

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **BRAZIL**

### **PROGRAM TO MODERNIZE FISCAL ADMINISTRATION IN AMAPÁ (PROFISCO/AP - PROFISCO – AMAPÁ) (BR-L1242)**

#### **INDIVIDUAL LOAN UNDER THE CONDITIONAL CREDIT LINE (CCLIP) FOR THE PROGRAM TO SUPPORT THE MANAGEMENT AND INTEGRATION OF FINANCE ADMINISTRATION IN BRAZIL (PROFISCO) (BR-X1005)**

#### **LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Annual work plan for the program– 18 months <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049736">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049736</a>
2.	Monitoring and evaluation plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144188">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144188</a>
3.	Procurement plan–18 months (itemized table) <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35128588">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35128588</a>
<b>OPTIONAL</b>	
1.	Matrix of problems—summary diagnosis of fiscal management <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049811">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049811</a>
2.	Financial evaluation of the program <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144236">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144236</a> <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144269">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38144269</a>
3.	Institutional agreement and program execution mechanism <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049831">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049831</a>
4.	State law authorizing contracting of the credit operation <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35051101">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35051101</a>
5.	Resolution creating the Program Coordination Unit (UCEPE/AP) <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35051095">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35051095</a>
6.	Frame of reference for the PROFISCO CCLIP approved by the Brazilian government <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049844">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049844</a>
7.	Program Operating Regulations for the PROFISCO CCLIP and Annexes <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049848">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049848</a>
8.	Table of indicators <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049747">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35049747</a>
9.	Institutional macro-diagnosis (external vision) <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35124704">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35124704</a>
10.	Report of the National Fiscal Administration Program for the Brazilian States (PNAFE) – Evaluation <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35133409">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35133409</a>
11.	Discussion paper: State Debt – 10 Years Later <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35133345">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35133345</a>
12.	Environmental Safeguard Filters <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35119917">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35119917</a>

## ABBREVIATIONS

AWP	Annual work plan
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Economic and Social Development Bank]
CCLIP	Conditional credit line for investment projects
CGE	State Comptroller General's Office
COGEF	Finance Management Committee
ESAF	Escola de Administração Fazendária [School of Public Finance Administration]
FUNDEB	Fundo de Manutenção e Desenvolvimento da Educação Básica e de Valorização dos Profissionais da Educação [Fund for the Maintenance and Development of Basic Education and Development of Education Professionals]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Goods and services sales tax
IT	Information technology
LIBOR	London Interbank Offered Rate
NF-e	Electronic tax invoice
PMAE	State Administration Modernization Program
PROFISCO	National Fiscal Administration Program for the Brazilian States
R\$	Brazilian reais
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National Network to Simplify the Registration and Legalization of Firms and Businesses]
SEFAZ/AP	Finance Department of the State of Amapá
SEPA	Procurement Plan Execution System
SIPLAG	Integrated Planning, Budget, and Management System
SPED	Sistema público de escrituração digital [Digital Public Accounting System]
UCEPE	Special Project Coordination and Execution Unit
UNDP	United Nations Development Programme

## PROJECT SUMMARY

### BRAZIL

#### PROGRAM TO MODERNIZE FISCAL ADMINISTRATION IN AMAPÁ (PROFISCO/AP – BR-L1242)

Financial Terms and Conditions				
Borrower: State of Amapá Guarantor: Federative Republic of Brazil Executing agency: State of Amapá, though the State Finance Department (SEFAZ/AP)			<b>Flexible Financing Facility (FFF)*</b>	
			Amortization period:	25 years
			Original weighted average life:	15.25 years
			Grace period:	5.5 years
<b>Source</b>	<b>Amount</b>	<b>%</b>	Disbursement period:	5 years
IDB (Ordinary Capital)	US\$7,000,000	90	Inspection and supervision fee:	**
Local	US\$778,000	10	Interest rate:	LIBOR
Total	US\$7,778,000	100	Credit fee:	**
			Currency:	U.S. dollars from the Flexible Financing Facility of the Ordinary Capital
Project at a Glance				
<p><b>Project objective:</b> The objective of the project is to keep the state's finances on a sustainable path and reduce its heavy dependency on federal transfers by (i) boosting the state's own revenues; and (ii) improving its public expenditure management. This project is part of the conditional credit line for investment projects (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO, BR-X1005), which was approved by the Board in November 2008 and amended by Resolution DE-75/13 of 11 July 2013. It is broken down into four components:</p> <ol style="list-style-type: none"> <li><b>Integrated strategic management:</b> (i) improved organization and strategic management; and (ii) national and international interagency cooperation.</li> <li><b>Tax administration and tax dispute resolution procedures:</b> (i) more efficient and effective tax administration; (ii) better management of the Taxpayer Registry and implementation of the Digital Public Accounting System (SPED); and (iii) more efficient and effective tax dispute resolution procedures.</li> <li><b>Financial and asset administration, and internal oversight:</b> (i) more efficient and effective financial management; (ii) more efficient and effective management of materials and properties; and (iii) improved internal oversight and audit mechanisms.</li> <li><b>Management of strategic resources:</b> (i) enhancement of mechanisms for transparency and communication with the public; (ii) management modernization and upgrading of information and communication technology services; (iii) improved human resources management; and (iv) improved knowledge management.</li> </ol>				
<p><b>Special contractual condition precedent to the first disbursement:</b> The borrower will present evidence that the program's Operating Regulations are in force, under the terms set by the Bank (paragraph 3.4).</p>				
<p><b>Exceptions to Bank policies:</b> The borrower requests the use of national legislation for procurement, as was done in previous individual operations under this credit line, and consistent with the PROFISCO CCLIP framework document (paragraph 2.2).</p>				
<p><b>Project qualifies as:</b> N/A.      SEQ [ ]      PTI [ ]      Sector [ ]      Geographic [ ]      Headcount [ ]</p>				
<p><b>Project is consistent with country strategy:</b> Yes [ X ] No [ ]</p>				

\* Under 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.

\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, challenges, and rationale

- 1.1 This project is part of the conditional credit line for investment projects (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO, BR-X1005), which was approved in 2008. Accordingly, the general objective and the four components of this operation have been previously identified and approved by the Bank and are to be used in the individual operations, pursuant to Resolution DE-132/08 and amended by Resolution DE-75/13 of 11 July 2013.
- 1.2 **Rationale for the PROFISCO CCLIP.** Brazilian states are empowered by law to collect their own taxes: in 2011, these represented around 50% of total current state revenues.<sup>1</sup> States are also responsible, by law, for providing a wide range of public services (water, drainage, security, electric power, etc.), a situation that imposes on them the need to generate the resources to augment the coverage and quality of those services. For example, in 2011, around 5.2 million Brazilians in rural areas (15% of the rural population) lacked water supply, while 3.5 million had no electricity.<sup>2</sup> The difficulties facing the states in boosting their tax revenues and containing public expenditure and indebtedness within a framework of fiscal responsibility constrain their ability to make the investments needed to expand the supply of public services. PROFISCO seeks to strengthen fiscal management in the areas of tax administration, finance, debt, and public investment, so that the states can increase their revenues and make public spending more efficient.
- 1.3 **The macroeconomic context of Brazil.**<sup>3</sup> The macroeconomic picture in Brazil has deteriorated over the last year because of weak growth, inflationary pressures, and problems with the external accounts. At the beginning of the year, the government lowered its growth projections for 2013 and 2014 from 3.3% and 3.7% to 2.2% and 2.5%, respectively. Annual inflation has hovered around 6% and over the medium term is expected to remain above the central bank's target of 4.5%. In the first eight months of 2013, the current account deficit was equivalent to 3.9% of gross domestic product (GDP). Lower economic growth is primarily a reflection of the slowing of domestic consumption due to the high indebtedness levels of households, exchange rate volatility in response to the recovery outlook for the U.S. economy, and the negative impact that the moderation of growth in China has

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<sup>1</sup> Source: Official Fiscal Reports of the National Treasury.

<sup>2</sup> Source: Universalización del acceso y uso de energía eléctrica en Brasil [Establishment of Universal Electric Power Access and Use in Brazil]. Inter-American Institute for Cooperation in Agriculture (IICA) 2011 and World Bank, statistical data 2011.

<sup>3</sup> See Independent Macroeconomic Assessment (IMA).

been having on commodity-producing countries.<sup>4</sup> Although macroeconomic risks have intensified, they are still at manageable levels.<sup>5</sup>

- 1.4 **The socioeconomic context of Amapá.** The State of Amapá is located in the northern part of the country and covers an area of 142,814,585 km<sup>2</sup>. It contains 16 municípios and has a population of approximately 698,602, with 89.8% living in urban areas and 10.2% in rural areas. In 2012, the state accounted for 0.2% of national GDP,<sup>6</sup> placing it in 26th position out of the 27 federative units in this respect. In per capita GDP terms the state ranked 16th at R\$13,817.<sup>7</sup> The state economy is based on the services sector (86.8%), followed by industry (10%) and agriculture (3.2%). Because it is a new federative unit, nearly 50% of the state economy is linked to the public sector, which explains the high share of services in the state's economy.<sup>8</sup>
- 1.5 Amapá has many shortfalls in public services.<sup>9</sup> The Human Development Index (HDI) is 0.708 (ranking it 12th in the country).<sup>10</sup> According to the 2010 demographic census (IBGE), 18.7% of the state population is extremely poor. As well, Amapá has seen the least reduction in this indicator of any state over the last decade.<sup>11</sup>
- 1.6 **The fiscal context of Amapá.** Current revenues in 2012 amounted to 42.6% of state GDP, up by 2.6 percentage points from the previous year.<sup>12</sup> Tax revenues are 8.7% of GDP, below the average for the northern region and the country as a whole.<sup>13</sup> Current spending in 2012 represented 30.4% of state GDP, an increase of four percentage points over the previous year. These outcomes reflect the policy to raise the salaries of state employees.<sup>14</sup>

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<sup>4</sup> As a result, the real-dollar exchange rate has depreciated by more than 15% since May 2013, and this will in future help to rebalance the components of growth, with preference to exports over domestic consumption.

<sup>5</sup> The public debt remains at sustainable levels, in line with the base-case scenario. The high level of international reserves offers backing for the central bank to dampen volatility in the exchange rate and thereby avoid external shocks.

<sup>6</sup> In 2012, the state's GDP was estimated at R\$9.653 billion (data from the Brazilian Institute of Geography and Statistics-IBGE).

<sup>7</sup> Equivalent to approximately US\$6,007.

<sup>8</sup> National Accounts No. 38, 2010 Research Department, National Accounts Coordination Office, IBGE.

<sup>9</sup> Department of Planning, Budget and Treasury of Amapá: Socioeconomic indicators for the state of Amapá 2009-2010. <http://www.seplan.ap.gov.br>.

<sup>10</sup> Human Development Atlas in Brazil 2013. <http://www.pnud.org.br>.

<sup>11</sup> Technical Study 20/2012. Poverty and Extreme Poverty Trends: Inter-Census Comparison 2000–2010. <http://www.mds.gov.br/sagi>.

<sup>12</sup> Between 2011 and 2012, current incomes rose by 14.6% in nominal terms, from R\$3.5 billion to R\$4.1 billion.

<sup>13</sup> In 2011, the average for the northern region was 40.6%, and 53% for Brazil. Source: IBGE (2012).

<sup>14</sup> Staff compensation policy calls for an annual increase in wages based on the minimum correction to the inflation index.

- 1.7 The state of Amapá is heavily dependent on transfers from the federal government, which account for 28.8% of state GDP, or more than 60% of total state revenues. In terms of tax revenues, the most important source is the goods and services sales tax (ICMS),<sup>15</sup> which in 2012 yielded R\$640 million (80.7% of tax revenues). Given these indicators, the state needs to reduce its dependency on federal transfers in order to consolidate its public finances and, in turn, to boost public investment for addressing the state's severe social shortcomings and its deficit in public services.<sup>16</sup>
- 1.8 Table 1.1 summarizes some of the main fiscal indicators:

**Table 1.1**  
**Performance of the public finances of the state of Amapá (% GDP)**

Description/year	2004	2008	2009	2010	2011	2012
<b>Revenues</b>						
1. Current revenues	31.35	29.09	27.91	30.81	37.09	42.61
1.1 Taxes	4.73	4.66	4.88	5.77	6.45	8.74
1.2 Transfers	24.42	21.77	20.70	23.09	27.59	28.82
1.3 Other current revenues	2.19	2.65	2.34	1.95	3.05	5.05
2. Capital receipts	1.97	0.09	1.47	0.22	0.96	5.29
3. Intra-budgetary revenues	0.00	0.00	0.72	0.42	1.69	0.94
4. Capital shortfall	0.00	3.46	1.57	2.78	3.12	2.76
5. FUNDEB deductions-Education	0.00	3.58	3.90	4.26	5.68	5.86
Total liquid revenues	33.32	29.05	27.77	29.96	37.18	45.74
<b>Expenditures</b>						
1. Current expenditures	24.83	29.36	27.47	27.53	26.81	30.38
1.1 Payroll	14.37	17.23	15.72	16.21	16.22	19.04
1.2 Interest and debt charges	0.25	0.10	0.15	0.26	0.29	0.26
1.3 Other current expenditures	10.22	12.02	11.60	11.06	10.30	11.08
2. Capital expenditure	8.19	4.66	4.26	3.81	3.52	3.26
2.1 Investments	7.73	0.19	3.52	2.90	3.53	2.84
2.2 Debt amortization	0.46	0.39	0.41	0.47	1.24	0.40
3. Intra-budgetary expenditures	0.00	0.00	0.94	0.51	1.01	1.22
Total expenditures	33.03	34.02	32.66	31.85	31.35	34.86
<b>Real GDP growth (%)</b>	<b>3.11</b>	<b>5.08</b>	<b>4.32</b>	<b>4.52</b>	<b>1.14</b>	<b>1.44</b>
<b>Inflation</b>	<b>7.60</b>	<b>5.90</b>	<b>4.31</b>	<b>5.91</b>	<b>6.50</b>	<b>5.84</b>

Source: Simplified balance sheet, State Revenue Department (SRE-AP).

<sup>15</sup> The ICMS is a value added tax, with multiple rates both for internal transactions within each state and for inter-state trade.

<sup>16</sup> The literature on fiscal decentralization stresses that lowering dependence on federal transfers not only reduces fiscal vulnerability but also improves the link between local public services and the cost of providing them. This better linkage is associated with greater incentives to improve the delivery of local services. For a review of the literature, see Connerley, Eaton and Smoke (2010), Bird (2011), Eaton, Kaiser, and Smoke (2011).



- 1.9 **Institutional considerations.** The two institutions responsible for fiscal management in the State of Amapá are: (i) the State Finance Department (SEFAZ/AP), which is responsible for formulating and implementing taxation, financial, and accounting policy, collecting taxes, audits, forecasting state revenues, and financial control, and (ii) the Office of the State Attorney General (PGE/AP), which handles judicial proceedings.
- 1.10 **Human resources.** SEFAZ/AP has a permanent staff of 258, including officials contracted by the state and others carried over from the former Federal Territory of Amapá.
- 1.11 **Recent progress.** In the last five years, the State of Amapá has made a number of efforts to modernize fiscal management, including:
- a. **Tax administration:** (i) implementation of strategic planning for the state government (2003-2007); (ii) institutionalization of the tax education program developed in partnership with the State Education Department; (iii) the launch of postgraduate training courses for revenue administration employees; (iv) organizational restructuring of SEFAZ/AP; (v) modernization of technological infrastructure and the Integrated Tax Administration System (SIAT); (vi) updating of the taxpayer register for the goods and services sales tax (ICMS) and the motor vehicle ownership tax (IPVA); (vii) creation of a fiscal intelligence office; (viii) modernization of dispute resolution procedures in the administrative tribunals and the Fiscal Prosecutor's Office; (ix) creation of offices to coordinate technology and service to the public; and (x) opening of two new tax posts.
  - b. **Financial and asset administration and internal oversight:** (i) modernization of the Integrated Financial and Budget Administration System; and (ii) organizational restructuring of SEFAZ/AP.
- 1.12 **Challenges.**<sup>17</sup> The principal challenge addressed by this operation is to make state finances sustainable and reduce their heavy dependence on federal transfers. The direct causes associated with this challenge are the difficulty of boosting tax collection, while keeping public spending on a steady path.<sup>18</sup> The factors that contribute indirectly to this problem are identified under four thematic areas:
- 1.13 **Integrated strategic management.** Planning within SEFAZ/AP is unsatisfactory, as there are no results-oriented procedures or adequate methodologies for estimating expenditures and revenues.<sup>19</sup> Moreover, all the technical areas of SEFAZ/AP are working with operational processes that are obsolete in terms of

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<sup>17</sup> These challenges are apparent in the institutional macro-diagnosis performed by the Bank, found in the optional annex to this document.

<sup>18</sup> For further information, see the Matrix of Problems, Solutions, and Outcomes.

<sup>19</sup> A difference of 20% between budgeted and actual expenditure.

international best practices,<sup>20</sup> while there is virtually no cooperation or sharing of new fiscal management activities and tools with other national or international entities.<sup>21</sup>

- 1.14 **Tax administration and tax dispute resolution procedures.** Revenue collection is unsatisfactory,<sup>22</sup> primarily because of the difficulty in accessing legal tax information for the daily work of SEFAZ/AP,<sup>23</sup> and problems in analyzing economic and tax information under the various tax benefit regimes.<sup>24</sup> There is also a substantial time lag between physical collection of taxes and their recording in the SEFAZ/AP systems,<sup>25</sup> and rates of recovery of taxpayer debts through administrative channels are low.<sup>26</sup> Moreover, border posts are not effective in controlling merchandise flowing into and out of the state,<sup>27</sup> while ex post audits of businesses are slow<sup>28</sup> and do not have consolidated information from various sources as required for this task.<sup>29</sup> Lastly, there is a problem with integrating taxpayer information at the three levels of government,<sup>30</sup> and there is a large backlog of taxpayer debts pending settlement through the courts (outstanding debt).<sup>31</sup>
- 1.15 **Financial and asset administration and internal oversight.** There are problems in the management of public expenditure, caused by lack of tools for managing and supervising the quality of expenditure<sup>32</sup> and inadequate control over the stocks and

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<sup>20</sup> Despite the restructuring in October 2013, with the transformation of the Revenue Department into SEFAZ/AP, the processes were never reviewed from the ground up.

<sup>21</sup> In 2012 SEFAZ/AP took part in only two experience sharing events, while the average for Brazil was eight. None of the nearly 100 lessons learned, posted on the COGEF portal, was acted upon.

<sup>22</sup> In 2012, tax revenues were 8.7% of GDP, while transfers from the federal government were 28.8% of GDP.

<sup>23</sup> The average time for collecting information to prepare a tax opinion is 10 days, whereas this should be done in real time.

<sup>24</sup> In 2012, tax expenditures on benefits were R\$38 million, 4.5% of tax revenues, while the average for the northern region was 3%.

<sup>25</sup> The time elapsing between receipt of the tax payment and its recording of the system is 48 hours, whereas this should be done in real time.

<sup>26</sup> In 2012, the balance of arrears was R\$39 million, or 4.6% of tax revenues.

<sup>27</sup> A vehicle spends four days in the inspection process. Nearly all vehicles are inspected, because there is no system for selective inspection based on risk analysis and cross checking of information.

<sup>28</sup> To complete an audit takes an average of 120 days, whereas the ideal would be 60 days.

<sup>29</sup> There is no data warehouse or any system for cross checking information in support of audit and supervision.

<sup>30</sup> Only 50% of state enterprises (1,500) are using tools of the Digital Public Accounting System, which include the electronic tax invoice (NF-e), an instrument that combines information at three levels (see Financial Evaluation).

<sup>31</sup> In 2012 the balance of outstanding debt was R\$9.29 million.

<sup>32</sup> There is no system for managing public sector costs.

assets of SEFAZ/AP.<sup>33</sup> The level of security in the storage and recovery of information is low,<sup>34</sup> and there are no internal oversight mechanisms.<sup>35</sup>

- 1.16 **Management of strategic resources.** The level of customer service is unsatisfactory, because the state system of taxpayer education is ineffective,<sup>36</sup> and taxpayer service arrangements<sup>37</sup> in the capital city and in the municípios are inefficient. In addition, management tools and technological infrastructure are obsolete<sup>38</sup> and pose security problems.<sup>39</sup> Finally, SEFAZ/AP has no instruments to evaluate, develop and monitor systematically the actions taken by its employees, and so there is no sharing of experience and knowledge acquired by technical staff.<sup>40</sup>

## **B. Bank strategy with the country and the sector**

- 1.17 The areas of intervention given priority by the program are aligned with the strategic objectives of the Bank's country strategy with Brazil (document GN-2662-1), which emphasize: (i) promoting sustainable fiscal balance at the subnational level; (ii) improving the efficiency and quality of public expenditure; and (iii) improving initiatives on transparency and dialogue with society. Within this strategy, in the fiscal sphere, the Bank proposes to support efforts at the subnational government level to: (i) reduce institutional disparities between Brazilian tax administrations, by improving and harmonizing the qualitative performance standards, procedures, and criteria adopted; (ii) promote cooperation and integration among finance administrations at the three levels of government; (iii) promote sustainable fiscal balance at the subnational level; and (iv) improve tax education and citizenship programs, as well as transparency initiatives and dialogue with society. The program also supports the targets of the Ninth General Increase in the Resources of the Bank (GCI-9) (document AB-2764), in that it will help to: (i) improve the ratio between actual and potential tax collection by strengthening the state's tax systems; and (ii) improve management of public spending by decentralized levels of government.
- 1.18 This project is part of an ongoing process through which the Bank is supporting the modernization of fiscal management in the states of Brazil. It includes such programs as: (i) Modernization of the Federal Revenue Secretariat (loan 888/OC-BR); (ii) National Fiscal Administration Program for Brazilian States

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<sup>33</sup> To requisition materials from inventory takes at least four days, whereas the ideal would be one day.

<sup>34</sup> It takes an average of five days to retrieve an irregularity notification, whereas this should be done in real time.

<sup>35</sup> The eight units of SEFAZ/AP have never been subjected to an internal audit.

<sup>36</sup> The taxpayer satisfaction survey conducted by SEFAZ/AP yielded an approval rating of 60%.

<sup>37</sup> There is no automated call center.

<sup>38</sup> In the month of December 2012 alone, the system was down for 360 hours.

<sup>39</sup> There are no backup (mirror) servers for running programs and databases.

<sup>40</sup> In 2012, an employee survey found a satisfaction rate of only 45%.

(loan 980/OC-BR); (iii) National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (loan 1194/OC-BR); and (iv) programs to strengthen the fiscal administration of the states of São Paulo (loan 1543/OC-BR) and Bahia (loan 1727/OC-BR). These experiences have generated considerable synergy on fiscal issues, as well as important experience and lessons learned. PROFISCO is based on this experience, which has been validated by the expressed interest of the states in working with the Bank to strengthen their fiscal management. In the case of Amapá, the authorities recognize that there are areas for improvement in their management, and they have opted to work with the Bank through PROFISCO, giving it their full commitment and priority. The project will be coordinated through SEFAZ/AP, which has a team of permanent technical staff.

### **C. Objective, components, and costs**

- 1.19 **Objective.** The objective of the project is to keep the state's finances on a sustainable path and reduce its heavy dependency on federal transfers, by boosting the state's own revenues and improving its public expenditure management.<sup>41</sup>
- 1.20 The program will benefit: (i) the state government of Amapá, by increasing the resources available for implementing its public policies; (ii) the state's taxpayers, by introducing a more equitable manner of collecting taxes; and (iii) the state's population in general, by improving services and infrastructure in areas that are key to economic development. The project will finance the following components:
- 1.21 **Component I. Integrated strategic management (US\$1.3 million).** This component will include the following subcomponents and their respective outputs:
- a. **Improved organization and strategic management.** This subcomponent will finance: (i) restructuring of the strategic planning process at SEFAZ/AP; (ii) implementation of an econometric and statistical methodology for forecasting revenues and measuring tax evasion; and (iii) redesign of organizational processes in the eight units of SEFAZ/AP and in the Fiscal Prosecutor's Office.
  - b. **National and international interagency cooperation.** This subcomponent will finance a program for participation in and dissemination of information supplied in national forums of the Brazilian tax administration.
- 1.22 **Component II. Tax administration and tax dispute resolution procedures (US\$2.7 million).** This component will include the following subcomponents and their respective outputs:
- a. **More efficient and effective tax administration.** This subcomponent will finance: (i) updating, consolidation, and dissemination of state tax legislation;

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<sup>41</sup> Tax Reform in Brazil – IDB 2003; The Political Economy of Fiscal Reform in Brazil–IDB 2010; and Structural Reforms in Brazil – IDB. These studies were used as the basis for consultation to identify solutions to existing problems.

(ii) introduction of controls over the granting of special tax regimes, incentives, and benefits; (iii) creation of a library for SEFAZ/AP; (iv) development and implementation of oversight and analysis of reconciliation and monitoring of public revenues; (v) development and implementation of control over claims recovery; (vi) physical and technological restructuring of border tax stations, including development and implementation of control over the interstate and inter-municipal movement of goods; and (vii) monitoring of audit processes.

- b. **Better management of the Taxpayer Registry and implementation of the Digital Public Accounting System (SPED).**<sup>42</sup> This subcomponent will finance further implementation of the National Network to Simplify the Registration and Legalization of Firms and Businesses (REDESIM) and the SPED (electronic tax invoice, digital tax registry and digital accounting registry).
  - c. **More efficient and effective tax dispute resolution procedures.** This subcomponent will finance implementation of a tax litigation management module, as well as improvements to the technological infrastructure of the Fiscal Prosecutor's Office.
- 1.23 **Component III. Financial and properties administration and internal oversight (US\$600,000).** This component will include the following subcomponents and their respective outputs:
- a. **More efficient and effective financial management.** This subcomponent will finance implementation of a cost management system.
  - b. **More efficient and effective management of materials and properties.** This subcomponent will finance implementation of systems for: (i) materials and properties management; and (ii) document and archive management.
  - c. **Improved internal audit and oversight.** This subcomponent will finance implementation of internal oversight procedures at SEFAZ/AP.
- 1.24 **Component IV. Management of strategic resources (US\$2.978 million).** This component will include the following subcomponents and their respective outputs:
- a. **Enhanced mechanisms for transparency and communication with the public.** This subcomponent will finance improvement of: (i) the state's tax education program; (ii) remote service procedures at SEFAZ/AP (via the Internet and a call center); and (iii) taxpayer service procedures for SEFAZ/AP offices in the municipalities.
  - b. **Management modernization and upgrading of information and communication technology services.** This subcomponent will finance

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<sup>42</sup> This component is financed by the PMAE/BNDES program, as part of the local contribution.

implementation of: (i) a master plan for information technology at SEFAZ/AP; and (ii) data security tools.

- c. **Improved human resources management.** This subcomponent will finance implementation of: (i) a human resources management program, with a profiles and skills map for SEFAZ/AP staff; and (ii) procedures for monitoring staff work in SEFAZ/AP.
  - d. **Improved knowledge management.** This subcomponent will finance implementation of knowledge management tools with a view to improving the sharing of experience and management tools developed among the state tax administrations of Brazil.
- 1.25 **Overall budget.** The total value of the project is US\$7,778,000, of which US\$7 million (90%) will be financed by the Bank and US\$778,000 (10%) from the counterpart contribution of the state, as detailed in Table 1.2.

**Table 1.2**  
**Overall budget for BR-L1242 – by source (in US\$000)**

Categories	IDB	Local	Total	%
<b>1. Program administration</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>1.28%</b>
1.1 Monitoring, evaluation, and audit	100	0	100	
<b>2. Direct costs</b>	<b>6,800</b>	<b>778</b>	<b>7,578</b>	<b>97.44%</b>
2.1 Integrated strategic management	1,300	0	1,300	
2.2 Tax administration and tax dispute resolution	2,300	400	2,700	
2.3 Financial and asset management and internal oversight	600	0	600	
2.4 Management of strategic resources	2,600	378	2,978	
<b>3. Unallocated</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>1.28%</b>
<b>Total</b>	<b>7,000</b>	<b>778</b>	<b>7,778</b>	<b>100.00%</b>
<b>Percentages</b>	<b>90%</b>	<b>10%</b>	<b>100%</b>	

- 1.26 **Disbursement schedule.** Disbursements will be made over a five-year period, running from the effective date of the loan contract, as shown in Table 1.3.

**Table 1.3**  
**Disbursement schedule (in US\$000)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	1,020	2,040	2,300	1,120	0,520	7,000	90
Local	500	200	70	8	-	778	10
<b>Total</b>	<b>1,520</b>	<b>2,240</b>	<b>2,370</b>	<b>1,128</b>	<b>520</b>	<b>7,778</b>	<b>100</b>
Percentage	19.5%	29%	30.5%	14.5%	6.5%	100%	

- 1.27 **Financial analysis.** The project team conducted an ex ante financial evaluation involving a comparative analysis of the incremental financial costs and benefits associated with implementing the electronic tax invoice. The assumptions used were: (i) a 10-year horizon; and (ii) a 12.5% annual discount rate.
- 1.28 The financial assessment of the project resulted in an internal rate of return of 39%, and a cumulative benefit of US\$5.2 million over 10 years (to 2023), calculated at 2014 present values, a finding that justifies financing by the Bank. It should be noted that the financial benefit was quantified for only one of the many activities financed by the program, which could make the outcomes from the financial assessment even more robust. In light of this analysis, it is recommended that the Bank provide financing for the Program to Modernize Fiscal Administration in Amapá (PROFISCO, BR-L1242).

**D. Key indicators in the results framework**

- 1.29 The principal outcomes expected from the project by 2018 are: (i) an increase in ICMS receipts from R\$640 million in 2012 to R\$700 million in 2018; (ii) a reduction in the time needed to prepare the tax opinion on the tax audit reports, from 10 days in 2012 to one day in 2018; (iii) an increase in the number of firms using the electronic tax invoice (NF-e), from 1,500 in 2012 to 2,600 in 2018; (iv) a reduction in the balance of outstanding tax debts from R\$9.2 million in 2012 to R\$8 million in 2018; (v) a reduction in the time for retrieval of irregularity notifications from five days in 2012 to real time in 2018; (vi) reduction in the number of face-to-face consultations with taxpayers from 19,000 in 2012 to 9,500 in 2018; and (vii) an increase in staff satisfaction levels at SEFAZ/AP.
- 1.30 **Impacts.** Reduce the state's dependency on federal transfers from the current level of 28.8% of GDP to 26% in 2018.

## **II. FINANCING STRUCTURE AND PRINCIPAL RISKS**

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

- 2.1 **Fiduciary context of the country.** Brazil has a sound and transparent legal and institutional framework, with robust country fiduciary systems enabling good governance of administrative, financial, control and procurement processes in accordance with the principles of transparency, economy, and efficiency. Thus, the Bank's fiduciary strategy with Brazil is geared to the progressive and sustainable use of country fiduciary systems (see Annex III).
- 2.2 **National legislation.** The framework document for PROFISCO (BR-X1005) requested that the borrower be allowed to use national legislation in the case of works for amounts under US\$25 million per contract, and in the case of goods and nonconsulting services for amounts under US\$5 million per contract, in line with the Bank's procurement policies (document GN-2349-9, April 2011). The borrower will indicate in the procurement plan whether it has opted to apply Brazilian national legislation. Works, goods, and nonconsulting services for amounts equal to

or less than those indicated in this paragraph will be procured in accordance with document GN-2349-9.

- 2.3 The Bank may recognize financing of the following procurement procedures for off-the-shelf goods and services, as stipulated in federal legislation: (i) online auction, using the state's electronic procurement system or the bidding system of Banco do Brasil for off-the-shelf goods and services, where the estimated cost is US\$5 million or less; (ii) price registry entries for the procurement of off-the-shelf goods and services where the estimated cost is US\$5 million or less, and where the Bank has not previously objected to such an entry; and (iii) live auction, for procurement of off-the-shelf goods and services where the estimated cost is US\$100,000 or less. During the execution period, the Bank may at any time delete the use of one or more of the procedures described in this paragraph.
- 2.4 **Bank reviews.** The project team analyzed the executing agency's capacity to administer procurement. As a result it was decided that, during the first 18 months of the project, all procurement processes, regardless of their amounts, would be subject to prior review by the Bank. After that time the Bank may, at its option, review in advance only those processes that involve direct contracting, the contracting of consulting firms whose fees exceed US\$250,000, the contracting of individual consultants whose fees exceed US\$200,000, the procurement of goods and nonconsulting services in excess of US\$5 million, and the contracting of works exceeding US\$25 million.
- 2.5 **Selection and contracting of consulting services.** The selection and contracting of consulting services, in the context of the project, that are financed in whole or in part from the loan proceeds will be conducted in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Bank (document GN-2350-9, April 2011).
- 2.6 **Direct contracting.** The borrower may directly contract the School of Public Finance Administration (ESAF) of the Ministry of Finance of the Federative Republic of Brazil to provide training services to state civil servants. The direct contracting of ESAF is justified in this case, given the specific features and nature of the services it provides (training and knowledge management), which will contribute to the sustainability of the projects, to the sharing of knowledge and experience and, above all, to continuing the supply of those services and products once the project is concluded.
- 2.7 The review of procurement processes will be as presented in the procurement plan.

**B. Environmental and social safeguard risks**

- 2.8 According to the criteria of the Bank's Environment and Safeguards Compliance Policy (Directive B.13, OP-703), the project does not require classification. As the project involves the institutional modernization of a revenue department, no adverse environmental or social impacts are foreseen.



## C. Risks

- 2.9 **Development risk.** There is a high risk of delays in implementing the outputs of the project, because of the lack of training on the part of the components' leaders and the lack of experience in preparing terms of reference. This risk will be mitigated through: (i) training for the output leaders and Special Project Coordination and Execution Unit (UCEPE) in project management; and (ii) establishment of an in-house team for preparing terms of reference.
- 2.10 **Sustainability risk.** There is a moderate risk that technical staff of SEFAZ/AP will not have the capacity to monitor the development and implementation of IT management activities, or to maintain the reforms once the program is concluded. This risk will be mitigated through training for the IT management staff.
- 2.11 **Monitoring and accountability.** There is a medium risk that the executing agency will not have the experience required by the Bank in terms of accountability and reporting. This risk will be mitigated through the use of a monitoring and accountability tool developed by the PROFISCO team in Excel, designed to facilitate the monitoring and reporting required by the Bank.
- 2.12 **Fiduciary risks.** There is a medium risk that the UCEPE will not have the capacity to conduct project procurements. This risk will be mitigated by establishing a committee to prepare and monitor procurement, comprising the UCEPE, the Permanent Bidding Committee of SEFAZ/AP and the State Bidding Office.
- 2.13 **Macroeconomic risk.** There is only a low risk that Brazil's economic situation will worsen and that the state will become even more dependent on transfers from the federal government; consequently, no mitigation actions are required. Despite the recent performance of the Brazilian economy, the public debt remains at sustainable levels. The high level of international reserves offers backing for the central bank to dampen volatility in the exchange rate and thus avoid external shocks.

## III. IMPLEMENTATION AND MANAGEMENT PLAN

### A. Execution mechanism

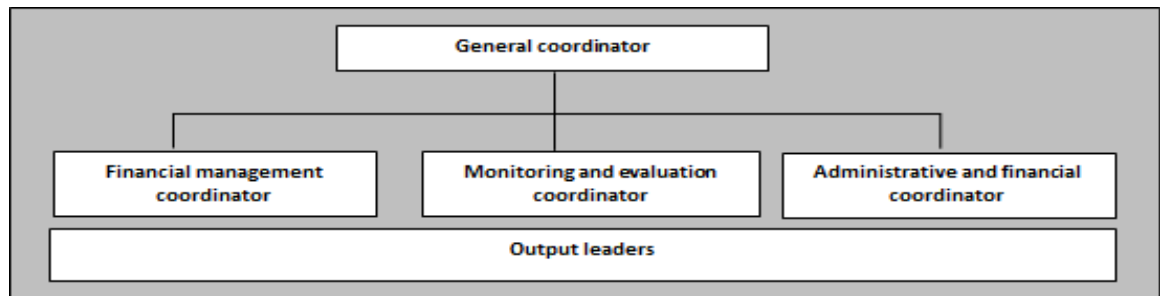
- 3.1 The borrower will be the State of Amapá, with the Federative Republic of Brazil as guarantor of the financial obligations under the loan. The executing agency will be the State of Amapá, through its Finance Department (SEFAZ/AP).
- 3.2 The UCEPE,<sup>43</sup> created within the Office of the State Secretary of Finance, will be responsible for executing the project. It will comprise the area coordinators and a general coordinator, who will set priorities and guidelines and handle strategic monitoring of the program. Procurement will be conducted by the Permanent Bidding Committee of SEFAZ/AP.

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<sup>43</sup> The UCEPE is referred to as the "project management unit" in state legislation. The borrower will keep the UCEPE in place and will appoint its members for the entire project execution period.

- 3.3 The UCEPE will be staffed by employees of the State of Amapá and will have: (i) a general coordinator; (ii) a technical coordinator for financial management; (iii) a monitoring and evaluation technical coordinator; and (iv) an administrative and financial coordinator. To round out this structure, leaders for specific outputs will be appointed from among employees of the areas included in the program.

**Figure 3.1**  
**General structure of the UCEPE**



- 3.4 **Program Operating Regulations.** The project will be governed by Operating Regulations previously approved by the Bank as part of the PROFISCO CCLIP. The Operating Regulations include eligibility criteria for the borrower, the project, and the outputs eligible for financing. **As a special condition precedent to the first disbursement, the borrower will present evidence that the Operating Regulations are in effect, under terms established by the Bank.**
- B. Summary of arrangements for monitoring results**
- 3.5 Project monitoring will be based on the programming of activities, on the physical and financial outputs contained in the annual work plan (AWP), and on the procurement and contract descriptions contained in the procurement plan.
- 3.6 **Evaluation.** The project will be evaluated using the reflexive evaluation methodology for measuring progress in comparison to the pre-project situation. The Monitoring and Evaluation Plan ([required link 2](#)) contains the details of the proposed arrangements. A specific budget has been earmarked for these activities (see table of costs), which will be carried out by the UCEPE, with the support of a specialized consultancy.
- 3.7 The project will be evaluated in relation to the targets, frame of reference, and the respective annual outcome and output indicators included in the results framework, which provides two levels of indicators related to the annual targets and the respective frame of reference. At the output level, the results framework defines a frame of reference, a target and its respective annual stages. The outputs will be evaluated periodically as described in the [Results Matrix](#).
- 3.8 The borrower will present semiannual progress reports to the Bank, with a copy to the Executive Secretariat of Brazil's Ministry of Finance. Those reports will include

information on the implementation status of national integration activities, whatever their source of financing, namely REDISIM and SPED, comprising the electronic tax invoice (NF-e), Digital Accounting Registry (RCD), and Digital Tax Registry (RFD).

- 3.9 **Procurement Plan Execution System (SEPA), AWP, and procurement plan for the first 18 months.** The borrower has presented, and the Bank has validated, the SEPA for the entire execution period of the project, as well as a draft AWP for the first 18 months from signature of the loan contract. The borrower has also presented, and the Bank has validated, the procurement plan for the first 18 months of project execution.
- 3.10 **Audited financial statements.** The borrower will present annual financial statements for the project to the Bank within 120 days after the close of each fiscal year, duly audited by an independent auditor accredited by the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals	i) Ratio of actual to potencial tax revenue, and ii) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Public financial systems implemented or upgraded, and ii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	i) Reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government, ii) Promote sustainable fiscal balance at the subnational level, and iii) Improve tax education and citizenship programs and initiatives on transparency and dialogue with society.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.2		10
3. Evidence-based Assessment & Solution	6.9	33.33%	10
4. Ex ante Economic Analysis	8.5	33.33%	10
5. Monitoring and Evaluation	6.4	33.33%	10
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	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, and Accounting and Reporting. Procurement: National public bidding (use of some national sub-system).	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes 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			
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			

Like many other states of Brazil, the state of Amapá has a challenge associated with the sustainability and vulnerability in its finances, which are linked with their reliance on federal transfers. The direct causes are connected with the difficulty of increasing tax revenue and the limited controls of property assets and contingent liabilities. The proposal provides adequate empirical evidence for these problems. The proposed solution is connected with the outlined problems and evidence is presented of the impact of this type of intervention in other states of the Federation.

The results matrix has vertical logic and presents impact, outcomes and product level indicators. Nevertheless not all of them are SMART. It is expected that at the end of the implementation period the project will contribute to the maintenance of the goals established by the Fiscal Adjustment Program (FAP) and reduce the dependence on federal transfers from 28.8% to 26% of the GDP by increasing revenues, reducing tax evasion, quantifying and valuing state investments in public companies, improving the availability of information systems and better compliance planning goals.

The document contains an economic analysis that is based on expected revenue increases as a result of the introduction of the Fiscal Electronic Note. The analysis is a financial analysis from the perspective of the State Government.

The monitoring and evaluation plan includes an ex-post cost-benefit and a before-after analysis.

## RESULTS MATRIX

The project objective is to keep the state's finances on a sustainable path and reduce its heavy dependency on federal transfers by (i) boosting the state's own revenues; and (ii) improving its public expenditure management.

### EXPECTED IMPACTS

Impact indicator	Unit of measure	Baseline 2012	Final target 2018	Source/means of verification	Observations
<b>Expected impact 1: Reduced dependency on federal transfers</b>					
Transfers/GDP	%	28.8	26	State Balance Sheet issued by the Finance Department of the State of Amapá (SEFAZ/AP)	2012: Transfers= R\$2.8 billion GDP = 9.6 billion

### EXPECTED OUTCOMES

Outcome indicator	Unit of measure	Baseline 2012	Intermediate target	Final target 2018	Source/means of verification	Observations
<b>Expected outcome 1: Higher yield from the ICMS (goods and services sales tax)</b>						
ICMS receipts (real values)	R\$ millions	640	692 (2015)	700	State Balance Sheet issued by SEFAZ/AP	2012- R\$681 million in nominal values
<b>Expected outcome 2: Reduction in the time needed to collect the information to prepare tax opinions on tax audit reports</b>						
Preparation time	Days	10		1	Management report issued by the assessment coordination office of SEFAZ/AP	
<b>Expected outcome 3: Increase in the number of firms using the electronic text invoice (NF-e)</b>						
Firms using the NF-e	Number	1,500	2,300	2,600	State register control report issued by the collection coordination office of SEFAZ/AP	
<b>Expected outcome 4: Reduction in the balance of outstanding tax debts</b>						
Outstanding tax claims	R\$ millions	9.2	8.5	8	Report of the tax debt recovery oversight system issued by the Prosecutor's Office	

Outcome indicator	Unit of measure	Baseline 2012	Intermediate target	Final target 2018	Source/means of verification	Observations
<b>Expected outcome 5: Reduction in the time needed to retrieve an irregularity notification</b>						
Retrieval time	Days	5		Real-time	Management report issued by the inspection coordination office of SEFAZ/AP	
<b>Expected outcome 6: Fewer face-to-face consultations with taxpayers</b>						
Face-to-face consultations	Number	19,000	12,000	9,500	Report of the taxpayer service coordination office of SEFAZ/AP	
<b>Expected outcome 7: Higher degree of satisfaction among SEFAZ/AP employees</b>						
Degree of satisfaction	%	45	55	80	Report of the institutional development advisor of SEFAZ/AP	

#### OUTPUTS

Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification	Observations
<b>Component 1: Integrated strategic management</b>										
1. Strategic plan implemented	Strategic plan	0			1			1	Reports of the institutional development advisor of SEFAZ/AP	
2. Methodology introduced for estimating potential revenues	Methodology	0			1			1	Report issued by the economic and fiscal studies area	
3. Organizational processes introduced in the 8 areas of SEFAZ/AP and the Fiscal Prosecutor's Office (outstanding debts).	Areas	0	1	1	2	2	2	8	Reports of the institutional development advisor of SEFAZ/AP	SEFAZ/AP areas: administration, inspection, assessment, collection, registry, disputes, taxpayer service, and audit.

Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification	Observations
4. Program introduced for managing information and experience from other national and international tax administrations.	Program	0				1			Reports of the institutional development advisor of SEFAZ/AP	
<b>Component II: Tax administration and dispute settlement procedures</b>										
1. State tax legislation updated by area	Tax areas	0		2	2	2	2	8	Management report of the legal advisor of SEFAZ/AP	SEFAZ/AP areas: administration, inspection, assessment, collection, registry, disputes, taxpayer service, and audit.
2. SEFAZ/AP library created	Library	0		1				1	Reports of the institutional development advisor of SEFAZ/AP	
3. Module to control the granting of special regimes, incentives and tax benefits	Module	0					1	1	Report on tax benefits granted, issued by the collection coordination office of SEFAZ/AP	
4. Module introduced to control and analyze reconciliation and monitoring of public revenues	Module	0					1	1	Report on revenue reconciliation and monitoring issued by the collection coordination office of SEFAZ/AP	
5. Module introduced to control recovery of tax claims	Module	0					1	1	Tax claims report issued by the collection coordination office of SEFAZ/AP	

Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification	Observations
6. Module introduced for monitoring audit processes	Module	0					1	1	Report on audit processes issued by the inspection coordination office of SEFAZ/AP	
7. Border tax posts restructured with physical and technological infrastructure	Border posts	0		1	1	1		3	Management report of the inspection coordination office	
8. Instruments introduced to manage the public digital accounting system	Instruments	0	Electronic tax invoice (NF-e)	Digital tax registry	Digital accounting registry			3	Special report from the Secretary of SEFAZ/AP	
9. Module introduced for managing tax decisions and disputes	Module	0					1	1	Report on decisions and disputes issued by the disputes coordination office of SEFAZ/AP	
<b>Component III: Financial and properties administration and internal controls</b>										
1. Public cost management system introduced	System	0			1			1	Management report issued by the State Planning Department	
2. Materials and properties management system	System	0			1			1	Property management report issued by the State Administration Department	
3. Files and documents management system introduced	System	0			1			1	Report of the electronic documents management system of the administration area of the inspection coordination unit of SEFAZ/AP	



Output indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/means of verification	Observations
4. Internal control system introduced	System	0			1			1	Special report of the Secretary of SEFAZ/AP	
<b>Component IV: Strategic resource management</b>										
1. State fiscal education program implemented	Program	0				1		1	Report on the tax education program issued by the institutional development advisor	
2. Call center for taxpayer service implemented	Call Center	0		1				1	SEFAZ/AP website available with tax regularity certificate	
3. Taxpayer service procedures implemented in the municípios	Municípios	0	2	2	2	2	8	16	Management report of the service coordination office of SEFAZ/AP	
4. IT master plan implemented	Plan	0		1					Report of the technology unit of SEFAZ/AP	
5. Information security plan implemented	Plan								Report of the Technology Unit of SEFAZ/AP	
6. New business model implemented for results-oriented management of human resources	Model	0			1			1	Report of the institutional development advisor	
7. Procedures for monitoring the work of SEFAZ/AP employees	Procedures	0			1			1	Report of the institutional development advisor	

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Brazil  
**Project No.:** BR-L1242  
**Name:** Program to Modernize Fiscal Administration in Amapá - PROFISCO/AP  
**Executing agency:** Finance Department of the State of Amapá (SEFAZ/AP)  
**Prepared by:** Dominique Puthod, Carlos Lago, and German Zappani

### **I. EXECUTIVE SUMMARY**

- 1.1 Fiduciary management was evaluated in a risk workshop with personnel from all the participating entities, as well as various meetings with the project team and key staff members of the State Finance Department. The evaluation also took into account the Bank's experience in working with the PROFISCO umbrella project, under which 23 projects with similar objectives and processes have been designed and negotiated.

### **II. THE COUNTRY'S FIDUCIARY CONTEXT**

- 2.1 Brazil has robust country fiduciary systems enabling good governance of administrative, financial, control, and procurement processes in accordance with the principles of transparency, economy, and efficiency. The Bank recognizes that there will normally be some initial risks in using country systems, until they are fully adjusted to international standards. As well, the Bank is still supporting the performance of systems so that they can be improved further and reach the greater levels of efficiency and economy needed by the country.

### **III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 3.1 The borrower will execute the project through SEFAZ/AP, through the Special Project Coordination and Execution Unit (UCEPE), established within the office of the State Secretary of Finance. The UCEPE team also runs the PMAE (State Administration Modernization Program), financed by BNDES. The borrower is a member of the Finance Management Committee (COGEF).
- 3.2 The UCEPE will be staffed by employees of the State of Amapá and will have: (i) a general coordinator; (ii) a technical coordinator; (iii) a monitoring and evaluation technical coordinator; and (iv) an administrative and financial coordinator. To round out this structure, leaders for specific outputs will be appointed from among employees of the areas included in the program.

- 3.3 The fiduciary systems of the UCEPE have the oversight elements necessary for proper administration of the project. As this is a state project, it is governed by national legislation concerning public administration, including the Fiscal Responsibility Law. SEFAZ/AP has an accounting and financial records system that can identify project transactions, by source of financing and investment category. Internal control of SEFAZ/AP is performed by the State Comptroller's Office, which conducts periodic reviews. Financial administration staff and the general coordinator have no experience in administering and implementing Bank projects.
- 3.4 There is a medium risk that the UCEPE will not have sufficient capacity to carry out project procurement. To mitigate this risk there is a Permanent Bidding Committee. The personnel assigned to procurement are part of the state procurement committee and report directly to SEFAZ/AP. The committee comprises a president, supported by three staff members (all of them recent hires). The Department has no experience in working with the Bank.

#### **IV. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 4.1 As a result of the risk evaluation performed during the design stage, some high risks were identified on the procurement front: (a) lack of experience in working with the Bank; and (b) more than five selection processes for consulting services (for small amounts, but essential for achieving project objectives).
- 4.2 A committee will be established to prepare and monitor procurement, comprising the UCEPE, the Permanent Bidding Committee, and the State Bidding Office.
- 4.3 In terms of financial management, medium risks were identified, relating to the lack of experience in execution and oversight of Bank projects. To mitigate these risks, training and periodic monitoring of the project were proposed.

#### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 5.1 Entry into force of the Program Operating Regulations, under the terms established by the Bank for the PROFISCO CCLIP, will be a condition for the first disbursement of the loan.

#### **VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 6.1 The fiduciary agreements and requirements concerning procurement specify the provisions applicable to all procurement planned under the project.

##### **A. Procurement execution**

- 6.2 The UCEPE will conduct procurement for the project. The procurement of works, goods and nonconsulting services will be handled in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9). The selection and contracting of consultants will be handled in

accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), both of March 2011. The Bank will review procurement processes in accordance with the procurement plan (see procurement plan link).

- 6.3 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods and nonconsulting services<sup>1</sup> under the project that are subject to international competitive bidding (ICB) will use the standard bidding documents issued by the Bank. Tenders subject to national competitive bidding (NCB) will use national bidding documents agreed to with the Bank (or satisfactory to the Bank, if none have yet been agreed). The project sector specialist will be responsible for reviewing the technical specifications during preparation of the procurement processes.
- 6.4 **Selection and contracting of consultants.** The consulting contracts generated under the project will be executed using the Standard Request for Proposals issued by the Bank. The project sector specialist will be responsible for reviewing the terms of reference for contracting consulting services.
- 6.5 **Selection of individual consultants.** Consultants will be selected in light of their qualifications to perform the work, on the basis of a comparison of at least three candidates. When the situation so warrants, announcements may be published in the local or international press in order to obtain background on qualified consultants.
- 6.6 **Recognition of expenditures and reimbursement out of the financing.** Not applicable.
- 6.7 **Direct contracting.** The borrower may directly contract the School of Public Finance Administration (ESAF) of the Ministry of Finance of the Federative Republic of Brazil to provide training services to state civil servants. The direct contracting of ESAF is justified in this case, given the specific features and nature of the services it provides (training and knowledge management), which will contribute to the sustainability of the projects, sharing of knowledge and experience and, above all, continuing the supply of those services and products once the project is concluded.

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<sup>1</sup> In accordance with IDB procurement policies, nonconsulting services are treated similarly to goods.

Table of threshold amounts (US\$000)

Works			Goods <sup>2</sup>			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Shortlist 100% national
> 25,000,000	< 25,000,000 and > 500,000	< 500,000	> 5,000,000	< 5,000,000 and > 100,000	< 100,000	> 200,000	< 1,000,000

6.8 The thresholds established for ex ante review are determined by the type of procurement risk inherent in the project. Following is a list of the thresholds for ex ante review.

Threshold for ex ante review<sup>3</sup>

Works	Goods <sup>4</sup>	Consulting services
Processes exceeding US\$10,000,000, the first process under each method regardless of the amount, and all direct contracting.	Processes exceeding US\$500,000, if the online bidding method was not used for goods, and all direct contracting.	Processes exceeding US\$1,000,000, the first process under each method of selection, regardless of the amount (except CQS, which will be ex post), and all direct contracting.

6.9 **Procurement process thresholds.** The threshold for use of international competitive bidding will be made available to the borrower or to the executing agency, as the case may be, on the IDB webpage ([www.iadb.org/procurement](http://www.iadb.org/procurement)). Below that threshold, the selection method will depend on the complexity and the characteristics of the procurement or contract, which must be reflected in the procurement plan approved by the Bank.

6.10 **Recurrent expenses.** These are operating and maintenance expenses incurred, primarily within the UCEPE, during the useful life of the project, and cover such things as communication, translation, office supplies, photocopies, postage and other expenses necessary for the proper administration of the project. These will be financed with funds from the loan within the annual budget approved by the Bank following UCEPE administrative procedures. They will be reviewed and accepted by the Bank, provided they do not violate the fundamental principles of economy,

<sup>2</sup> Includes nonconsulting services.

<sup>3</sup> During project execution, the Bank may, without further formalities, change the ex ante review thresholds if it considers that the fiduciary context of the executing agency and/or the country has changed. In this case, the Bank will advise the UCEPE of such decision, and the new execution conditions must be reflected in the procurement plan.

<sup>4</sup> Includes nonconsulting services.

efficiency, competition, and transparency. Nevertheless, operating costs do not include the salaries of public servants.

- 6.11 **Domestic preference.** No margins of domestic preference will apply.
- 6.12 **Initial procurement plan.** The initial procurement plan as proposed to date is annexed. The agreed version may be updated during project execution, depending on the circumstances (see [procurement plan link](#)).
- 6.13 **Supervision of procurement.** In light of the amounts in the ex ante review thresholds table, and considering the special characteristics of the project and the operating capacity of the UCEPE, an annual ex post review will be conducted.
- 6.14 **Records and files.** The files will be kept in the offices of the UCEPE, under appropriate conditions of security.

## VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 The Integrated Planning, Budget, and Management System (SIPLAG) will be used to execute the program. This dedicated system of government management facilitates the preparation and monitoring of the multiyear plan, the budget guidelines law, the annual budget law, and financial, assets, and accounting aspects of budget execution. The system has existed in Amapá since 2009, and the team has experience in its use.
  - A. **Programming and budget**
    - 7.2 The State Planning Department is responsible for preparing the annual programming and budget for external and counterpart financing. The budget is implemented under SIPLAG. The budget allocated to the program will be approved by the State Planning Department and will be reflected in SIPLAG, covering the activities planned under the project. The Bank will reimburse eligible expenses of the project in accordance with the budget items defined and executed by the program.
  - B. **Accounting and information systems**
    - 7.3 The project will use the SIPLAG project module, which offers transparency and specific controls over budgetary execution. This module has a functionality that can aggregate project components in the state accounts. For these purposes, the state budget will establish a source for identifying the Bank loan, and it will include actions to identify project components, targets for identifying the subcomponents, and tasks for the outputs. SIPLAG can record project accounts, and can issue financial reports, including disbursement requests, exchange rate control, financial statements for the project and other statements as required by the Bank. Accounts will be kept on a cash basis, in line with international accounting standards.
    - 7.4 Audited financial statements will be required for project supervision. These reports will be submitted within 120 days after the end of each year.

**C. Disbursements and cash flows**

- 7.5 The project will use the state's cash management system. Expenditure is subject to the process of budgetary and financial execution, and the related data must be recorded in SIPLAG, formally entered within the framework of legal rules applicable to each of its stages: amounts committed, due, drawn/transferred, and paid. The state cash management system uses a single account for handling state financial obligations. All payments are made online through Banco do Brasil.
- 7.6 Advances of funds. Disbursements will be made in accordance with the project's actual liquidity needs (expenditure program). The UCEPE will present the disbursement request to the Bank, together with a program of expenditures for AWP activities for the next 180 days. Disbursements must be accounted for in the next application, to at least 80%.
- 7.7 The Department will open an account in reais to administer advances from the Bank.
- 7.8 Supporting documentation for the expenditures incurred will be reviewed ex post by Bank staff and/or consultants and by the external auditors. Reports will be issued for each ex post review visit.
- 7.9 The criterion for converting expenditures incurred in local currency into U.S. dollars will be the effective exchange rate on the date of the conversion of the currency of the operation into local currency, in the case of advances of funds, and for reimbursement and local contribution requests, the criterion will be the rate prevailing on the date the disbursement request is presented.

**D. Internal control and internal audit**

- 7.10 The internal control function within SEFAZ/AP is performed by the State Comptroller General's Office (CGE), which has 66 employees (41 technical staff) and reports to the Governor of the state. It has the rank of a Department (*Secretaria*).
- 7.11 The Auditor General's Office was converted in October 2013 into the CGE, in line with a national pattern, with accumulation of internal control. Control over procurement will now move to the Prosecutor's office.

**E. External control and reports**

- 7.12 As the Amapá Audit Office is not accredited by the Bank to conduct external control over projects financed with borrowed funds, SEFAZ/AP will contract independent audit firms acceptable to the Bank to carry out the external audit of the projects. The audit work must comply with international standards and IDB requirements. The audited financial statements to 31 December of each year will be submitted to the Bank within 120 days of the close of the calendar year, as of the first year of disbursement under the loan.
- 7.13 The cost of the external audits will be covered from the loan.

**F. Financial supervision plan**

- 7.14 The supervision plan in place is geared to an operation of medium risk. This plan may be amended during project execution, in accordance with the risk circumstances observed or the need for additional controls as determined by the Bank.



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/13

Brazil. Loan \_\_\_\_/OC-BR to the State of Amapá  
Program to Modernize Fiscal Administration  
in Amapá (PROFISCO/AP)

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 Amapá, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Program to Modernize Fiscal Administration in Amapá (PROFISCO/AP), which constitutes an individual operation under the Conditional Credit Line (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO), approved on 5 November 2008 by Resolution DE-132/08, and amended on 11 July 2013 by Resolution DE-75/13. Such financing will be in the amount of up to US\$7,000,000, 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 \_\_\_\_ 2013)