016, compared to a limit of 49%); (ii) an increase in the standard rates: (a) ICMS up from 17% to 18%;

⁷⁶ See Annex III-Chapter III.

⁷⁷ The TCE/MA is interested in gaining eligibility to perform project audits.

(b) the rate on fuels rises from 25% to 26% (except diesel); (c) the rate on communications increases from 25% to 27%; and (d) the rate on electricity rises from 12% to 18% or from 25% to 27%, depending on consumption; and (iii) the cancellation of tax incentives for specific sectors (commerce and services, whose shares in ICMS revenue were 29.3% and 13.3%, respectively).

- b. **Development (medium risk).** The following were classified as medium risks:
- (i) outputs that cannot be implemented within the project's implementation timeframe. This risk will be mitigated through development of the terms of reference, the signing of an agreement with SEPLAN/MA, and the designation of a focal point in each department or body, prior to the start of the project;
 - (ii) delays in the development of outputs owing to integration difficulties with other institutional actors. This risk is expected to be mitigated through the signing of an agreement with PGE/MA, prior to the start of the project, with the designation of a focal point, a sectoral dialogue between SEFAZ/MA and PGE/MA with the Judiciary and coordination of the SEFAZ/MA IT area with those of PGE/MA and TCE/MA; and (iii) delays in procurements and in the development of project processes and systems, owing to the limited response capacity of the IT area in SEFAZ/MA. This risk will be mitigated through the development of an IT Management Plan (PDTI) and the implementation of integrated strategic project management.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the State of Maranhão, which will also execute the operation through its Finance Department, with the Federative Republic of Brazil guaranteeing the financial obligations under the loan. For project execution, a PCU will be created, staffed by a general coordinator, a technical coordinator, a procurement specialist, a financial specialist, and a planning and monitoring specialist. The PCU will coordinate monitoring, evaluation and auditing activities, with the aim of overseeing correct execution of the program and achievement of its objectives.
- 3.2 The PCU's main functions will be to: (i) plan the execution of the activities; (ii) prepare, implement, and update the program's work plans, including the multiyear execution plan, the AWP, and the procurement plan; (iii) supervise execution and submit progress reports; (iv) coordinate the processes for preparing terms of reference, bidding processes, goods procurement, and the selection and contracting of services; (v) present supporting documentation and disbursement requests to the Bank; (vi) prepare financial statements; and (vii) submit the project evaluation.
- 3.3 The project will be implemented in accordance with the program [Operating Regulations](#) approved by the Bank for the PROFISCO II CCLIP, which, among other things, will define the project eligibility criteria, the structure of bankable components and outputs, interlocution mechanisms between SEPLAN/MA and PGE/MA with focal points responsible for coordination with SEFAZ/MA and supervisory and monitoring issues. The program Operating Regulations are mandatory and must be consulted regularly by the executing agencies. They will describe: (i) the functions, procedures, and norms for project execution; and (ii) the operational and contractual relationships between the project's participants.

- 3.4 **Special contractual conditions precedent to the first disbursement of the loan:** (i) the borrower's adherence to the program [Operating Regulations](#), previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) creation of the PCU and appointment of its members. These conditions are essential to ensure that the executing agency has detailed regulations in place on operational and fiduciary issues, among others, and to mitigate risks of delays in project execution. For other contractual conditions, see chapter IV of Annex III.
- 3.5 **Special contractual condition of execution.** Before starting to execute tax litigation activities under Component II, and the planning and execution of the state budget under Component III, SEFAZ/MA will sign cooperation agreements with the PGE/MA and SEPLAN/MA, respectively, specifying institutional responsibilities in the execution of such activities. This condition is justified in order to guarantee the cooperation agreements since the entities in question are independent of SEFAZ/MA.
- 3.6 **Procurement.** Project procurement and contracting will abide by the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), in conjunction with the provisions of the procurement plan.
- 3.7 **Direct contracting.**⁷⁸ In accordance with paragraph 3.10(d) of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), when only one firm is qualified or has experience of exceptional worth for the services, the following entities will be contracted directly: (i) government research institutes, data processing centers, and training schools (eligible under the provisions of paragraph 1.11(c) of the policies) that have extensive experience and adequate infrastructure to train civil servants and provide technical assistance, mainly in the use of new IT solutions;⁷⁹ (ii) the Inter-American Center of Tax Administrations (CIAT), an international agency that specializes in providing technical assistance for tax administration modernization in the region; and (iii) Engineering do Brasil S.A., a firm that was competitively hired under PROFISCO I to develop online tax administration processes in SEFAZ/MA. Accordingly, contracting this firm directly for the same processes in the PGE/MA will reduce technical integration risks and cut execution times and costs.
- 3.8 **Audited financial statements.** The borrower will submit audited financial statements to the Bank annually, no later than 120 days after each SEFAZ/MA fiscal year-end. The external audit will be performed by an external auditing firm that is eligible for the Bank, or else by the TCE/MA. The audit of the whole will be contracted by SEFAZ/MA, for which the terms of reference will need the Bank's no objection.

⁷⁸ See Annex III-Chapter V.

⁷⁹ These are: (i) Escola de Administração Fazendária [School of Finance Administration] (ESAF); (ii) the National School of Public Administration of the Ministry of Planning, Budget and Management; (iii) government schools at the state level; (iv) data processing firms at the state level; (v) Universities of Ceará and Maranhão; (vi) the Institute of Applied Economic Research (IPEA); and (vii) the Institute of Fiscal Studies (IEF).

B. Summary of results monitoring arrangements

- 3.9 **Monitoring** will be based on: (i) the [multiyear execution plan and AWP](#); (ii) the procurement plan; (iii) the Results Matrix; (iv) the [Monitoring and Evaluation Plan](#); and (v) the PMR. The PCU will prepare semiannual reports on progress made toward the outcomes, outputs and financial targets, for approval by the Bank, and the latter will conduct inspection visits and ex post reviews as part of project monitoring.
- 3.10 **Evaluation.** The project will be evaluated against the annual targets and indicators for the outcomes and outputs defined in the Results Matrix. The Monitoring and Evaluation Plan envisages independent midterm and final evaluations. The borrower will prepare a midterm evaluation report and send it to the Bank, 90 days after the end of the third year of project execution. It will also send the Bank a final evaluation, including an ex post economic evaluation, which will serve as an input for the Project Completion Report of the PROFISCO II CCLIP, 90 days from the date of the last disbursement of the loan proceeds.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2850	The project is aligned with the Country Strategy in Brazil (GN-2850) in relation to increasing productivity and competitiveness, by promoting the improvement of the business climate, institutional strengthening of government entities and the improvement of efficiency in the management of public resources. See Paragraph 1.18
Country Program Results Matrix		The intervention is not included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	8.1	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	8.5	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	0.0	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	9.1	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.6	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.
Non-Fiduciary	Yes	Strategic Planning National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The states were supported through the development of the MD-GEFIS methodology
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	There will be an impact evaluation for the entire CCLIP and for the individual Maranhão project. The evaluation will contribute to the knowledge of gaps, providing empirical evidence of the effectiveness of PROFISCO projects in increasing the level of subnational collection in Brazil, and particularly the effect of digital technologies and automation of electronic fiscal documents can have at the level of tax collection.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

The main goal of the operation is to contribute to the fiscal sustainability of the State of Maranhão. To achieve this end, the project profile defines three specific areas on which the project will intervene. The first area is Fiscal Management and Transparency. The second area is tax administration and litigation. The third area is financial administration of public expenditure. Each of these areas define a component. The project is the third child of a series of operations under the Conditional Credit Line for Investment Projects (CCLIP) parent BX-L1502.

The project profile diagnoses a primary balance of 0.71 percent of the State PIB in 2016 (Secretariat of Planning, 2016). The diagnosis quantifies gaps in physical and human capital allocated to fiscal management. It also describes the relevant legal framework. The diagnosis includes a review of over 145 processes in the three main areas and eighteen subareas. The diagnosis relies on information provided by the Maturity and Performance of Fiscal Management (MD-GEFIS) tool.

The economic analysis provides a quantification of three types of benefits. First, it quantifies the additional revenue expected to result from the investment. Under a social perspective, additional tax revenue is usually assumed neutral. Second, it quantifies savings through technological tools which allow for efficiency gains to the state. Third, it quantifies savings to firms which reduce costs in fulfilling tax obligations. Thus, quantified benefits are a mix of added revenue to the State and social benefits. The costs include investment and maintenance. The analysis estimates a net present value for the operation of US\$33 million.

The results matrix includes 24 product indicators, 3 results indicators, and 3 impact indicators. Most indicators rely on reports and verification by the Secretariat of Finance. The ex post evaluation consists of estimating the effects of the program on tax revenue. It aims to assess the impact through administrative data and a synthetic-controls methodology.

A total of six out of nine risks are classified as medium and none is classified as high. The risks classified as medium are the associated to macroeconomic vulnerability, delays in procurement, and weak inter-institutional coordination.

RESULTS MATRIX

Project objective:	To contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management.
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EXPECTED IMPACTS

Indicators	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT 1: A decrease in the ratio of the state's primary fiscal deficit to GDP											
Primary balance/GDP	% (R\$/ R\$)	0.71	2016	-0.40	-0.17	-0.13	0.16	0.16	0.16	Maranhão State Planning Department (SEPLAN/MA) management report	The decrease in the primary fiscal deficit contributes directly to the fiscal balance, when in conjunction with the increase in revenue collection and effective control of public spending. (Monitoring and evaluation plan)
IMPACT 2: An increase in the ratio of the state's tax revenue intake to GDP											
Tax revenue/GDP	% (R\$/ R\$)	9.24	2016	9.95	9.58	9.27	9.35	9.50	9.50	Maranhão State Finance Department (SEFAZ/MA) tax administration report	The real increase in revenue collection contributes directly to fiscal balance, when in conjunction with effective control of public spending. (Monitoring and evaluation plan)
IMPACT 3: A decrease in the ratio of the state's net current debt to GDP											
Net current debt/GDP	% (R\$/ R\$)	7.10	2016	8.62	7.31	5.92	6.14	6.14	6.14	SEPLAN/MA management report	The decrease in net current debt contributes directly to fiscal balance, when in conjunction with the increase in revenue collection and effective control of public spending.

EXPECTED OUTCOMES

Outcome indicators	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Measurement unit	Baseline	Means of verification	Comments
OUTCOME 1: An increase in the ratio of strategic planning goals met to total planned goals												
Goals met/total planned goals	%	52	2016	52	52	55	60	70	70	2022	SEFAZ/MA strategic planning historical evaluation report	Monitoring and evaluation plan
OUTCOME 2: A decrease in the ratio of administrative cost of tax collection to total revenue intake												
Collection cost/tax revenue	%	3.65	2016	3.65	3.65	3.6	3.6	3.5	3.4	2022	Synthetic state balance sheet	Monitoring and evaluation plan
OUTCOME 3: A narrowing of the gap between the budget as planned and as executed												
Budget executed/budget planned	%	34.5	2016	34.5	34.5	32.0	29.0	20.0	20.0	2022	Annual report – SEFAZ/MA State Treasury Coordination Unit. Data from the state financial system (SIAFEM)	Monitoring and evaluation plan Calculation formula (PE/PP) -1*100

OUTPUTS

Outputs	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component I: Fiscal management and transparency											
1.1 SEFAZ/MA corporate systems to monitor outcome agreements integrated	Systems	0	2016	-	-	-	-	3	3	Management report – SEFAZ/MA Project Management Assistance Unit (ASPRO)	Monitoring and evaluation plan
1.2 Operational risk management model implemented	Model	0	2016	-	-	-	-	1	1	Management report – SEFAZ/MA Project Management Assistance Unit (ASPRO)	idem
1.3 Strategic people management model implanted	Model	0	2016	-	-	-	-	1	1	Management report – SEFAZ/MA Human Resource Assistance Unit	idem
Milestone: Studies to develop the model	Study	0	2016	1	1	1	1	1	5		
1.4 Fiscal competency training plans implemented	Plan	0	2016	1	1	1	1	1	5	Management report – SEFAZ/MA Human Resource Assistance Unit	idem
1.5 Information technology (IT) systems updated	System	0	2016	1	1	1	1	1	5	SEFAZ/MA management report – People Management and Administration Unit (CEGPA)	idem
1.6 IT solutions implemented	Solution	0	2016	1	1	1	1	1	5	SEFAZ/MA management report – People Management and Administration Unit (CEGPA)	idem Solutions: <ul style="list-style-type: none"> • Supercluster • Hyperconvergence • Big Data • Link Data • BI solutions

Outputs	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
1.7 IT security instruments implemented	Instrument	0	2016	-	1	1	1	1	4	SEFAZ/MA management report – People Management and Administration Unit (CEGPA)	idem Instruments: <ul style="list-style-type: none"> • Contingency system (<i>Datacenter</i>) • Firewall • Physical security system-Datacenter • Databank security system
1.8 Planning, procurement management, contract management, and contract inspection modules implemented	Module	0	2016	-	-	1	1	1	3	SEFAZ/MA management report – People Management and Administration Unit (CEGPA)	idem
Component II: Tax administration and litigation											
2.1 Large taxpayer monitoring model modernized	Model	0	2016	-	-	1	-	-	1	SEFAZ/MA management report – Fiscal Action Technical Unit (COTAF)	idem
2.2 Planning, execution, control and fiscal action evaluation system implemented	System	0	2016	-	-	-	-	1	1	SEFAZ/MA management report – Fiscal Action Planning, Control and Evaluation Unit (UPCAF)	idem
Milestone: planning, execution, system control and evaluation modules	Modules	0	2016	-	1	1	1	-	3		

Outputs	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
2.3 Goods transit control tools modernized	Instrument	0	2016	-	1	1	1	1	4	SEFAZ/MA management report – Fiscal Action Management Unit (CEGAF/Transit)	idem Automated tools: <ul style="list-style-type: none"> • Fiscal authorization • Calculation of tax • Mobile approval • Control of interstate operations
2.4 Accessory tax obligations unification system implemented	System	0	2016	-	-	-	1	-	1	SEFAZ/MA management report – Fiscal Action Planning, Control and Evaluation Unit (UPCAF)	idem
Milestone: System modules	Modules	0	2016	-	1	1	1	-	3		
2.5 National Network for Simplifying the Registration and Legalization of Enterprises and Businesses (REDESIM) implemented	System	0	2016	-	-	1	-	-	1	SEFAZ/MA management report – Fiscal Action Planning, Control and Evaluation Unit (UPCAF)	idem
2.6 Foreign trade single window system implemented	System	0	2016	-	-	1	-	-	1	SEFAZ/MA management report – Fiscal Action Planning, Control and Evaluation Unit (UPCAF)	idem
2.7 Administrative appeal procedures upgraded	Procedure	0	2016	1	1	1	1	1	5	SEFAZ/MA management report – Administrative and Tax Tribunal (TARF)	idem Procedures: <ul style="list-style-type: none"> • Redesign of processes • Training • Study of work posts • Solution for case analysis • Online manuals

Outputs	Measurement unit	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
2.8 Judicial litigation system integrated	System	0	2016	-	-	-	-	1	1	Management report – Office of the Maranhão State Attorney General (PGE/MA)	idem
Milestone: System modules	Module	0	2016	1	1	1	1	2	6		
2.9 Comprehensive taxpayer assistance model implemented	Model	0	2016	-	-	-	1	-	1	SEFAZ/MA management report – Taxation Technical Unit (COTET)	idem
Milestone: Activities to develop the model	Activities	0	2016	1	1	2	2	-	6		
2.10 Advanced search mechanism of the tax legislation implemented	Mechanism	0	2016	-	-	1	-	-	1	SEFAZ/MA management report – COTET	idem
2.11 Collection services available in the SEFAZ.net system	Service	0	2016	3	5	10	5	5	28	SEFAZ/MA management report – CEGAF	idem
2.12 ITCD management mechanisms upgraded	Mechanism	0	2016	1	1	1	-	-	3	SEFAZ/MA management report – CEGAF	idem
Component III: Financial management and public expenditure											
3.1 Conceptual planning model defined	Model	0	2016	-	-	1	-	-	1	SEPLAN/MA Management report	idem
Milestone: Studies for the development of the model	Studies	0		1	1	1	-	-	3		
3.2 Integrated fiscal planning and management system implemented	System	0	2016	-	-	-	-	1	1	SEPLAN/MA Management report	idem
Milestone: System modules	Module	0		1	2	2	2	1	8		
3.3 Cost management model defined	Model	0	2016	-	-	-	1	-	1	SEPLAN/MA Management report	idem
3.4 Sector cost analysis performed	Analysis	0	2016	-	-	-	-	1	1	SEPLAN/MA Management report	idem Pilot sector cost analysis

FIDUCIARY AGREEMENTS AND REQUIREMENT

Country:	Brazil
Project number:	BR-L1500
Name:	Fiscal Management Modernization Project for the State of Maranhão – PROFISCO II – MA
Executing agency:	State of Maranhão, acting through its Finance Department (SEFAZ/MA)
Fiduciary team:	Karina Diaz and Santiago Schneider (VPC/FMP)

I. EXECUTIVE SUMMARY

- 1.1 The institutional evaluation for the project's fiduciary management was based on: (i) the country's fiduciary context; (ii) an evaluation of the main fiduciary risks; (iii) the earlier PROFISCO I experience; and (iv) an evaluation of fiscal management in the Brazilian States using the fiscal management maturity and performance assessment (MD-GEFIS), applied as part of the preparation of PROFISCO II, validated through meetings, interviews, and a review of documentation/backup systems.
- 1.2 Brazil has robust country fiduciary systems that enable sound management of administrative, financial, control and procurement processes, fulfilling the principles of transparency, economy and efficiency. In terms of their capacity for planning and organization, execution and oversight, the executing agency's systems have a medium level of development and represent a medium risk.
- 1.3 SEFAZ/MA has the legal capacity and experience to execute the project's activities, since this is a second phase of the PROFISCO program. During the first phase, SEFAZ/MA took advantage of its structure supported by the PCU, and this will be used again for this second phase, drawing on the lessons learned.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The structure of SEFAZ/MA consists of: (i) the Office of the Secretary of Finance; and (ii) the Adjunct Secretariat of Tax Administration, on which the Tax Administration Management and Fiscal Action Management units both depend. The Secretary's Office directly oversees support and advisory bodies including: (i) the Project Management Advisory service; (ii) Legal Advisory service; and (iii) the Sector Bidding Committee (CSL).
- 2.2 With regard to personnel, the structure used to develop the first phase of PROFISCO will be used again, including the General Coordinator, the Technical Coordinator, the Administrative Financial Coordinator and the Procurement and Planning and Monitoring Advisors. This Project Coordination Unit (PCU) will report directly to the Secretary's Office, as part of the Project Management Advisory service.
- 2.3 Under State Law No. 10297/2015, procurements by the State of Maranhão are regulated by the Central Bidding Committee (CCL) located in the Office of the State

Government Chief of Staff, which tasked the CSL of SEFAZ/MA with processing procurements for up to R\$1 million (US\$300,000). State procurements will be channeled on a mandatory basis through the SIGA integrated bidding system, which has been validated by the Bank.

- 2.4 The executing agency is subject to both internal and external oversight. Internal control is exercised by the Maranhão Transparency and Oversight Department (STC) through internal oversight which is coordinated across all state entities. External control is exercised by the Maranhão State Audit Office (TCE/MA), which performs audits in all state entities. The TCE/MA does not currently audit Bank-financed projects in the state, but during preparation of this project, it expressed interest in becoming eligible to do so.

III. EVALUATION OF INSTITUTIONAL CAPACITY, FIDUCIARY RISK, AND MITIGATION ACTIONS

- 3.1 The assessment of institutional capacity and its validation with executing agency staff and key stakeholders concludes that SEFAZ/MA has a high institutional capacity with experience in executing operations with the Bank. Nonetheless, considering the complexity of the project and the fact that the amount of financing is double that of the first phase, fiduciary risk is rated medium.
- 3.2 Delay in procurement execution was identified as a fiduciary risk, owing to: (i) difficulty in preparing the terms of reference; and (ii) the low response capacity of SEFAZ/MA internal actors (but external to the PCU) and external actors that participate in the internal approval processes.
- 3.3 To mitigate this risk, the PCU's planning and monitoring capacities and identification of key processes to be developed annually will be strengthened. Training will also be provided for preparation of terms of reference and on procurement policies; the PCU will be supported to improve and document process flows; and a Special Bidding Committee will be set up in SEFAZ/MA to fulfill Bank-financed processes of unlimited contractual amount, as a way of dispersing the CCL's functions.
- 3.4 The TCE/MA is interested in becoming eligible to audit the Bank's projects in the state. A delay in filing audited financial statements was identified as a risk, which could hold up project disbursements, in terms of monitoring and accountability. The fiduciary team will initiate the TCE/MA dialogue and diagnostic process, using the IDB/GUS tool. If the TCE/MA becomes eligible, with the signing of a memorandum of understanding between it and the Bank, the fiduciary team will work very closely with it to ensure the quality of the audit work. The TCE/MA auditors will receive permanent training, and external audit funds will be assigned to strengthen TCE/MA activities.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACTS

- 4.1 **Special contractual condition prior to the first disbursement of the loan proceeds. The executing agency will provide evidence that the Special Bidding Committee has been setup in SEFAZ/MA.** This condition is justified to avoid delays and ensure that the procurement processes are executed according to schedule.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements on procurement specify the provisions applicable to the execution of all procurements envisaged in the project.

A. Procurement execution

- 5.2 **Procurement of works, goods and nonconsulting services.** Contracts subject to international competitive bidding will be implemented using the standard bidding documents (SBDs) issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The technical specifications of the procurements will be reviewed by the project's sector specialist.
- 5.3 **Selection and contracting of consultants.** These contracts will be executed using the Standard Request for Proposals (SRP) issued by the Bank. The corresponding terms of reference will be reviewed by the project's sector specialist.
- 5.4 **Use of the country procurement system.** The country procurement (sub)system approved by the Bank (online auction – PE) will be used to procure off-the-shelf goods and services costing up to US\$5 million. Any system or subsystem that is approved later will be applicable to the operation. The project's procurement plan and any updates thereto will identify the contracts to be executed using the approved country systems.
- 5.5 **Advance procurement/retroactive financing.** Not anticipated.

B. Direct Contracting

- 5.6 **Government entities and schools.** Government research institutes, data processing centers, and training schools (eligible under the provisions of paragraph 1.11(c) of the Policies for the Selection and Contracting of Consultants financed by the Bank (document GN-2350-9)) that have extensive experience and adequate infrastructure to train civil servants and provide technical assistance, mainly in the use of new IT solutions, in accordance with paragraph 3.10(d) of document GN-2350-9. These entities are: (i) Universities of Ceará and Maranhão; (ii) the School of Finance Administration (ESAF) and the National School of Public Administration (ENAP/MP); (iii) government schools at the state level; and (iv) data processing firms at the state level.
- 5.7 **Specialized international agencies.** Pursuant to the provisions of paragraphs 3.10 and 3.15 of document GN-2350-9, there are also plans to directly contract the Inter-American Center of Tax Administration (CIAT), an international agency that specializes in providing technical assistance for TA modernization in the region.
- 5.8 **Research and study institutes.** In accordance with paragraph 3.10(d) of document GN-2350-9, the Institute of Applied Economic Research (IPEA) and the Institute of Fiscal Studies (IEF) will also be contracted directly.

Table 1. Thresholds for international competitive bidding and international shortlist

Method	ICB for works	ICB for nonconsulting services	International shortlist for consulting services
Threshold	US\$25 million	US\$5 million	US\$1 million

- 5.9 **Online tax administration process (PAF-e).** The firm Engineering do Brasil S.A. will be contracted via single source selection (SSS), for an estimated amount of US\$1 million, having been competitively contracted under PROFISCO I to develop the online tax administration processes in SEFAZ/MA. The role of the Office of the State Attorney General (PGE) in monitoring these processes makes it necessary to implement the PAF-e in that government body, based on the provisions of paragraph 3.10(d) of document GN-2350-9.

Table 2. Main procurements

Purpose of procurement	Selection method	Estimated date	Estimated amount (US\$ million)
Consulting services			
SEFAZ/MA strategic management	SSS - CIAT	Jan-18	2.00
System for planning, execution, control and evaluation of tax inspection action, using the Business Intelligence 2.0 tool	Quality-based selection	Jul-18	1.04
Incorporation of technologies from the Semantic Web	SSS – University of Ceará	Jan-18	0.81
Ubiquitous computing and artificial intelligence	SSS – University of Maranhão	Jan-18	0.16
Development of the online judicial process	SSS - Engineering	Jul-19	1.00
Goods			
Mobile server platforms, Big Data, eLinked Data	Country System	Jan-19	1.05
Hyperconvergent solutions	Country System	Jan-19	1.50
Supercluster solution	Country System	Jan-19	1.50
Business intelligence solutions integrated by categories and software agents (licenses)	Country System	Jan-19	4.37
Computerized transit inspection system	Country System	Jan-19	1.66
Nonconsulting services			
Documentation of legacy systems	Country System	Jan-19	1.20
Integration of tax revenue data (sales tax – ICMS, vehicle ownership tax – IPVA, and inheritance and gifts tax – ITCD)	Country System	Jan-18	1.00

* To access the 18-month procurement plan, click [here](#).

C. Procurement supervision

- 5.10 Procurements will be supervised ex post, except where ex ante supervision is justified. Procurements that are processed through the country system will also be supervised through that system.
- 5.11 The supervision method will be determined for each selection process. Ex post reviews will be performed every 12 months in accordance with the project supervision plan. Ex post review reports will include at least one physical inspection visit, chosen from the processes subject to ex post review.

Table 3. Threshold for ex post review

Works	Goods	Consulting services
National competitive bidding (NCB) and shopping	NCB and shopping	Less than US\$1 million

D. Records and files

- 5.12 The PCU will document the process and keep all documents needed for supervision and audit purposes.

VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** SEFAZ/MA will work with the State Planning Department (SEPLAN/MA) throughout the process of planning the execution of activities contained in the multiyear execution plan and annual work plan. State entities use Multiyear Planning instruments, the Budget Procedures Law (LDO), which provides for budgetary guidelines, and the Annual Budget Law (LOA). The project budget will form part of the LOA. The entire planning and budgeting process is coordinated directly by SEPLAN.
- 6.2 While there is currently no integration between the budget and planning system and the Integrated Financial Management System for States and Municípios (SIAFEM), funding will be provided during the operation to implement a new integrated financial management system.
- 6.3 The PCU will make sure the budgetary funds for the program, both the Bank financing and the local contribution, are duly budgeted annually and secured for execution according to the project's timeline. Budgetary funds will be recorded as an external source within the integrated financial management system in the year of execution. The LOA will include the funds needed for execution, both for the external loan and for the local counterpart.
- 6.4 **Accounting and information systems.** Public entities in the State of Maranhão work with SIAFEM (first generation), which was initially used in PROFISCO I. This system performs all financial and accounting execution for state-government operations. Parallel to SIAFEM, the Budgetary Control System (SSO) was designed in-house as a SEFAZ/MA management system, which integrates SIAFEM data for management reports.

- 6.5 The SSO was used in the PROFISCO I for releasing disbursements and issuing audited financial information and reports. The system has already been validated by the Bank and by the operation's external auditors. The SSO will be used to monitor execution of the PROFISCO II operation.
- 6.6 The state is in the process of acquiring a new financial system; and the possibility of entering into a cooperation agreement and purchasing the Integrated Planning and Fiscal Management System (SIGEF), used in the State of Santa Catarina, is currently being analyzed. This system will make it possible to adopt international accounting standards.
- 6.7 **Disbursements and cash flow.** The project will use the state's national treasury system. Expenses will be subject to the budgetary and financial execution process, and will be duly recorded in SIAFEM. As in PROFISCO I, the Bank funds will be managed through an exclusive account that enables the loan proceeds to be independently identified and reconciled. This includes income and payments.
- 6.8 Disbursements will be made in U.S. dollars in the form of advances of funds. The exchange rate to be used will be the rate at which the funds in question were obtained.
- 6.9 Advances will be based on a projection of financial needs for a maximum of 120 days, and future advances will require at least 80% of funds previously advanced to be accounted for.
- 6.10 Expenses considered ineligible by the Bank will be reimbursed from the local contribution or from other funds at the Bank's discretion, depending on the nature of the ineligibility.
- 6.11 **Internal control and internal audit.** Internal control of the state is exercised by the Maranhão Transparency and Control Department (STC), which was created in 2015 and became the central agency of the internal control system, reporting to the Office of the State General Comptroller (CGE). The STC's functions encompass internal oversight; public audit; public property protection; correcting, preventing and combating corruption; and ombudsperson activities to increase the transparency of public administration.
- 6.12 In addition to the STC there are other bodies that perform oversight functions, including the State and Federal Public Prosecution Departments, the TCE Court, the Federal Audit Department (TCU), and the Office of the Comptroller General of the Union (CGU).
- 6.13 **External control and reports.** External control of the state is exercised by the TCE/MA, which audits all state entities. The TCE/MA currently does not audit Bank-financed projects, and it will be analyzed using the Bank's guide to using country fiduciary systems, to assess whether it has the capacity to perform audits of the state's projects.
- 6.14 The external audit of PROFISCO II will be performed by an external auditing firm with level-1 eligibility with the Bank, or by the TCE/MA if eligible.
- 6.15 According to the Guidelines for Financial Management for IDB-financed Projects (document OP-273-6), the auditor must present a report on the reasonableness of the financial statements. The program's audited financial statements will be submitted to the Bank no later than 120 days after each SEFAZ/MA fiscal year-end,

pursuant to procedures and terms of reference previously agreed upon with the Bank.

- 6.16 **Financial supervision plan.** The supervision plan may be altered during project execution, in response to evolving risk levels or for additional control needs as determined by the Bank.

Table 4. Supervision Plan

Supervision activity	Nature-Scope	Frequency	Entity responsible	
			Bank	Executing agency
Financial	Ex post review of disbursements and procurement	Annual	Fiduciary team	PCU-external auditor TCE/MA
	Annual audit	Annual	Fiduciary team	PCU-external auditor TCE/MA
	Review of disbursement requests	Periodic	Fiduciary team	
	Supervision visit	Annual	Sector specialist and fiduciary team	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Brazil. Loan ___/OC-BR to the State of Maranhão. Project to Modernize Fiscal Management in the State of Maranhão – PROFISCO II - MA. Fourth Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 - Fiscal Management Modernization Program in Brazil – PROFISCO II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Maranhão, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Project to Modernize Fiscal Management in the State of Maranhão – PROFISCO II - MA, which constitutes the fourth individual operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 - Fiscal Management Modernization Program in Brazil – PROFISCO II, approved on ___ 2017 by Resolution DE-___/17. Such financing will be in the amount of up to US\$35,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ 2017)