

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

FISCAL MANAGEMENT PROGRAM OF THE STATE OF PARANÁ – PROFISCO/PR (BR-L1237)

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

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP)
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381547
2.	Monitoring and evaluation plan
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37376588
3.	Initial procurement plan
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37376395
OPTIONAL	
1.	Final report of the PNAFE – UCE/PARANÁ project
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381576
2.	Questionnaire for the institutional/fiscal macro diagnostic assessment
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381609
3.	Annual Budget Law
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381651
4.	PROFISCO indicators
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381656
5.	Law authorizing Paraná PROFISCO
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37381663
6.	Economic analysis
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37376371
7.	Macro diagnostic assessment of Paraná PROFISCO
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37513818
8.	Decision of the State Finance Department (SEFA) of 5 March 2012
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37513872
9.	Problems, solutions, and outcomes matrix
	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36673267

ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
ESAF	Escola de Administração Fazendária [School of Public Finance Administration]
FFF	Flexible Financing Facility
GDP	Gross domestic product
ICE	Índice de Competitividade Estadual [state competitiveness index]
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [Goods and Services Sales Tax]
IT	Information technology
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NF-e	Nota Fiscal Eletrônica [Electronic tax invoice]
OEL	Optional electronic link
PAF-e	Processo Administrativo Fiscal Eletrônico [electronic administrative appeal proceeding]
PCC	Project coordination committee
PR	State of Paraná
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Tax Administrations in Brazil]
REL	Required electronic link
SEFA	Secretaria da Fazenda do Estado [State Finance Department]
SIAF	Financial Administration and Information System
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
TCE	Tribunal de Contas do Estado [State Audit Office]

PROJECT SUMMARY

BRAZIL

FISCAL MANAGEMENT PROGRAM OF THE STATE OF PARANÁ – PROFISCO/PR (BR-L1237)

Financial Terms and Conditions				
Borrower: State of Paraná Guarantor: Federative Republic of Brazil Executing agency: State of Paraná, through the Paraná State Finance Department (SEFA/PR)			Flexible Financing Facility (FFF)*	
			Amortization period:	25 years
			Original weighted-average life:	15.25 years
			Grace period:	5.5 years
			Inspection and supervision fee:	**
Source	Amount	%	Disbursement period:	5 years
IDB (Ordinary Capital)	US\$8,500,000	80	Interest rate:	Libor
Local	US\$2,125,000	20	Credit fee:	**
Total	US\$10,625,000	100	Currency:	U.S. dollars from the Ordinary Capital's FFF
Project at a Glance				
Objectives: To improve medium- and long-term fiscal performance and thus strengthen the sustainability of public finances by: (i) increasing the State's own revenue; and (ii) enhancing public expenditure management. The project is structured in four components: (i) finance management integration and strengthening of results-based management in SEFA/PR; (ii) tax administration and litigation; (iii) financial and property management, and fiscal management control; and (iv) institutional resource management.				
Special contractual condition precedent to the first disbursement of the loan proceeds: that the borrower provide evidence that the program's Operating Regulations have entered into force to the Bank's satisfaction (paragraph 3.4).				
Exception to Bank policies: As explicitly established in the PROFISCO framework document (BR-X1005), it is requested that the borrower be authorized to use national legislation on procurement and the contracting of services other than consulting services, as has been the case with all other individual operations under this credit line (paragraphs 2.2 and 2.6).				
Project consistent with country strategy:		Yes <input checked="" type="checkbox"/> [X]	No <input type="checkbox"/> []	
Project qualifies as:		SEQ <input type="checkbox"/> []	PTI <input type="checkbox"/> []	Sector <input type="checkbox"/> [] Geographic <input type="checkbox"/> [] Headcount <input type="checkbox"/> []

* 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.

** 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. Frame of reference and rationale

- 1.1 The operation's general objective and four components have thus been previously identified and approved by the Bank, and should be used in the individual operations pursuant to [Resolution DE-132/08 \(2c\)](#), adopted on 5 November 2008 and amended by means of Resolution DE-75/13, adopted on 11 July 2013.
- 1.2 **Rationale for the PROFISCO credit line.** The Fiscal Coordination Law authorizes Brazilian states to collect tax revenue, which represents 32% of total state revenue. The states are also legally responsible for providing services to their population (water, drainage, security, electricity, etc.). This puts them under heavy pressure to increase the coverage and improve the quality of those services. For example, in 2011, some 5.2 million Brazilians living in rural areas (15% of the rural population) did not have water supply, and 3.5 million (10% of the rural population) had no electricity.¹ The difficulty of increasing tax revenue intake and keeping public expenditure and borrowing within a fiscally responsible framework limits needed investments to expand the supply of services.
- 1.3 **Brazil's macroeconomic context.** The Brazilian economy performed poorly in 2012, posting growth of 0.9% and inflation of 5.8%, which was above the target set by the central bank. The balance of payments recorded positive results, making it possible to cushion an adverse external scenario. Fiscal performance deteriorated in the last few months of 2012, in the wake of the growth slowdown and the introduction of tax exemptions to stimulate economic activity. Growth projections for 2013 have been downgraded to just over 3%, and inflation is expected to remain slightly above the central bank target.
- 1.4 **Socioeconomic context of Paraná.** The state has Brazil's fifth largest economy and a population of 10.4 million (5.5% of the national total). Its economic structure is concentrated in industry (41%), followed by commerce (27%), agriculture (18%), and services (14%). In 2011 its gross domestic product (GDP) was equivalent to 6.1% of national GDP and its per capita GDP was R\$21,600, compared with a national average of R\$19,500. Its human development index is 0.82 (ranking it sixth among Brazilian states).²
- 1.5 **Fiscal context in Paraná.** Throughout the last decade, Paraná managed its public finances prudently. In the 2003-2011 period,³ the state achieved a primary surplus of 1% of GDP, thanks to strong net current revenue growth, which expanded by an average of 11.8% per year in nominal terms (from R\$11.3 billion in 2003 to R\$27.7 billion in 2011). Current expenditure increased at an average rate of 11.3%

¹ Source: *Universalización del acceso y uso de energía eléctrica en Brasil* [Universal access and use of electric power in Brazil], Inter-American Institute for Cooperation on Agriculture (IICA 2011) and World Bank, 2011 statistical data.

² IPEADATA. <http://www.ipeadata.gov.br/>.

³ All figures referred to in this document were provided by the PROFISCO Coordination Unit, attached to SEFA/PR.

per year (from R\$9.4 billion in 2003 to R\$23.0 billion in 2011), while capital expenditure remained virtually unchanged, growing at an annual rate of 2.4%. The public debt stock is within the limits set in the Fiscal Responsibility Law (LRF)⁴ and in the Fiscal Adjustment Program.

Table 1.1: Budget execution of the State of Paraná (R\$ million)

Description / Year	2003	2008	2009	2010	2011
Revenue					
1. Current revenue	11,370	19,337	20,424	24,214	27,768
1.1 Tax revenue	7,515	13,635	14,395	16,214	18,666
1.2 Transfers	2,282	4,494	5,193	5,904	6,679
1.3 Other revenue	1,572	1,208	836	2,094	2,441
2. Capital revenue	399	133	152	609	355
3. FUNDEF* deduction	916	2,043	2,346	2,624	3,026
Total revenue	10,805	17,427	18,230	22,199	25,097
Expenditure					
1. Current expenditure	9,489	12,833	13,596	19,876	23,024
1.1 Payroll	4,826	6,754	7,434	10,856	12,924
1.2 Debt interest and fees	644	687	680	698	676
2. Capital expenditure	1,313	966	1,040	2,301	1,572
2.1 Investments	763	395	287	330	759
2.2 Debt amortization	544	571	618	619	613
Total expenditure	10,803	13,799	14,637	22,177	24,597
Budget balance ¹	2	3,628	3,593	22	500

¹ The budget balance presented differs from the fiscal balance because the latter does not include debt amortization.

(*) Education, Research, and Scientific and Technological Development Support Foundation of the Federal Technological University of Paraná.

Source: Simplified balance sheet of the State Finance Department (SEFA)

<http://www.gestaodineiropublico.pr.gov.br>.

- 1.6 Although Paraná is ranked fourth in terms of infrastructure indexes,⁵ in recent years its economic performance has slipped in terms of growth, service quality, and competitiveness.⁶ This has mainly been due to insufficient investment in

⁴ In 2010, the net consolidated debt (NCD) amounted to R\$15.1 billion, equivalent to 90% of net current revenue.

⁵ According to the state competitiveness index (ICE) on infrastructure, which measures quality and coverage in the transportation, communication, health, and energy sectors.

⁶ Paraná's contribution to national GDP fell from 6.4% in 2003 to 6.1% in 2011; and per capita public investment levels in the state have also been declining. Whereas in 2003, per capita public investment in Paraná was R\$75,000, ranking it 14th among all states, in 2010 its per capita rate of R\$129,000 was among the lowest (24th). Moreover, according to data from the Caixa Econômica Federal Institute

infrastructure to meet the needs of the state's productive sector. As noted, in recent years the state has stopped investing. The growth of capital expenditure has lagged far behind that of current expenditure. For example, public investment in the state between 2000 and 2010 grew by 32.5% in real terms, compared with a national average of 146%.⁷ In 2011 just 3% of Paraná's total public expenditure was investment, compared with an average of 6.9% for all Brazilian states.⁸ In recent years this has contributed to a slowdown in the state's economic growth rate: whereas between 1996 and 2001 the state's real GDP growth outpaced the national average (3.3% versus 1.9%), in 2002-2011 it fell behind (3.5% versus a national average of 3.8%).

- 1.7 Although its prudent management of public finances enabled Paraná to better cope with the nationwide economic growth slowdown, the public investment growth rate is not keeping pace with the state's service needs. Paraná must improve its fiscal performance to create enough fiscal space to raise levels of public investment, which are below the national average and are beginning to affect the level of service delivery in the state.⁹
- 1.8 **Institutional context.** Three agencies are currently responsible for fiscal management in Paraná: (i) the Paraná State Finance Department (SEFA/PR); (ii) the Paraná State Planning Department (SEPLAN/PR); and (iii) the State Attorney General's Office.
- 1.9 **Main progress achieved in the 2008-2011 period.**¹⁰ Paraná has made significant progress in its fiscal management, particularly in the following areas:
 - a. **Results-based management.** In 2010, the Government of Paraná entered into management agreements with the 26 state departments. The most important outcome targets include the strategic plan and government spending efficiency, based on a prioritization of government projects, programs, and actions. These contracts form part of the state's administrative modernization process.

(I-CEF), Paraná has lost competitiveness in terms of labor force quality and knowledge and innovation. Source: ICE 2008.

⁷ Source: Level of state public investment 2000-2011. Inter-Union Department of Statistics and Socioeconomic Studies, 2012.

⁸ In 2012, the government launched the *Paraná Competitivo* [Competitive Paraná] program, which aims to increase public investment as needed to improve the quality of services provided to its population.

⁹ For example, the state's road density is 1,336 meters of paved roads per inhabitant, which is below the average for a middle-income state such as Paraná (1,660 meters per inhabitant). This deficit is all the more critical because 75% of export grains reach the state's ports by road. Moreover, the state's roads are deteriorating from a lack of maintenance: in 2002, 82.5% of the roads were adequately maintained, compared with 48.6% in 2007. For purposes of comparison, in São Paulo, 73% of roads were adequately maintained in 2007. Lastly, railroad density is very low at 0.22 meters per inhabitant, compared with the average for a middle-income state of 0.35 meters per inhabitant. Source: www.futuro10parana.com.br.

¹⁰ For further information, see the Paraná PROFISCO macro diagnostic assessment ([OEL 7](#)).

- b. **Tax administration and tax litigation.** SEFA/PR has introduced measures to strengthen its tax revenue collection, including: (i) the generation of strategic information; (ii) an increase in the number of commercial banks authorized to receive state tax payments (from three in 2010 to 15 in 2012); (iii) online access to the SEFA/PR website, making it possible to file the Property Transfer, Inheritance and Gifts Tax (ITCMD) return electronically; and (iv) implementation of the digital public accounting system (SPED) and the electronic tax invoice (NF-e). The SEFA/PR database currently shows a total of 11,000 establishments in the SPED and 60,000 using the NF-e, with an average of 600,000 documents received daily. In terms of tax litigation, SEFA/PR has introduced new processes to streamline administrative procedures and the payment of nontax debit items recorded as adjudicated tax debt.
- 1.10 Despite the above-described progress, efforts have been isolated rather than systematic and were not supplemented with institutional and strategic strengthening of SEFA/PR. The challenges that the state needs to take up to generate the fiscal space necessary to achieve medium- and long-term fiscal sustainability are described below. This fiscal space would mainly stem from an increase in tax revenue coupled with improved public spending management.
- 1.11 **Challenges.**¹¹ The key challenge of this operation is to gain additional fiscal space (focusing on increasing tax revenue and improving spending management at the same time) to be able to finance public investments aimed at expanding access to core services.¹² The direct cause of this problem is the difficulty of increasing tax revenue intake and maintaining public expenditure through borrowing in a context of a fiscal responsibility framework that is sustainable in the medium and long terms. The indirect contributory causes of the problem are identified in four thematic areas:
- 1.12 **Integrated strategic management.** Despite the progress described (paragraph 1.9), challenges remain to be resolved if SEFA/PR is to improve its administrative management. In this regard, SEFA/PR has the following weaknesses: (i) the lack of a results-based management strategy. The lack of results-based strategic planning and macro processes mapping makes it impossible to link revenue collection increases to administrative efficiency targets;¹³ and (ii) the lack of a technical entity to evaluate, identify, and incorporate best practices in the use of information technologies (IT) and information system solutions.

¹¹ The empirical evidence provided in this section was taken from the fiscal macro diagnostic document produced by the Bank before the operation was prepared. This analysis can be found in the optional annex to this document.

¹² For further information, see the Problems, Solutions, and Results Matrix ([OEL 9](#)).

¹³ Macro processes of the following entities; (i) the Economic Affairs Coordination Unit (CAEC); (ii) the State Financial Administration Coordination Unit (CAFE); and (iii) the State Revenue Intake Coordination Unit (CRE).

1.13 Tax management and tax litigation. As noted in the foregoing paragraph, SEFA/PR needs to strengthen its work in this area, to address the following weaknesses:

- a. Limited management capacity processed in real time, which stems from: (i) an inability to generate specific reports on taxpayer profiles, risk analysis, etc.; (ii) lack of tools for extracting business intelligence-type data; (iii) absence of a reliable and up-to-date register of taxpayers and firms (the data in the existing register contains anomalies and inconsistencies); and (iv) procedural delays in registering and enrolling new firms on the taxpayer register and in updating data on those that should be removed from it. The current status of the taxpayer database decreases tax revenue intake, reduces the quality of information, and prevents SEFA/PR from generating information for management decision-making in the required timeframes.¹⁴
- b. Excessive bureaucracy in taxpayer services, caused by: (i) the fact that the process of creating and updating a business record is very slow, because of a lack of integration between the agencies involved and the absence of systemized procedures and technological support tools.¹⁵ There are too many procedures and administrative processes involved in adding a private firm to the taxpayer register. The slow rate at which taxpayer records and tax payments are received and processed undermines the quality of information processed by SEFA/PR, because it is not revised in real time or recorded in the necessary timeframes, rendering the taxpayer database untrustworthy;¹⁶ and (ii) the slow pace at which administrative appeal proceedings are resolved,¹⁷ owing to planning difficulties and shortcomings in information and communication between the parties involved.

1.14 Financial and property management, and internal control. SEFA/PR faces the following challenges: (i) inefficient planning, monitoring, and control of financial processes, because the state's financial administration and information system (SIAF) is out of date.¹⁸ The system's technological platform does not use up-to-date accounting processes and modules, and there is no strategic planning consistent with the monitoring and control of financial processes. This reduces SEFA/PR's

¹⁴ It takes roughly two days to organize and prepare reports, whereas this information would ideally be obtained online.

¹⁵ The user has to appear in person at at least four state entities (the Federal Revenue Department, SEFA, the Commerce Board (*Junta Comercial*), and the Município) to complete the transactions needed to register firms.

¹⁶ Today registration procedures currently take about 30 days on average, much longer than the target of two days proposed by SEFA/PR.

¹⁷ The average time it takes to resolve an administrative appeal proceeding is 240 days in the first instance, and 1,460 days in the second instance. Best practices recommend 150 and 360 days respectively.

¹⁸ The system was developed in 1991 and has never been updated. Improvement of the system could generate savings equivalent to US\$600,000 over the next five years, according to SEFA/PR data.

capacity to monitor and control public expenditure, since it does not have the best quality and most accessible financial information; and (ii) the state's system of accounts is not converging with international accounting standards.¹⁹ This is because the SIAF has not been adapted to comply with accounting standards, and because property management procedures are not standardized. Moreover, public accounts information is not available to the general public.

- 1.15 **Management of strategic resources.** SEFA/PR displays shortcomings in the provision of IT services, due to the absence of policies and strategies for the area and a lack of resources to meet the demands of system users in the required timeframes.²⁰

B. The Bank's strategy in the country and sector

- 1.16 The program's priority intervention areas are aligned with the 2012-2014 Country Strategy with Brazil (document GN-2662-1), in which the strategic objectives 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 that strategy, in the fiscal domain, the Bank intends to support subnational government actions aimed at: (i) reducing institutional disparities and inequalities between Brazilian tax administrations, by improving and harmonizing the qualitative performance standards, procedures and criteria adopted; (ii) promoting cooperation and integration among tax administrations at the three government levels; (iii) promoting sustainable fiscal balance subnationally; and (iv) improving tax education and citizenship programs, as well as transparency initiatives and dialogue with society. The program also contributes to the CGI-9 targets by supporting: (i) an improvement in the ratio of tax revenue actually collected to potential revenue, by strengthening the state's tax systems; and (ii) public expenditure management by decentralized government levels.
- 1.17 This project forms part of the Bank's ongoing support for the fiscal management modernization process in the Brazilian states, which includes programs such as: (i) Modernization of the Federal Revenue Department (888/OC-BR); (ii) Support for Fiscal Administration in Brazilian States (980/OC-BR); (iii) Support for Fiscal Management in Brazilian Municípios (1194/OC-BR); and (iv) fiscal management strengthening programs in the States of São Paulo (1543/OC-BR) and Bahia (1727/OC-BR). These experiences have created significant synergy on fiscal matters, and have generated important experiences and lessons learned. The fact that PROFISCO is based on those experiences underpins the recognition and interest shown by the states in working with the Bank to strengthen their fiscal management. In the case of Paraná, the authorities recognize that there are areas of

¹⁹ For example, it does not allow for property depreciation and it is not possible to calculate real expenditure in a given fiscal year.

²⁰ A maintenance request for an application can take 90 days to be dealt with, when it should ideally be done on a same-day basis.

its performance needing improvement; and they have chosen to work with the Bank under PROFISCO, giving it their total commitment and priority. The project will be coordinated through SEFA/PR, which consists of a technical team of permanent civil servants.

C. Objective, components, and cost

- 1.18 **Objectives.** To improve medium- and long-term fiscal performance and thus strengthen the sustainability of public finances by: (i) increasing the State's own revenue; and (ii) enhancing public expenditure management.²¹ The project will finance the following components:
- 1.19 **Component 1. Integration of finance management and strengthening of results-based management in SEFA/PR (US\$900,000).** This component will finance the following outputs: (i) a results-based strategic management system, including the mapping and redesign of macro processes, the strategic plan developed and linked to the multiyear plan, and the ethics code implemented;²² and (ii) a permanent program of participation by SEFA/PR civil servants in domestic and international forums on best practices in tax administration and finance management.²³
- 1.20 **Component 2. Tax administration and litigation (US\$8.01 million).** This component will finance the following outputs: (i) a methodology for data mining and processing of digital information from various sources and databases, and for the taxpayer register, supported by business intelligence-type tools²⁴ that allow analytical queries, data extraction for research, and the generation of custom-made reports; (ii) a management system, including the redesign of the business model to streamline recording, updating, and closeout procedures in the corporate taxpayer register, which will be supported by an automated system with Internet access. This will make it possible to integrate all processes undertaken by the responsible units of the federal, state, and municipal agencies; and (iii) an electronic document management, business process management, and enterprise content management system to improve the management of processes and contents, workflow control, document dematerialization, and integration with existing systems and new systems to be developed (e-process).
- 1.21 **Component 3. Financial and property management, and fiscal management control (US\$1.11 million).** This component will finance: (i) a financial

²¹ The studies *Tax Reform in Brazil – IDB 2003*; *The Political Economy of Fiscal Reform in Brazil – IDB 2010*, and *Structural reforms in Brazil – IDB 2012* were consulted to support the identification of solutions to existing problems.

²² The administration, intake, collection, inspection, audit, and tax litigation areas.

²³ Key meetings were held at the Finance Management Commission, the National Meeting of State Tax Coordinators and Administrators (ENCAT); the Treasury Civil Servant Development Group, and the State Financial Managers Group.

²⁴ The term “business intelligence” means IT-based techniques used to identify, obtain, and analyze data such as the amount collected per firm, the sector, taxpayer size, etc.

programming tool integrated with the SIAF, with functions that improve revenue and expenditure forecasting, that perform scenario simulations and financial flow control; and (ii) the new public accounting model for convergence with international accounting standards.

- 1.22 **Component 4. Institutional resource management (US\$300,000).** This component will finance the development and establishment of a strategic information technology plan for SEFA/PR, with a view to keeping it technologically up to date for the next five years.
- 1.23 The total estimated cost of the project is US\$10,625,000, of which the Bank will finance the equivalent of up to US\$8,500,000 from the Flexible Financing Facility (FFF) of its Ordinary Capital. Counterpart funding of US\$2,125,000 will be provided by the State of Paraná. The financing structure of the project is as follows:

Table 1.2: Overall project budget (in thousands of U.S. dollars)

Categories*	IDB	Local	Total	%
1. Project administration	100	200	300	2.8
1.1 Project management		200	200	1.9
1.2 Monitoring, evaluation, and audit	100		100	0.9
2. Direct costs	8,400	1,925	10,325	97.2
2.1 Integration of finance management	200	700	900	8.5
2.2 Tax administration and litigation	7,150	862	8,012	75.4
2.3 Financial and property management and fiscal management control	850	263	1,113	10.5
2.4 Institutional resource management	200	100	300	2.8
Total	8,500	2,125	10,625	100
%	80	20	100	

*The financial costs will be paid by the borrower outside the program.

- 1.24 **Disbursement programming.** Disbursements will be made over a five-year period from the date the loan contract is signed, according to the disbursement schedule shown in Table 1.3.

Table 1.3: Disbursement schedule (US\$ million)²⁵

SOURCE	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	3.2	2.8	1.5	0.5	0.5	8.5	80
Local	0.8	0.8	0.3	0.2	0.0	2.1	20
Total	3.9	3.6	1.8	0.7	0.5	10.5	100
%	37	43	17	3	0		100

²⁵ The amounts shown in this table only include the project's direct and administration costs.

- 1.25 **Financial analysis.** The project team performed a comparative analysis of the program's financial costs and benefits, considering just two of its main effects: (i) an increase in revenue from the Goods and Services Sales Tax (ICMS), obtained from the use of fiscal information on taxpayers cross-referenced with business intelligence, data-mining, and tax audit tools (Data Warehouse solution); and the simplification of administrative appeal proceedings based on the electronic administrative appeal proceeding project (PAF-e); and (ii) a reduction in administrative costs through the modernization of tax administration, by eliminating paper for certain types of procedures and thus economizing on document transportation and storage, as well as on postal communication, as procedures start to be done online.
- 1.26 Based on conservative estimates: (i) the new ICMS taxpayer monitoring methodology and improvements in the collection system will increase ICMS revenue intake from R\$15.8 million in 2011 to R\$24.3 million in 2016; and (ii) there will be annual savings of around R\$258,000 starting in 2014 to 2016, on expenses related to the processing and dispatching of postal communications on tax payment procedures, following the installation of the PAF-e.
- 1.27 The project's financial cost-benefit analysis produces a rate of return of 80% and a net present value (NPV) of US\$61.9 million, thereby justifying financing from the Bank. Other economic benefits that could further improve the robust result of the financial evaluation were not quantified.

D. Key indicators of the results framework

- 1.28 The following outcomes are expected by the end of project execution in 2016: (i) an increase in ICMS revenue intake from R\$15.8 million in 2011 to R\$24.3 million; (ii) reduced expenditures on administrative processes from R\$261.3 million in 2011 to R\$78.5 million; (iii) a reduction in the time taken to register retail trade businesses from 30 days in 2011 to eight days; (iv) an increase in the number of state agencies with financial programming generated by the SIAF, from 0 in 2011 to 31; and (v) an improvement in the quality of the state's IT environment from "Ad hoc" (level 1) in 2011 to "Optimized with organizational process management" (level 5).
- 1.29 **Impacts.** The project will help increase the annual primary surplus average from 1% of GDP in the 2009-2012 period to 1.3% in 2013-2016.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing, procurement, and contractual clauses

- 2.1 **The country's fiduciary context.** Brazil has a sound and transparent legal and institutional system with robust country fiduciary systems that allow for good governance of administrative, financial, control, and procurement processes in accordance with the principles of transparency, economy, and efficiency. The Bank's fiduciary strategy with Brazil is oriented toward the progressive and sustainable use of the country's fiduciary systems ([Annex III](#)).

- 2.2 **National legislation.** It is 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, provided that the principles of competition, economy, transparency, equality, publicity, and due process, established in the Bank's procurement policies (document GN-2349-9), are respected. The borrower will indicate in the procurement plan whether it has opted for national legislation. Works, goods, and nonconsulting services for amounts equal to or below those indicated in this paragraph will be procured in accordance with document GN-2349-9 of April 2011.
- 2.3 The Bank may recognize financing of the following procurement modalities for off-the-shelf goods and services provided for in federal legislation: (i) electronic auction using the state's electronic procurement system or Banco do Brasil's tendering system, for the procurement of off-the-shelf goods and services with an estimated cost of US\$5 million or less; (ii) registered price list for the procurement of off-the-shelf goods and services with an estimated cost of US\$5 million or less, provided the list has the Bank's prior no objection; and (iii) live auction for off-the-shelf goods and services with an estimated cost of US\$100,000 or less. The Bank may cancel the use of one or more of the modalities described in this paragraph at any time during the execution period.
- 2.4 **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 IDB (document GN-2350-9) of April 2011.
- 2.5 **Retroactive financing.** The Bank will recognize eligible expenses as a charge against the loan, provided they were incurred during the 18 months preceding the loan approval date, but after 3 April 2012. Such expenses will be limited to US\$950,000 (11% of the loan amount) and will have been incurred in accordance with the Bank's procurement policies, or through a substantially analogous procedure.
- 2.6 **Direct contracting.** In accordance with section 3.10 (d) of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), 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 to state civil servants. The direct contracting of ESAF is justified in this case, given the specific features and nature of the services to be provided (training and knowledge management), which will contribute to the sustainability of the projects; to the sharing of knowledge and experience; and, above all, to the maintenance of these services and products once the project has ended.

B. Environmental and social safeguard risks

- 2.7 The project was rated B.13 under the criteria of the Bank's Environmental Safeguards Policy (OP-703). As this is a project for the institutional modernization of a finance department, no negative environmental impact risks are anticipated ([Annex II](#) and [Annex III](#)).

C. Fiduciary risks

- 2.8 The following risks and mitigation actions were identified:
- a. **Governance.** Poor coordination between the entities involved in the project. To mitigate this risk, the strategy being proposed includes the formation of a working group with participants drawn from the agencies involved, and a work program to monitor the planned actions.
 - b. **Development.** Delays in project execution because the borrower is unfamiliar with the Bank's bidding and disbursement processes. To mitigate the occurrence of this risk, training in project management is planned for civil servants, as well as the scheduling of disbursements and the planning of project execution activities, using a computerized tool.
 - c. **Fiduciary.** (i) Delay in drawing up the IT technical specifications, because some of the tenders are very specific and have a high level of technical requirements. To mitigate this risk, external technical support activities are envisaged, in addition to the hiring and training of staff; and (ii) Delay in state procurement processes, which could take between three and six months. To mitigate this risk, amendments to state legislation are being processed by the authorities, to allow exceptions for contracting financed with international organizations.
 - d. **Sustainability.** Resistance to changes among certain sectors of SEFA/PR. To mitigate this risk, a plan is being prepared for the communication and promotion of integration actions, with a view to early dissemination of actions involving changes in SEFA/PR.

III. IMPLEMENTATION PLAN AND MANAGEMENT

A. Summary of the institutional implementation agreement

- 3.1 The State of Paraná will be the borrower in this operation; and the Federative Republic of Brazil will be the guarantor of the financial obligations arising from the loan. The State of Paraná will also serve as executing agency through SEFA/PR and through the Project Coordination Committee (PCC) of PROFISCO-PR, attached to the Project Management Office of the State Revenue Coordination Unit.
- 3.2 The basic structure of the PCC is comprised of permanent civil servants of the State of Paraná, consisting of: (i) a general coordinator; (ii) a technical coordinator; (iii) a financial administrative coordinator; and (iv) a technical assistant for monitoring and evaluation. In addition to the basic structure, project leaders and technical and

- administrative staff will be designated. The PCC will report to the Project Management Office of the State Revenue Coordination Unit. This office will coordinate with the State Financial Administration and Economic Affairs Offices. All of the offices mentioned are part of the SEFA/PR structure and report directly to the Finance Secretary.
- 3.3 The CCP will have the following responsibilities: (i) submit disbursement requests to the Bank, duly supported by the relevant documentation; (ii) supervise the bidding and procurement of goods, the bidding and contracting of works, and the selection and contracting of project services pursuant to the corresponding procurement plan and the Bank's policies; (iii) adequately maintaining the project's financial accounting system, in accordance with the Bank's policies; (iv) submit project execution reports; (v) submit the annual work plan (AWP) and update the procurement plan; (vi) file the respective invoices, contracts, and payment orders and submit them to the Bank and project auditors upon request; and (vii) ensure that the works and goods procured with project funds are being maintained in accordance with generally applicable technical standards.
- 3.4 **Program Operating Regulations.** The project will be governed by Operating Regulations previously approved by the Bank. The Operating Regulations include eligibility criteria for borrowers in individual PROFISCO operations, and for projects and products that are eligible for financing. **As a special condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence that the Operating Regulations have entered into force to the Bank's satisfaction.**
- 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 AWP, and on the procurement and contracting descriptions contained in the procurement plan.
- 3.6 **Evaluation.** The project will be evaluated in relation to the targets, frame of reference, and respective outcome and output indicators included in the results matrix. The project provides for a study to be undertaken, no later than six months after the date that the loan contract enters into force, to validate and adjust the baseline indicators of SEFA/PR institutional modernization, and for an outcome evaluation report to be prepared at the end of execution. A total of US\$100,000 is earmarked for monitoring and evaluation activities. The CCP will have a technical assistant with the specific and permanent function of project monitoring and evaluation.
- 3.7 The borrower will submit all semiannual status reports indicated in the General Conditions of the loan contract to the Bank and will send a copy thereof to the Office of the Executive Secretary of the Ministry of Finance of the Federative Republic of Brazil. These reports will include the current phase of introducing national integration actions (paragraph 1.1).

- 3.8 **Annual work plan for the first 18 months.** The borrower has sent, and the Bank has validated, a draft AWP for the first 18 months counted from the signature date of the loan contract.
- 3.9 **Procurement plan for the first 18 months.** The borrower has sent, and the Bank has validated, the procurement plan for the first 18 months counted from the signature date of the loan contract.
- 3.10 **Audited financial statements.** The project's financial statements will be audited each year by the Paraná State Audit Office during the project execution period.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals	i) Ratio of actual to potential tax revenue and ii) Public expenditure managed at the decentralized level as % of total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Public financial systems implemented or upgraded and ii) Municipal and 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	7.0	33.33%	10
4. Ex ante Economic Analysis	8.8	33.33%	10
5. Monitoring and Evaluation	6.0	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
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.	
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	Yes	The project is part of the CCLIP PROFISCO for which the TC BR-T1145, was implemented, aiming to evaluate the program of fiscal modernization.	

This is an investment loan for the government of Brazil. It will be financed with resources from the Bank's ordinary capital by US\$ 8.5 million and by US\$ 2.0 million of the local counterpart. The general objective of the program is to increase the fiscal results of Parana in the middle and long run to enhance fiscal sustainability by i) increasing the state's own revenues, and ii) improving financial management. The project is part of the conditional credit line (CCLIP), Programa de Apoyo a la Gestión e Integración de los Fiscos en Brasil (BR-X1005-PROFISCO), approved by the Board on November 5, 2008, through DE-132/08 resolution. The latter is structured into four components: i) integration of fiscal management, ii) tax administration and tax litigation, iii) financial management, internal control of assets and fiscal management, and iv) management of corporate resources.

The project has a reasonable diagnosis that identifies the main deficiencies and clearly quantifies with empirical evidence most of them. The justification for the effectiveness of the intervention in other or similar contexts is less clear. Results are correctly defined and almost all indicators are SMART. In most cases the objectives are realistic and outputs are also defined in a clear way.

General mechanisms of monitoring have been defined and there is a budget for this activity. There is an economic analysis for some of its components with costs and benefits correctly quantified. Almost all assumptions are clearly spelled out and are reasonable. The program has an ex-post cost - benefit analysis to evaluate results with an evaluation plan and the main activities to perform.

The document presents the risks that were identified, as well as all the required mitigation measures. Furthermore, there are indicators for all of the mitigation measures defined.

RESULTS MATRIX

Objective	To improve medium- and long-term fiscal performance and thus strengthen the sustainability of public finances by: (i) increasing the State's own revenue; and (ii) and enhancing public expenditure management.							
Outcome indicator	Unit of measure	Baseline 2011	2013	2014	2015	Final target 2016	Source/means of verification	Comments
Expected impact: Maintain a sustainable fiscal path								
Primary surplus	Running average % of GDP	1% (2009-2012)				1.3% (2013-16)	Annual state balance sheet issued by the State Finance Department (SEFA)	

EXPECTED OUTCOMES

Outcome indicator	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/means of verification	Comments
Expected Outcome 1: Increased revenue from the goods and services sales tax (ICMS)										
ICMS intake	Amount in billions of R\$	15.8		19.7	21.2	22.7	24.3	24.3	Annual state balance sheet issued by SEFA	
Expected Outcome 2: Savings on processing expenses with tax assessment notices and administrative appeal proceedings (AI-PAF)										
Expenses related to the electronic administrative appeal proceeding (PAF-e)	Amount in millions of R\$	261.3		235.4	157.0	78.5		78.5	Financial report of the state postal services company	
Expected Outcome 3: Reduction in the time taken to register retail trade businesses										
Time taken to register retail trade enterprises	Days	30					8	8	Report on the business registration system issued by the SEFA Tax Administration Coordination Unit	

EXPECTED OUTCOMES										
Outcome indicator	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/means of verification	Comments
Expected Outcome 4: Increase in the number of state agencies with financial programming generated by the SIAF										
Expenditure committed under standardized and automated financial programming	Percentage of total expenditure	0					10	10	SIAF system report issued by SEFA	26 departments, offices of the Attorney General, Civil Chief of Staff (<i>Casa Civil</i>), Military Chief of Staff (<i>Casa Militar</i>), Deputy Governor and Governor.
Expected Outcome 5: Quality upgrade in the state's information technology environment										
Quality of the information processed by state systems	Level of efficiency	1 ¹					5	5	Management report of the IT Coordination Unit	Methodology adopted [Capability Maturity Model Integration (CMMI) ² - 2 or Brazilian Software Process Improvement (MPS-BR) –f].

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/means of verification	Comments
COMPONENT I: Finance integration and strengthening of results-based management in SEFA/PR										
Results-based strategic management system implemented	Number of strategic management systems with results-based indicators	0		1	0	0	0	1	Report on the strategic management system issued by SEFA/PR	The system consists of: (i) redesigned results-based macro processes of the three SEFA coordination units; and (ii) a strategic plan and ethics code.

¹ Level 1 represents the current ad hoc situation (the minimum needed to achieve certification of the systems). Level 5 represents the maximum score achieved when all systems are certified with the highest quality and speed.

² The CMMI model, in its staged version, has the following maturity levels: (1): Initial (ad hoc), which does not include the processes concept; (2): Managed; (3) Defined, with requirements development; (4) Quantitatively managed; (5) Optimized, with organizational process management.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/means of verification	Comments
Ongoing participation program by SEFA-PR staff in national and international tax training forums	Ongoing participation program	0		1				1	Annual SEFA/PR management report on the ongoing participation program	
COMPONENT II: Tax administration and litigation										
Standardized methodology implemented, generating cross-referenced business intelligence-type data	Number of areas with the methodology implemented	0		1	2	2		5	Management report on the business intelligence system issued by SEFA	Within SEFA/PR– (i) registration, (ii) collection, (iii) inspection, (iv) audit and (v) litigation.
Process for business startup, closeout, and updating of registry information integrated	Integrated processes	0					3	3	Report of the National Integration Portal of the National Network for Simplifying the Registration and Legalization of Firms and Businesses (REDESIM)	Agencies participating in the processes to be integrated: Federal Revenue Department (<i>Receita Federal</i>), SEFA, Commerce Board (<i>Junta Comercial</i>), and Município of Curitiba.
Electronic administrative appeal proceeding (PAF-e) automated	Number of areas using the PAF-e	0		1	2	2		5	Reports on use of the PAF-e system issued by SEFA	Areas: (i) registration, (ii) collection, (iii) inspection, (iv) audit and (v) litigation.
COMPONENT III: Financial and property management and internal fiscal management control										
Redesign and update of the SIAF, including new functionalities for revenue and expenditure forecasting, scenario	New functionalities	0			1	2		3	SIAF functional options menu	New functionalities: (i) revenue and expenditure estimation; (ii) scenario simulation; and (iii) financial flows.

OUTPUTS										
Output indicators	Unit of measure	Baseline 2011	2012	2013	2014	2015	2016	Final target	Source/means of verification	Comments
simulation, and control of financial flows										
Asset depreciation methodology implemented	Methodology	0			1			1	Annual accounting statements issued by SEFA	New chart of accounts consistent with international standards.
Accounting model implemented for convergence with international accounting standards	Number of models of the SEFA/PR accounting unit	0			1	1	1	3	Report on adoption of the international model by SEFA/PR	
IV: Institutional resource management										
IT maintenance and modernization plans developed for the SEFA coordination units	Number of coordination units	0				3		3	Annual management report issued by the SEFA Information Technology Management Unit	(i) Economic Affairs Coordination Unit (CAEC); (ii) State Financial Administration Coordination Unit (CAFE); and (iii) State Revenue Intake Coordination Unit (CRE).

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Project: BR-L1237

Name: Fiscal management program of the State of Paraná (PROFISCO/PR).

Executing agency: State of Paraná, through the Paraná State Finance Department (SEFA/PR).

Prepared by: German Zappani, Carlos Lago Bouza, and Mario Ferreira.

I. EXECUTIVE SUMMARY

- 1.1 The program will be executed by the State of Paraná through its Finance Department (SEFA). The latter does not have experience in preparing and executing Bank-financed projects. A program coordination committee (PCC) has been set up to centralize the actions involved in executing and coordinating the operation. Fiduciary management was assessed through meetings held with the Bank's project team, the project coordinator, and various SEFA units. In addition, the documents generated during the operation's preparation (project profile, institutional analysis, risks matrix) and the Bank's experience working with projects under the PROFISCO credit line were also taken into account. Bearing in mind the assessment performed on the executing agency, fiduciary agreements have been prepared for both procurement and financial administration and will be applied during program execution.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Brazil has a sound and transparent legal and institutional system 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. However, these systems need to be continually improved and strengthened in order to adapt them more and more to new and best fiduciary practices. Thus, the Bank's fiduciary strategy with Brazil is oriented toward the progressive and sustainable use of the country's fiduciary systems both at the federal and state level.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The State of Paraná will serve as the project's executing agency through the PROFISCO-PR Project Coordination Committee (PCC), attached to the Project Management Office of the State's Revenue Intake Coordination Unit.

- 3.2 In general, the PCC has an adequate organizational structure and sufficient administrative, technical, and financial management capacity to implement the program efficiently. Nonetheless, a number of strengthening actions are necessary that have been identified in the Proposal for Operation Development (POD) and in the risks matrix.
- 3.3 The PCC's basic structure is comprised of permanent career civil servants of the State of Paraná, consisting of a general coordinator, a technical coordinator, a financial administrative coordinator, and a technical assistant for monitoring and evaluation. In addition, the PCC will have output leaders (also permanent career civil servants), who will be appointed pursuant to the legal instrument creating the Committee.¹

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 Based on the risk analysis performed during the project design stage, the following fiduciary risks were identified:
- a. **Delay in procurement processes.** To mitigate this risk, amendments to state legislation are being proposed to allow exceptions for contracting financed with international organizations.
 - b. **Delay in preparing the IT technical specifications.** To mitigate this risk, activities using external technical support are planned, as well as the hiring and training of information technology (IT) staff.
 - c. **Use of the SIAF system to record program operations:** At the present time, the data generated through this system do not make it possible to control the program's financial execution according to the Bank's investment categories and components. However, the executing agency has undertaken to make the necessary operational adjustments to the system, to make it possible to extract and convert official data in the Bank's accounts nomenclature and, in addition, generate the financial reports required by the Bank.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements on procurement establish the rules to be followed for the execution of all procurement under the project.
- 1. Execution of procurement processes**
- 5.2 **Procurement of works, goods, and nonconsulting services.** The procurement of works, goods, and technical services—financed, in whole or part, with loan proceeds—will be undertaken in accordance with the “Policies for the procurement of goods and works financed by the Inter-American Development Bank” (document GN-2349-9) of April 2011.

¹ The document “Institutional arrangements and execution mechanism” sets out the details of this section.

- 5.3 International competitive bidding (ICB) will be used for the procurement of works, goods, and services with an estimated cost of US\$5 million or more, following the procedures established in section II of document GN-2349-9.
- 5.4 The Bank may recognize the financing of the following procurement modalities established in Brazilian federal legislation for off-the-shelf goods and services, provided the corresponding standard bidding document is used: (i) electronic auction, using the State of Paraná's e-reverse auction or Banco do Brasil's e-bidding system, for the procurement of off-the-shelf goods and services with an estimated cost of US\$5 million or less; (ii) a price list, for off-the-shelf goods and services with an estimated cost of US\$5 million or less, provided the list has the Bank's prior no objection; and (iii) live auction, for the procurement of off-the-shelf goods and services with an estimated cost of US\$100,000 or less. The Bank may cancel the use of one or more of the modalities described in this paragraph at any time during the execution period.
- 5.5 **Selection and contracting of consulting services.** The selection and contracting of consulting services in the context of the program—to be financed, in whole or part, with loan proceeds—will be conducted in accordance with the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9) of April 2011.
- 5.6 The selection and contracting of consulting firms will be conducted in accordance with the methods established in section II (Quality- and cost-based selection) and section III (Other methods of selection) of document GN-2350-9, basing the structure of the processes on the guidelines and policies described in section II.
- 5.7 If the estimated cost of the contract is US\$1 million or more, the short list will comprise six consulting firms, with no more than two firms from any one country.
- 5.8 **Domestic preference.** No national margins of preference will apply.
- 5.9 **Thresholds for procurement processes.** The threshold that determines the use of international competitive bidding will be made available to the borrower or executing agency, as the case may be, online at www.iadb.org/procurement. For procurement in amounts below the threshold, the selection method chosen will depend on the complexity and characteristics of the procurement or contracting in question, which will be reflected in the procurement plan approved by the Bank.
- 5.10 **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 to state government staff. The direct contracting of ESAF is justified by the specific nature of the services it provides (training and knowledge management) to all Brazilian states, which will contribute to the sustainability of the projects, to the sharing of knowledge and experience, and to the maintenance of the supply of the services and products in question once the project has ended.
- 5.11 **Retroactive financing.** The Bank will recognize eligible expenses as a charge against the loan, provided they were incurred during the 18 months preceding the

loan approval date, but after 3 April 2012. Such expenses will be limited to US\$950,000 (11% of the loan amount) and will have been incurred in accordance with the Bank's procurement policies, or through a substantially analogous procedure.

2. Main procurements

Description of planned procurement	Estimated value (US\$000)	Selection method
Goods and technical services		
Technical visits and specialized courses	430	Direct contracting (DC)
Consulting firms		
1. Integrated Electronic Process Management System	7,196	Quality- and cost-based selection (QCBS)
2. Tax intelligence system for selection, inspection, and audit	4,860	Selection based on the consultants' qualifications (CQS)
3. Adaptation of the new SIAF chart of accounts	1,280	QCBS
4. Contracting of the Paraná Information and Communication Technology Company (CELEPAR) to provide support for various state system changes and adaptations	2,790	DC

3. Supervision of procurement processes

- 5.12 The project team conducted an analysis of the executing agency's capacity to administer procurement processes. All ICB and direct contracting will be reviewed on an ex ante basis and, pursuant to the aforementioned analysis, it was determined that the first two contracting processes for consulting services will also be subject to prior review. Based on the annual audit reviews, the Bank may modify the review modality indicated in the procurement plan.

4. Special clauses (loan contract)

- 5.13 None, apart from those already set out in the PROFISCO CCLIP.

5. Records and files

- 5.14 The program's records and files will comply, at a minimum, with the following conditions:
- Records/processes will contain original documentation filed in chronological order;
 - Records/files will be stored in an appropriate place set aside for that purpose, with restricted access and security measures. A designated individual will keep

track of all movements of these documents, as well as implement and oversee compliance with the security measures.

- c. The individual responsible for the files will review all documents checked out upon their return, and record any movement of documents that occurs.
- d. A register will be kept of all the documentation on file.

6. Financial management

A. Programming and budget

- 5.15 The program's strategic and technical coordination is the responsibility of the PCC, which will set program guidelines and priorities.
- 5.16 The PCC, reporting to SEFA, will also be responsible for operational communication with the IDB and support for operational execution of activities, including: (i) planning of activity execution according to the program execution plan (PEP), budgets, and annual work plan (AWP); (ii) preparation and update of the initial project report, AWP, procurement plan, six-monthly status reports, evaluation reports, and project completion report; (iii) management, monitoring, and supervision of AWP execution and of the indicators established in the operation's results matrixes; (iv) the program's budgetary and financial programming and execution of the corresponding monitoring activities; (v) implementation and maintenance of a control system to ensure proper use of the loan proceeds; and (vi) fiduciary administration of operation execution and responsibility for contracting and financial administration of the program, including funding and payments, preparation of financial reports, accountability, preparation of disbursement requests, and provision of information for audits.
- 5.17 The project budget will be duly recorded and executed through SEFA's SIAF.
- 5.18 The budget for program activities will be approved by means of an appropriate legal instrument, following the procedures established in the legislation. The Bank will reimburse eligible project expenditures, in accordance with the agreements established and executed.

B. Accounting and information system

- 5.19 The main instruments used by this system are: (i) the multiyear plan, which sets out the public administration's policies, objectives, and targets, considering capital and other expenditures related to ongoing programs; (ii) the Budget Guidelines Law, which sets budgetary guidelines annually, including the priorities and targets for government actions; (iii) the Annual Budget Law, which estimates revenue and determines expenses for the current fiscal year, presented in the form of a program budget, and includes information on this program; and (iv) the SIAF, configured to generate budgetary, accounting, and financial information for all programs, projects, and actions contained in the multiyear plan.

- 5.20 The program's transactions will be controlled and recorded in the SIAF, in compliance with public sector accounting standards (see section IV. Fiduciary Risk Evaluation and Mitigation Measures).

C. Disbursements and cash flow

- 5.21 The program will operate on the basis of reimbursement of expenditures already incurred. However, SEFA has the option of working with advances of funds, if it decides to do so in the future.
- 5.22 For the purposes of accounting for the loan proceeds and the local contribution, amounts paid in local currency will be converted into the currency of the operation in accordance with the following currency conversion provisions:
- a. Advance of funds: the same exchange rate used to convert the resources disbursed in U.S. dollars into the currency of the borrower's country.
 - b. Other: the exchange rate in force on the date the request is submitted to the Bank will be used for the reimbursement of expenditures chargeable to the loan and for the recognition of expenditures against the local counterpart.

D. Internal audit and control

- 5.23 Internal control is performed mainly by the State Internal Control Department (SCI), the agency responsible for internal audit and control activities. Its functions include analyzing administrative, financial, and operational acts, and recommending corrective actions that uphold the principles of economy, efficiency, efficacy, legality, legitimacy, impersonality, morality, and publicity in State operations.
- 5.24 The reports generated by the SCI can be sent, depending on the nature of the evidence and irregularities, to the State Audit Office (TCE), an agency of the legislative branch legally responsible for external control.
- 5.25 The internal control agency and the TCE will coordinate with each other in reviewing program control activities.

E. External control and reports

- 5.26 The program's external control will be performed by the TCE, which is an oversight agency acceptable for auditing Bank operations in the state of Paraná.
- 5.27 The program will file annual financial statements with the Bank, duly audited pursuant to the Bank's external audit procedures and requirements.
- 5.28 The reports and opinions issued must follow the content guidelines set by the Bank for external audits, and must be delivered to the Bank within the time stated in the loan contract.

F. Financial supervision plan

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Responsible party	
			Bank	Third party
Financial	Ex post review of disbursements and procurement	Annual	Fiduciary team	
	External audit and internal control	Annual		TCE or external audit firm
	Review of disbursement requests and annexed reports	Periodic	Fiduciary team	
	Inspection visit and analysis of internal controls and control environment	Annual	Fiduciary team	
Compliance	Annual allocation of budgetary resources as needed for project execution	Annual	Fiduciary team	Executing agency
	Filing of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to the first disbursement	One time only	Fiduciary and technical teams	Executing agency