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BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF SERGIPE — PROFISCO II/SE

(BR-L1550)

SIXTEENTH INDIVIDUAL LOAN OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) – FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

LOAN PROPOSAL

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12. Safeguard policy filter and safeguard screening form

ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
CIAT	Inter-American Center of Tax Administrations
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre operações relativas à circulação de mercadorias e à prestação de serviços de transporte interestadual e intermunicipal e de comunicação [Goods and services sales tax]
I-GESP	Sistema de Gestão Pública Integrado [Integrated Public Management System]
IPVA	Imposto sobre a Propriedade de Veículos Automotores [Vehicle tax]
IRR	Internal rate of return
ITCMD	Imposto sobre Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos [Inheritance tax]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
MD-GEFIS	Avaliação da Maturidade e Desempenho da Gestão Fiscal [Fiscal Management Maturity and Performance Assessment]
NF-e	Nota Fiscal Eletrônica [Electronic fiscal invoice]
PCR	Project completion report
PCU	Project coordination unit
PEFA	Public Expenditure and Financial Accountability
PGE	Procuradoria Geral do Estado [State Attorney General’s Office]
PNAFE	Programa Nacional de Apoio à Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Program for the Brazilian States]
PROFISCO	Programa de Modernização da Gestão Fiscal no Brasil [Fiscal Management Modernization Program in Brazil]
REDESIM	Red Nacional para la Simplificación del Registro y la Legalización de las Empresas y Negocios [National Network for the Simplification of Business Registration]
SE	State of Sergipe
SEAD	Secretaria de Estado da Administração [State Administration Department]
SEFAZ/SE	Secretaría de Fazenda do Estado de Sergipe [Sergipe State Finance Department]
SEGG	Secretaria de Estado Geral de Governo [State Government Department]
SergipeTec	Sergipe Parque Tecnológico
SETC	Secretaria de Estado da Transparência e Controle [State Transparency and Control Department]
SIAF	Integrated financial management system
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
STN	Secretaría del Tesoro Nacional [National Treasury Department]
TJSE	Tribunal de Justiça do Estado de Sergipe [Court of the State of Sergipe]

PROJECT SUMMARY

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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility**[(a)]	
State of Sergipe (SE)			**Amortization period:**	25 years
Guarantor:			**Disbursement period:**	5 years
Federative Republic of Brazil			**Grace period:**	5.5 years[(b)]
Executing agency:			**Interest rate:**	LIBOR-based[(c)]
State of Sergipe, through its Finance Department (SEFAZ/SE)			**Credit fee:**	[(d)]
Source	**Amount (US$)**	**%**	**Inspection and supervision fee:**	[(d)]
IDB (Ordinary Capital):	27,900,000	90	**Weighted average life:**	15.25 years
Local:	2,790,000	10	**Currency of approval:**	U.S. dollar
Total:	30,690,000	100		

Project at a Glance
Project objective/description: The objective of the project is to contribute to the fiscal sustainability of the State of Sergipe through the following specific objectives: (i) to modernize fiscal management; (ii) to improve tax administration; and (iii) to improve public expenditure management. This is the sixteenth individual loan operation under the PROFISCO II CCLIP (BR-X1039) approved by the Board of Executive Directors pursuant to Resolution DE-113/17.
Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower will adhere to the Program Operating Regulations, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit will be created and its members appointed (paragraph **Error! Reference source not found.**).
Special contractual conditions for execution: Before starting to execute activities that have outputs intended for the State Administration Department (SEAD), the State Government Department (SEGG), the State Transparency and Control Department (SETC), or the State Attorney General's Office (PGE), the Sergipe State Finance Department (SEFAZ/SE) will sign a cooperation instrument with the respective institutions, specifying the roles and responsibilities of the parties during execution of the corresponding activities (paragraph 3.5).
Exceptions to Bank policies: None.

Strategic Alignment			
Challenges:[(e)]	SI ☐	PI ☒	EI ☐
Crosscutting themes:[(f)]	GE ☐ and DI ☐	CC ☒ and ES ☐	IC ☒

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

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

(c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.

(d) The credit fee and the 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 applicable policies.

(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(f) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problem to be addressed, and rationale

1.1 This project is the sixteenth individual loan operation under the PROFISCO II conditional credit line for investment projects (CCLIP) – Fiscal Management Modernization Program in Brazil (BR-X1039), approved by the Bank's Board of Executive Directors pursuant to Resolution DE-113/17, with a view to consolidating the progress made under the PROFISCO I CCLIP (BR-X1005) and to continue modernizing the states' fiscal management.

1.2 The PROFISCO II CCLIP (BR-X1039) was approved for US$900 million in 2017 with the objective of contributing to fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. Eligible borrowers will be agencies of the 26 Brazilian states, the Federal District, and the Federative Republic of Brazil that are recommended by the External Financing Commission of the Ministry of Planning for preparation of an individual operation.[1]

1.3 The PROFISCO II CCLIP is intended to increase revenue and improve the business environment and the country's competitiveness. It was primarily designed to support the following: (i) supplementation of the digital public accounting system (SPED) in the automation of tax auditing and compliance; (ii) improvement of the quality of public expenditure in the adoption of multiyear budgeting and the implementation of public procurement and public investment systems; (iii) introduction of new technologies, such as big data, for the audit and management of public expenditures, cybersecurity for data security, and the use of robots for taxpayer services; and (iv) strengthening of the processes, methodologies, and technologies first promoted by the PROFISCO I CCLIP.

1.4 **Economic and fiscal situation in Brazil in the period prior to 2020.** Brazil is facing challenges in maintaining its economic and fiscal sustainability. Its gross domestic product (GDP) shrank by 3.2% in 2015 and by a further 3.3% in 2016. Then, in 2017/2018, it staged a tentative recovery, growing by 1.3% in each of those years[2] and by 1.1% in 2019. The central government posted a primary deficit of 1.22% of national GDP in 2019.[3] Gross public represented 75.8% of national GDP in 2019. In recent years, the government has sent three constitutional amendments to congress addressing situations involving fiscal emergency, fiscal federalism, and optimization of public funds. In addition, the government and congress are debating proposals to reform the tax system and public administration that are fundamental for improving the efficiency and sustainability of fiscal policy.

1.5 **The COVID-19 pandemic and the economic situation.** The 2020 health crisis battered the economy and economic expectations, with adverse effects on both

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1 Thus far, 15 projects (Ceará, Piauí, Pará, Maranhão, Pernambuco, Mato Grosso do Sul, São Paulo, Espírito Santo, Amapá, Paraná, Bahia, Rio Grande do Sul, Paraíba, Alagoas, and Mato Grosso) have been approved by the Bank's Board of Executive Directors, for a total of US$711.6 million.

2 Brazilian Institute of Geography and Statistics (IBGE), 2019.

3 National Treasury Department (STN), 2020.

domestic supply and demand. National GDP dropped in 2020 (-4.41%). The growth forecast for the next three years is 5.3% in 2021, 2.05% in 2022, and 2.50% in 2023.[4] To mitigate the negative impact of the disruption, the congress approved a state of public calamity due to the COVID-19 pandemic, which enabled the federal government to deviate from the fiscal target set for 2020. The fiscal impact of the measures to combat the pandemic totaled nearly R$600 billion, or 8.6% of the country's GDP. The primary deficit, as a percentage of GDP, was 11.5% in 2020, and the primary deficits for the years ahead are estimated at 1.9% in 2021, 1.35% in 2022, and 0.70% in 2023.

1.6 **Macroeconomic and fiscal situation in Sergipe.** In 2020, the state had a population of around 2.3 million, representing 1.1% of the national total. In 2018, it generated 0.60% of national GDP, down from 0.68% in 2012, and it ranked 22nd among the 27 Brazilian states in this regard.[5] Despite a balanced financial position at present, Sergipe's fiscal sustainability is at risk in the near future. On the revenue side, the state relies heavily on transfers from the federal government, which constituted 50% of current income between 2015 and 2019 and 55% in 2020. Current income ascended 28% between 2015 and 2019 on a 29.2% increase in revenue from transfers and a 25.8% increase from taxes. Meanwhile, net current expenditure held steady at about 19% of GDP between 2002 and 2019. Personnel expenditure across all branches of the state's government totaled 58% of net current income in 2019, approaching the 60% ceiling set in the Fiscal Responsibility Law (LRF) and slightly above the national average of 57.2%. Pension expenditures continue to rise, growing by 41.7% from 2015 to 2019, compared with 15.7% growth for active personnel in the same period, and its share of the total personnel expenditure grew from 38.4% to 43.4% over the period. The cost of the retiree fund rose 29% from 2018 to 2019, well above the 7% increase for Brazil as a country. Investment expenditure sank from 6.4% of total expenditure in 2002-2014 to 3.5% in 2015-2019. Consolidated debt is considered to be low and trending downward (from 61% to 46% of current income between 2016 and 2019) (see Sergipe fiscal data).

1.7 Sergipe is also facing the effects of the health crisis. At various junctures, all nonessential activities were cancelled, which impacted economic activity and, thus, tax revenue. Tax revenue fell by 1.8% in 2020, compared with 2019, below the 1.07% average growth across the country's states. Revenue from the goods and services sales tax (ICMS) shrank 0.61% in Sergipe, compared with an average increase of 1.48% in the other states in the same period. Meanwhile, transfers offset the losses in tax revenue and a hike in public spending to address the consequences of the crisis, which led to a primary balance of 10% of net current income in the first 10 months of 2020. Even with the end of the federal transfers scheduled for 2021, ongoing pandemic-related spending and the decline in tax revenue due to the slow economic growth that is anticipated will put the state in a position of fiscal fragility.

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[4] *Pesquisa FOCUS*, Central Bank of Brazil, 6 August 2021.

1.8 **Rationale.** The state's fiscal vulnerability, which is the result of its heavy reliance on transfers from the federal government, low capacity to generate own income, and a rising trend in expenditure on personnel, especially inactive personnel, in combination with the potential fiscal risk introduced by the health crisis in the country, has generated the need for new interventions to modernize fiscal management, with the objective of achieving fiscal sustainability. The state's fiscal fragility is evident upon analysis showing only slight improvement in the ratio between tax revenue and state GDP over the past six years, sparking uncertainty over long-term fiscal sustainability. With implementation of the project, the plan is to establish a positive trajectory in the ratio of state revenue to GDP, in order to lock in long-term fiscal sustainability.

Table 1. Tax revenue/GDP/Sergipe[6]

2015	2016	2017	2018	2019	2020
5.75%	6.01%	6.04%	5.75%	6.06%	6.05%

1.9 This situation of fiscal fragility can be attributed to three factors. The first is related to the state's weak fiscal governance and low level of maturity in the use of management tools, as well as inefficient personnel management. When the Fiscal Management Maturity and Performance Assessment (MD-GEFIS) is applied,[7] Sergipe's scores are below average for the 19 states evaluated in the area of treasury management and fiscal transparency. Sergipe obtained a score of 1.83, whereas the national average was 2.6. In addition, Sergipe did not conduct strategic planning for fiscal management until 2018, and in subsequent years, its rate of compliance with targets was below 50%.[8]

1.10 The Sergipe State Finance Department (SEFAZ/SE) has 907 employees on its payroll,[9] but the institution does not have strategic guidelines for personnel management or evaluation, nor does it have workforce right-sizing procedures in place that would enable it to quantify or assess the profiles of its personnel, so the distribution of its workforce does not meet the current or future needs of the institution nor does it allow for optimal targeting of skills-based training. Furthermore, SEFAZ/SE faces technological constraints.[10] Its installed technology is at 58.3% of committed storage capacity. Most equipment has been in use for at least 10 years and does not meet the minimum requirements for processing big data (77% of equipment is not compatible with the necessary updates). The backup site does not allow for maintenance without interruptions to service. The fact that state-of-the-art technologies are available in the market offers a window of opportunity for sustainable, secure, and efficient technological expansion, including

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6 Report on calculation of impact and outcome indicators.

7 MD-GEFIS-SE report.

8 Report on calculation of impact and outcome indicators.

9 Personnel management report.

10 Information technology management report

in terms of energy consumption, which helps to reduce costs and prevent greenhouse gas emissions.

1.11 Remedying this problem will entail efforts to improve management instruments, modernize technology infrastructure, and promote an efficient allocation of the workforce. Empirical evidence points up the need for strong fiscal institutions to consolidate an enabling environment for fiscal sustainability (Poterba, 1999). To measure progress towards the outcome associated with this problem, the ratio of targets met to targets set in the strategic fiscal management plan will be used.

1.12 The second problem is related to the limited performance of revenue from own income in Sergipe. The results obtained by the state for tax management as part of the MD-GEFIS assessment trail the average for the other 19 states that were analyzed. Sergipe scored 2.33, compared with the overall average of 2.8. In addition, in recent years, the tax administration was fairly inefficient, with a ratio of tax collection costs to tax revenue that has essentially remained above 8%, which is considered high in comparison with other tax administrations.[11] Accordingly, improvements are needed in tax management in the form of new tax, audit, intelligence, and collection policy models to increase efficiency and make progress on fiscal sustainability in the state.

Table 2. Tax administration costs/Tax revenue[12]

2015	2016	2017	2018	2019	2020
11.1%	10.2%	10.1%	8.9%	8.8%	8.12%

1.13 The third problem is related to low capacity for financial administration and evaluation of the quality of public expenditure. The state's fiscal and financial planning is focused on short-term policies with no consideration of long-term scenarios. Neither are there appropriate tools for evaluating the efficiency of financial planning and execution or the quality of public expenditure. To remedy this situation, new budget, financial, accounting, and public cost management models will be implemented. Moreover, the ratio of the executed budget to the planned budget over the past five years indicates average mismatches in excess of 6%, above the standard 5% established in the PEFA framework.[13]

Table 3. Executed budget / planned budget[14]

2015	2016	2017	2018	2019	2020
-15.7%	-5.4%	-8.2%	-7.9%	-3.9%[15]	4.88%

[11] Bertolucci and Nascimento, 2006, developed an evaluation of the cost of collecting funds for the federal fiscal authorities. The cost was found to be 1.35% of income and 0.36% of GDP.

[12] Report on calculation of impact and outcome indicators.

[13] Public Expenditure and Financial Accountability methodology.

[14] Report on calculation of impact and outcome indicators.

1.14 In addition, climate change and natural disasters can also impact the efficiency of fiscal management by generating economic losses and imposing an additional cost on development and poverty reduction policies. The fiscal impacts of natural disasters stem from the need for unplanned expenditures and the revenue losses caused by the disruption of economic activities and consequent reduction of the tax base[16] (see climate change document).

1.15 In this context, the state asked the Bank for support to mitigate the three main specific problems affecting the scope of fiscal balance, as identified through application of the fiscal management maturity and performance assessment methodology (MD-GEFIS),[17] the institutional capacity analysis, and in the matrix of problems and solutions, as described below.[18]

1.16 **In fiscal management and fiscal transparency**, SEFAZ/SE's corporate processes in terms of governance and strategic management, staffing, technology, and communication with citizens, are underdeveloped and poorly integrated,[19] which impairs the department's institutional performance. This is a consequence of:

a. **The low maturity of fiscal governance processes hinders achievement of the strategic objectives,[20]** due to: (i) the actions set out in the state's strategic plan are not integrated with the multiyear budget or the annual budget act; (ii) strategic planning is not used to prioritize projects or resources; (iii) strategic actions and projects are neither supervised nor evaluated; and (iv) internal control is centralized and ineffective.

b. **Personnel management is inefficient,[21]** due to: (i) there is no established home office methodology; (ii) there is no strategic guidance or workforce rightsizing; (iii) there is methodology in place for assigning personnel or evaluating performance; and (iv) data is entered manually into the payroll system, with a high risk of error.

c. **The information technology model is not aligned with SEFAZ/SE strategic guidelines or with the new digital transformation processes,[22]** due to: (i) there is an absence of governance in overall planning, security policy, and demand prioritization criteria, impacting the ability of various sectors to fulfill

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15 The 3.9% value was an outlier. In 2019, certain revenue categories yielded more than expected. For purposes of this project, the average value for the years 2017-2019, which is -6.7%, will be used, as this is a better reflection of the state's expenditure effectiveness.

16 OECD/The World Bank (2019). Fiscal Resilience to Natural Disasters: Lessons from Country Experiences, OECD Publishing.

17 MD-GEFIS-SE report.

18 The diagnostic assessment bases the evaluation of the maturity of fiscal management on the MD-GEFIS methodology.

19 MD-GEFIS report: Five of the six dimensions of fiscal management have an initial level of maturity, and one is intermediate.

20 Public governance report.

21 Personnel management report.

22 Information technology management report.

their duties; and (ii) data processing equipment is at the end of its useful life, with a high risk of impact of operability.

d. **Low level of efficiency in logistics and procurement processes,**[23] due to: (i) insufficient planning and management of procurements; (ii) catalogue of materials with nonstandardized descriptions and incomplete specifications; (iii) procurement system that is not integrated with other state systems, which increases the procurement processing times.[24]

e. **Low quality of information made available to the public,**[25] due to: (i) the state's transparency portal does not meet all legal requirements and is not well received by the responsible entities; (ii) there is no registry for the portal or for the transparency pages of government agencies and entities; and (iii) the strategy for communicating information about fiscal management to the public is inefficient and undermines the ability of citizens to conduct monitoring.

1.17 **In relation to tax administration and fiscal litigation,**[26] revenue intake falls short of potential.[27] This is the result of:

a. **Inefficiency and low control of tax policy support instruments,**[28] due to: (i) absence of mechanisms for identifying, monitoring, and evaluating the impact of tax incentives; (ii) difficulty in estimating tax evasion; and (iii) difficulty in consolidating legislation and keeping it up to date, as well as in responding to external consultations, which are still handled in person and on paper.

b. **Insufficient management and control of state economic-fiscal information,**[29] due to: (i) delays affecting the taxpayer registration process for the National Network for the Simplification of Business Registration (REDESIM); (ii) difficulty involved in payment of taxes on foreign trade; (iii) difficulty involved in control of inheritance tax (ITCMD) payments; and (iv) difficulty involved in control of vehicle tax (IPVA) payments.

c. **Difficulty in conducting effective inspection actions,**[30] due to: (i) actions are not based on the collection potential or analysis of the taxpayer's risk profile; (ii) inspections of goods in transit does make use of the full potential of information from the electronic fiscal invoices (NF-e) or modern technology; and (iii) the work environment is inadequate.

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23 Public procurement report.

24 In 2019, the average time for processing a procurement was 226 days.

25 Fiscal citizenship and transparency report.

26 MD-GEFIS report: Three of the six dimensions of fiscal management have an initial level of maturity, and three are intermediate.

27 Tax evasion in Brazil represents an estimated 7.6% of national GDP (National Union of National Treasury Attorneys, 2016). At the state level, however, the tax gap, which includes tax incentives, tax avoidance, and declared but unpaid taxes, is greater.

28 Tax policy management report.

29 Tax obligations and registry report.

30 Fiscal intelligence and compliance report.

d. **Low level of efficiency in fiscal litigation,**[31] due to: (i) slow decision-making in tax processes; (ii) judicial collections carried out without analysis of the taxpayer profile; (iii) limited use of strategic information for judicial litigation; and (iv) low efficiency in the recovery of adjudicated claims.

e. **Inefficient customer service,**[32] due to: (i) most taxpayer services are still provided in person; and (ii) there is no tracking of requests or assessment of the quality of services rendered.

f. **Low level of efficiency in tax collection,**[33] due to: (i) taxpayer risk profiles are not defined, and the tax debts with the best potential for recovery are not identified; and (ii) new collections technologies are not in use.

1.18 **Public expenditure management**[34] suffers from shortcomings that make it hard to achieve better results in terms of fiscal discipline and public expenditure efficiency and effectiveness.[35] The causes are:

a. **Inefficiency in budget estimates,**[36] due to: (i) difficulty involved in preparing and monitoring the multiyear budget, which is prepared manually with files sent to SEFAZ/SE for consolidation; (ii) low correspondence between the budget as planned and the budget as executed; and (iii) absence of mechanisms for estimating, monitoring, and evaluating fiscal risks and targets.

b. **Limited management of financial programming and execution,**[37] due to: (i) bank reconciliation and cash flow is prepared manually, delaying the availability of data needed for effective financial management; and (ii) expenditures are still processed on physical media, involving large quantities of documents and resulting in lost time and resources.

c. **Inefficient management of judicial payment orders,**[38] due to: (i) the methodology for calculating the value of judicial payment orders is improperly calibrated, creating discrepancies between what the state owes and what it pays and distorting the actual amount of debt; and (ii) the management system in use does not offer the functionalities required for effective control of debt.

d. **Insufficient control of accounting and asset records,**[39] due to: (i) requirements are not in place for completing the accounting convergence process, mainly as regards the state's intangible assets, investments, and credits; (ii) the Integrated Public Management System (I-GESP) is not in full

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31 Fiscal litigation report.

32 Taxpayer services report.

33 Collection report.

34 MD-GEFIS report: Three of the six dimensions of tax management have an initial level of maturity, and three are intermediate.

35 Better Spending for Better Lives, IDB: Infrastructure cost overruns and delays in Latin America and the Caribbean are estimated at 0.7% of GDP.

36 Budget planning and execution report.

37 Financial programming and execution report.

38 Judicial payment order management report.

39 Accounts management report.

compliance with the minimum technical standards in effect; and (iii) there are no suitable processes in place for managing the state's real property.

e. **Difficulty in managing public debt,**[40] due to: (i) public debt is managed using electronic spreadsheets; (ii) there is no management strategy, sustainability analysis, simulations, or control system; and (iii) information on the debt cannot be obtained in a timely manner for decision-making.

f. **Inefficient management of public costs,**[41] due to: (i) there are no guidelines or instruments in place for managing public costs; and (ii) the costs of public services are not calculated nor are expenditures evaluated, which complicates planning, the selection of investments, and the quality of expenditure.

1.19 **International evidence.** Empirical evidence shows that fiscal sustainability and discipline are strongly related to robust fiscal institutions.[42] Banerjee et al. (2017) report reductions in program execution costs when the government makes use of technology. Dhaliwal and Hanna (2014) find that automated process-monitoring programs can make more efficient use of public resources and enhance service quality. The main associated output is the implementation of the information technology management model (paragraph 1.29(c)).

1.20 On the taxation side, recent evaluations show that revenue performance depends significantly on the institutional strengthening of tax administrations: (i) improved accessibility and quality of the available information;[43] (ii) information-intensive audit models;[44] (iii) simplified procedures to facilitate tax compliance;[45] and (iv) strategies to ensure the suitability and motivation of staff.[46] Several Latin American tax administrations have strengthened these elements, particularly those of Brazil and Uruguay.[47] The associated outputs are: implementation of the fiscal and economic information management model (paragraph 1.30(a)(b)); implementation of the fiscal intelligence and auditing model (paragraph 1.30(a)(c)); implementation of the taxpayer services model (paragraph 1.30(a)(e)); and implementation of the personnel management model (paragraph 1.29(b)).

1.21 In relation to public expenditure, several studies point out the need for actions to improve technical and allocative efficiency, in order to promote fiscal sustainability,

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40 Public debt management report.

41 Public cost management report.

42 Poterba, James M., and Jürgen von Hagen. Fiscal Institutions and Fiscal Performance. University of Chicago Press, 1999, and Alesina, A., et al., Budget institutions and fiscal performance in Latin America. Journal of Development Economics (1999): 253-273.

43 Evasion rates are up to eight times higher where the tax administration lacks automated instruments to verify taxpayers' income sources (Slemrod et al., 2015; Pomeranz, 2015; Kleven et.al., 2011).

44 The availability of information supplements corporate auditing in Spain (Almunia and López Rodriguez, 2016).

45 It can generate increases of up to four percentage points in payment rates (Hallsworth et al., 2014).

46 Incentive schemes for key tax administration staff to generate additional revenue yielded rates of return of between 35% and 51% (Khan et al., 2016).

47 Loan 1783/OC-UR PCR. Barreix and Zambrano (2018). NF-e in Latin America. IDB. The *Nota Fiscal Paulista* program [São Paulo electronic invoice program] increased ICMS revenue intake by US$226 million.

equity, and economic growth.[48] In this regard, it is essential to improve public procurement processes through:[49] strategic procurement planning; the use of online systems; systematic monitoring; and information transparency. Modernizing the I-GESP helped enhance the efficiency of public expenditure by introducing accountability in accordance with the accounting standards applied to the public sector.[50] The system supports the planning, execution, and administration of public funds, which promotes efficiency in public expenditure.[51] The main associated outputs are: implementation of the procurement model (paragraph 1.29(d)); and implementation of the public cost management model (paragraph 1.31(f)).

1.22 **The Bank's experience in the region.** The Bank's experiences with tax administration reforms in Costa Rica (4819/OC-CR), Ecuador (3325/OC-EC), El Salvador (3852/OC-ES), Honduras (3541/BL-HO), Jamaica (2658/OC-JA), and Peru (3214/OC-PE); with modernization of financial management systems in Guyana (1550/SF-GY and 1551/SF-GY), Honduras (2032/BL-HO), and Nicaragua (2422/BL-NI); and with projects related to the management of public investment in Argentina (3835/OC-AR), Bolivia (3534/BL-BO), Chile (1281/OC-CH), Ecuador (2585/OC-EC), Mexico (2550/OC-ME), Paraguay (3628/OC-PR), Panama (2568/OC-PN), and Peru (2703/OC-PE) have been taken into consideration in this project, with an emphasis on the following: (i) the reforms should be focused on improving the entities' business models; (ii) widespread use of artificial intelligence and risk analysis in information processing makes tax auditing more effective; (iii) the use of cutting-edge technology (big data) makes it possible to process large volumes of data; and (iv) the entities' human capital is the most important asset to be considered in a reform.

1.23 **The Bank's experience in the country.** The Bank has supported the modernization of fiscal management at the three levels of government in Brazil, with significant transformations in over 25 years of programs implemented, especially at the state level through the National Fiscal Administration Program for the Brazilian States (PNAFE-980/OC-BR, approved in 1996 for US$500 million); PROFISCO I CCLIP (BR-X1005, approved in 2008, for US$900 million), and the Fiscal Stability Consolidation Programs (PROCONFIS).[52] These projects supported the implementation of the NF-e, the system that enables firms to send tax and accounting data to the tax authorities digitally, and the integrated financial management systems (SIAF), which are compatible with international accounting standards. They also strengthened technological capacity, allowing for the storage and processing of electronic tax data, and the public procurement system. The main outcomes were an increase in tax revenue, a decrease in informality, and a

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48 Better Spending for Better Lives (2019).

49 Better Spending for Better Lives (2019): inefficiencies in public procurement cost about 1.4% of GDP in Latin America and the Caribbean.

50 The system promotes transparency in budget execution.

51 System benefits: Pimenta and Pessoa, 2015.

52 Policy-based loans: 2081/OC-BR (approved in 2008, for US$409 million); 2841/OC-BR (approved in 2012, for US$600 million); 2850/OC-BR (approved in 2012, for US$200 million); 3039/OC-BR (approved in 2013, for US$400 million); 3061/OC-BR (approved in 2013, for US$250 million); 3138/OC-BR (approved in 2013, for US$200 million); and 3139/OC-BR (approved in 2013, for US$184 million).

reduction in transaction costs for the tax authorities and taxpayers alike. According to the PROFISCO I CCLIP midterm evaluation,[53] between 2009 and 2013, states that had a PROFISCO project in an advanced stage of execution took in 6% more revenue from ICMS on average than did states that had a PROFISCO project in initial stages of execution. For the municípios, the National Program to Support the Modernization of Administrative and Fiscal Management (PNAFM),[54] currently in its third phase, supports an increase in internal revenue collection, by implementing the electronic invoice for services and updating the real property register, reducing administrative costs, and expanding taxpayer services. At the federal level, among other actions, the Bank supported implementation of the risk management and anti-fraud intelligence methodology in the Office of the Attorney General for Finance, the accounting and tax information system and the federal government's cost information system, as part of the tax modernization project of the Federal Revenue Service of Brazil (SRF, approved in 1996 for US$30 million) and the Ministry of Finance's Integrated Modernization Program (PROFISCO/PMIMF, 3142/OC-BR, approved in 2013 for US$19.8 million).

1.24 The final evaluation of PROFISCO I-SE[55] (2518/OC-BR), approved in 2011 for US$5,788,000 and executed over the original period of five years, concluded that the project had performed successfully (Relevance: satisfactory; Effectiveness: satisfactory; Efficiency: excellent; and Sustainability: excellent). Of the seven planned targets, six (85.7%) were fully achieved while one (14.3%) was not, owing to the fact that SEFAZ/SE greatly increased the number of targets in its strategic planning and had problems implementing them. The project also had eleven targets corresponding to outputs, of which ten (91.0%) were fully achieved, and one (9.0%) was partially achieved. In relation to tax revenue, the SPED, which includes the NF-e, and implementation of the outputs corresponding to "goods-in-transit inspection model," "tax claim management model," and "fiscal intelligence model" were the interventions that contributed most directly to increasing the state's revenue intake. The program contributed to the renewal of SEFAZ/SE's installed technology, with the implementation of big data technology, the expansion of data storage capacity, and risk management tools. The performance of the executing agency and the Bank were satisfactory.

1.25 **Lessons learned from the Bank's operations in the country.** Lessons learned from the PROFISCO I CCLIP[56] and the PROFISCO I-SE operation include the following:

a. **Design.** The need for an instrument to identify innovative solutions in fiscal management processes. The Fiscal Management Maturity and Performance Assessment (MD-GEFIS) was developed for this purpose, making it possible to gauge the maturity of the states' fiscal management processes and identify

[53] BR-X1005: Midterm evaluation, 2014 and PROFISCO I-SE project completion report (PCR).

[54] 1194/OC-BR (approved in 1999, for US$600 million); 2248/OC-BR (approved in 2009, for US$150 million); and 3391/OC-BR (approved in 2014, for US$150 million).

[55] PROFISCO I-SE project completion report (PCR).

[56] BR-X1005 midterm evaluation, 2014, and PCR of seven states (Minas Gerais, Rio de Janeiro, Piauí, Mato Grosso, Maranhão, Pernambuco, and Rio Grande do Norte).

opportunities for strengthening them[57] and guiding the diagnostic assessment and design of the project.

b. **Development.** Participation by representatives of the project coordination unit (PCU) from the states in the Network of the Fiscal Management Commission (COGEF) facilitated the exchange of fiscal management modernization experiences and solutions from other states.

c. **Evaluation.** Project evaluation is hampered by the very large number of widely different indicators that are used between individual projects. This issue has been resolved in PROFISCO II, since individual projects have a specific outcome indicator for each component, which is the same for all individual projects.

d. **Results.** The SPED, including the NF-e, digital tax accounting, and the digital accounting record, was found to be the output that contributed most to increasing the efficiency of the states' fiscal controls.[58] By automating the flow of information between taxpayers and the state, the SPED exponentially increases the information available for auditing. This heightens the taxpayer's perception of risk by increasing the probability of being penalized in the event of committing a tax offense. PROFISCO II will invest in the evolution of the SPED and will seek to exploit its potential, for example by expanding the use of the information it generates to automate tax audits[59] and simplify tax compliance, thus leveraging the new technologies of the digital economy.

e. **PROFISCO I-SE.** The PROFISCO I-SE project completion report (PCR) found that the following factors had a negative impact on project execution: (i) difficulty in developing and executing the outputs, owing to lack of previous experience in project execution and communication with the various participating actors; (ii) difficulty in preparing terms of reference and in monitoring execution; and (iii) difficulty in executing a large number of projects. This project includes actions to: (i) maintain the structure and staff of the PCU that executed PROFISCO I, with additional measures for improving coordination and communication between output leaders and training key actors in Bank policies and project management; (ii) contract support for the preparation of terms of reference and for training in project management; (iii) adopt project management tools and set up a project office; and (iv) reduce the number of outputs and consolidate procurement processes.

f. **Sustainability of information technology.** With implementation of the SPED and the new work processes under PROFISCO I, as well as the increasing practice of utilizing databases to support strategic decision-making and the automation of work processes, it is imperative to optimize planning around information technology and guarantee investments to maintain installed technology in good working condition. This project proposes to: (i) make

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[57] Inter-American Center of Tax Administrations (CIAT), 2017.

[58] McKinsey & Company, 2014: NF-e and SPED made it more likely that tax evaders would be identified and contributed to reducing employment informality in Brazil over the last 10 years (from 55% to 40%).

[59] Araujo, 2013. The use of SPED and artificial intelligence will increase the identification of tax fraud.

information technology investments sustainable by planning and prioritizing resources for infrastructure and information security upgrades and maintenance; (ii) strategically plan interdependent outputs; and (iii) prepare complex terms of reference in advance, with support from specialized consulting services.

1.26 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenge of Productivity and Innovation, inasmuch as it reduces the cost of tax collection by using information and digital technologies. It is also aligned with the following crosscutting themes: (i) Institutional Capacity and Rule of Law, by strengthening the tax and public resource management and planning systems, enhancing transparency and accountability through greater digitalization, and automating processes and services; and (ii) Climate Change, since, according to the joint methodology of the multilateral development banks, 9.24% of the operation's resources are being invested in climate change mitigation activities. These resources contribute to the IDB Group's target of increasing lending to projects related to climate change to 30% of all approvals in 2021. In addition, the program contributes to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) emissions avoided (annual tons of CO_2 equivalent); (ii) countries with strengthened tax and expenditure policy and management; (iii) agencies with strengthened digital technology and managerial capacity; and (iv) agencies with strengthened transparency and integrity practices. It also aligns with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2); and it is consistent with the sector framework documents on Decentralization and Subnational Governments (GN-2813-8), and Fiscal Policy and Management (GN-2831-8) under the following dimensions: (i) improving the efficiency and quality of expenditure and service delivery; (ii) increasing own revenue collection; and (iii) working with greater transparency and accountability. The program is also consistent with the Climate Change Sector Framework Document (GN-2835-8) inasmuch as it will reduce greenhouse gas emissions through the procurement of efficient equipment.

1.27 **The Bank's country strategy.** The project aligns with the IDB Group's Country Strategy with Brazil 2019-2022 (document GN-2973), specifically through the following strategic objectives: (i) reform the structure of public expenditure (Components 1 and 3); (ii) perfect the public investment system (Component 3); (iii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises (Components 1, 2, and 3); and (iv) build a more effective government (Components 1, 2, and 3). Lastly, the operation is included in the Update of the Annex III of the 2021 Operational Program Report (document GN-3034-2).

B. Objectives, components, and cost

1.28 The objective of the project is to contribute to the fiscal sustainability of the State of Sergipe through the following specific objectives: (i) modernize fiscal management; (ii) improve tax administration; and (iii) improve public expenditure management. The operation will finance the following components:

1.29 **Component 1. Fiscal management and transparency (US$16,056,000).** This component seeks to improve management instruments, modernize technology

infrastructure,[60] and make SEFAZ/SE's relationship with society more transparent, improving its institutional performance. It will finance the following:

a. **Public governance model (US$3,749,500),** including: (i) a methodology for integrating strategic planning with budget management; (ii) an evaluation and management system; (iii) a state projects office; (iv) a results-based management system; (v) a dashboard; and (vi) an internal control system and methodology.

b. **Personnel management model (US$2,706,000),** including: (i) a home office methodology; (ii) a methodology for right-sizing the workforce; (iii) integration of the of the personnel system modules with the I-GESP; and (iv) a new state payroll system.

c. **Information technology management model (US$7,155,500),** including: (i) a governance model and master plan; (ii) a management system with criteria for prioritizing demand; (iii) a risk management system; (iv) an information security plan, including tools to combat cyber-attacks; (v) artificial intelligence tools to help automate processes and analyze large volumes of data with greater precision; and (vi) hardware for data processing and storage, computers, and software, such as licenses for firewalls, data integration tools, service management tools, site backup, and videoconferencing.

d. **Procurement model (US$715,500),** including: (i) mapping and redesign of processes; (ii) a methodology for management of procurements, contracts, supply chain, and cost estimate processes; (iii) catalogue of materials; (iv) procurements and contracts management process integrated with budget and financial system; and (v) a training plan.

e. **Fiscal citizenship and transparency systems (US$1,729,500),** including: (i) action plans for transparency with definition of guidelines, responsibilities, and review of flows; (ii) a fiscal education plan; (iii) web tools for interaction with society (games, applications, online magazine); and (iii) a consolidated transparency portal.

1.30 **Component 2. Tax administration and fiscal litigation (US$10,136,500).** This component seeks to make tax collection more efficient, grow revenues, and simplify tax compliance. It will finance the following:

a. **Tax policy management model (US$833,000),** including: (i) methodologies for analyzing tax gaps and potential revenue; (ii) tax benefit control system; and (iii) a web platform for consulting tax legislation with artificial intelligence tools for responding to taxpayers.

b. **Economic-fiscal information management model (US$560,000),** including: (i) integration modules with the National Network for the Simplification of Business Registration (REDESIM); (ii) a methodology for defining the inheritance tax (ITCMD) management model and management tool; (iii) a

[60] Fifty percent of project equipment procurements will observe energy efficiency requirements, using *Procel Clase A,* Energy Star, or equivalent labeling.

module for integration of the vehicle tax (IPVA) with the electronic fiscal invoice (NF-e); and (iv) an integration module with the Single Foreign Trade Portal.

c. **Fiscal intelligence and compliance model (US$6,943,000),** including: (i) mapping and redesign of processes; (ii) predictive system for identification of tax fraud; (iii) quality control methodology for official notices of taxes owed; (iv) a system for inspection of goods-in-transit and a monitoring facility; (v) fiscal management system with the following modules: (a) advance preparation by SEFAZ/SE of taxpayer records; and (b) taxpayer profile and risk analysis; (vi) monitoring facility for goods-in-transit; and (vii) renovation and modernization of SEFAZ/SE facilities, to include a new electrical system, photovoltaic energy system, fire prevention equipment, furnishings, and tax posts, and encompassing, in addition to improvements to the physical environs, the procurement of scales for road weigh stations, cameras, equipment, and furnishings.

d. **Fiscal litigation management model (US$804,500),** including: (i) mapping and redesign of processes; (ii) management methodologies; (iii) administrative resolution management system; (iv) judicial litigation management model integrated with the Court of the State of Sergipe (TJSE), SEFAZ/SE, and notaries; and (v) settlement of adjudicated tax debt.

e. **Taxpayer services model (US$708,000),** including: (i) systematization of services; (ii) a management system; (iii) a tool to expand digital services for taxpayers; and (iv) a tool to evaluate the quality of services and taxpayer satisfaction.

f. **Adjudicated claims collections system (US$288,000),** including: (i) a collections and risk analysis methodology; (ii) a system with collections rules and regulations, integrated with current income; and (iii) implementation of the returns and reimbursement module in the State Revenue System.

1.31 **Component 3. Financial management and public expenditure (US$4,031,000).** This component aims to make financial planning and execution more efficient and enhance expenditure quality. It will finance the following:

a. **Budget planning and execution model (US$418,000),** including: (i) mapping and redesign of processes; (ii) methodology for forecasting and evaluating fiscal risks; and (iii) new functions in the I-GESP to enable the preparation, monitoring, and evaluation of the Multiyear Plan, management of budget risks and fiscal estimates.

b. **Financial programming and execution model (US$338,000),** including: (i) mapping and redesign of processes; (ii) cash flow and bank reconciliation modules integrated into the I-GESP; and (iii) electronic expenditure system.

c. **Management system for judicial payment orders (US$370,000),** including: (i) calculation methodology; (ii) management system with modules for judicial calculation and control of statutory periods integrated with the I-GESP, the PGE, and the TJSE; and (iii) audit conducted of judicial payment orders.

d. **Accounts management model (US1,118,000),** including: (i) methodology for control, evaluation, and management of intangible assets; (ii) modules in the I-GESP for: (a) control and evaluation of intangible assets; (b) management of

materials; and (c) accounting audits; (iii) valuation methodology and economic use strategy for the state's real property; and (iv) management system for fixed assets.

e. **Public debt management model (US$308,000),** including: (i) mapping and redesign of processes; (ii) management methodology; and (iii) modules in the I-GESP for: (a) management; and (b) monitoring of indicators for the fiscal adjustment and restructuring program, the capacity to pay (CAPAG), and the LRF.

f. **Public cost management model (US$1,479,000),** including: (i) methodology; (ii) management system; and (iii) pilot project in a priority sector to be selected based on the methodology developed.

1.32 **Project management (US$466,500).** The project will also finance activities to support project management and execution, including costs relating to accounting and financial auditing, and monitoring and evaluation.

1.33 The project will finance the following categories of investment for all the components: (i) training, US$1,154,250 (3.8%); (ii) consulting services, US$7,006,051 (22.8%); (iii) goods, US$11.760.949 (38.3%); (iv) trainings, US$8,088,750 (26.4%); and (v) other works,[61] US$2,680,000 (8.7%).

1.34 **Beneficiaries.** The state's enhanced fiscal sustainability will benefit its citizens, businesses, taxpayers, and governmental and nongovernmental entities, through improved service delivery, simplified and lower-cost tax compliance, and more widely available information for statewide management and accountability.

C. Key results indicators

1.35 Achievement of the general development objective will be verified through the following indicators: (i) the reduction in the ratio between the state's primary fiscal deficit and its GDP; (ii) the increase in the ratio between the state's tax revenue and its GDP; and (iii) the decrease in the ratio between the state's net current debt and its GDP. Attainment of the specific development objectives will be verified through the following indicators: (i) the increase in the ratio of strategic planning targets met to total targets planned; (ii) the decrease in the ratio of administrative collection cost to total revenue intake; and (iii) the reduction in the gap between the budget as executed and the budget as planned.[62]

1.36 **Cost-benefit analysis.** A cost-benefit analysis of the project was performed to compare the economic/financial costs and benefits, considering the following outcomes: (i) an increase in revenue intake following the adoption of a new tax collection model and changes in the management of the vehicle tax (IPVA); (ii) resource savings resulting from process automation, which substantially shortens the time spent to perform what are currently manual activities, and reduction of unnecessary payments in judicial decisions; and (iii) reduction of taxpayer costs

[61] Renovations and upgrades to the physical spaces at SEFAZ/SE and the tax posts are the only works envisaged.

[62] The target is to maintain performance within the 5% range recommended by the Public Expenditure and Financial Accountability (PEFA) methodology.

owing to shorter service times following the replacement of face-to-face interactions with other channels and a reduction in the number of vehicles transporting goods obliged to stop at tax posts. By end-2031 (in 10 years' time), the project investments will have a net present value of US$12.9 million with an internal rate of return (IRR) of 43.7%. These results are robust to the sensitivity analysis performed, which considered four different scenarios as follows: exclusion of revenue increases (IRR of 14.3%); delay in the execution and realization of benefits by one and four years (IRR of 22.7% and 13.5%, respectively); a 30% devaluation of the real (IRR of 23.1%); and a 25% reduction in all benefits (IRR of 18.5%).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This operation under the PROFISCO II CCLIP (BR-X1039) has a total cost of US$30,690,000, to be financed through an investment loan for up to US$27,900,000 from the Bank's Ordinary Capital and a local counterpart contribution of US$2,790,000. The breakdown of resources by funding source and category is shown in Table 4.

Table 4. Estimated program costs (US$)

Components	IDB	Local	Total	%
A. Direct costs	**27,433,500**	**2,790,000**	**30,223,500**	**98.5**
Component 1. Fiscal management and transparency	**14,766,000**	**1,290,000**	**16,056,00**	**52.3**
1.1 Public governance model, implemented	3,749,500	0	3,749,500	12.2
1.2 Personnel management model, implemented	2,706,000	0	2,706,000	8.8
1.3 Information technology management model, implemented	5,865,500	1,290,000	7,155,500	23.3
1.4 Procurement model, implemented	715,500	0	715,500	2.3
1.5 Fiscal citizenship and transparency systems, implemented	1,729,500	0	1,729,500	5.6
Component 2. Tax administration and fiscal litigation	**8,636,500**	**1,500,000**	**10,136,500**	**33.1**
2.1 Tax policy management model, implemented	833,000	0	833,000	2.7
2.2 Economic-fiscal information management model	560,000	0	560,000	2
2.3 Fiscal intelligence and compliance model, implemented	5,443,000	1,500,000	6,943,000	22.6
2.4 Fiscal litigation management model, implemented	804,500	0	804,500	2.6
2.5 Taxpayer services model, implemented	708,000	0	708,000	2.3
2.6 Adjudicated claims collections system, implemented	288,000	0	288,000	1
Component 3. Financial management and public expenditure	**4,031,000**	**0**	**4,031,000**	**13.1**
3.1 Budget planning and execution model, implemented	418,000	0	418,000	1.4
3.2 Financial programming and execution model, implemented	338,000	0	338,000	1.1
3.3 Management system for judicial payment orders, implemented	370,000		370,000	1.2
3.4 Accounts management model, implemented	1,118,000	0	1,118,000	3.6
3.5 Public debt management model, implemented	308,000	0	308,000	1.0
3.6 Public cost management model, implemented	1,479,000	0	1,479,000	4.8
B. Project management	**466,500**	**0**	**466,500**	**1.5**
Monitoring and evaluation	341,500	0	341,500	1.1
Auditing	125,000	0	125,000	0.4
Total	**27,900,000**	**2,790,000**	**30,690,000**	**100**

Note: The values provided at the output/activity level in the table of costs are indicative.

2.2 **Disbursement schedule.** Disbursements will be made over a period of five years as shown in Table 5.

Table 5. Disbursement schedule (US$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
BID	768,875	4,530,350	6,720,944	11,934,649	3,945,182	27,900,000
Local	129,000	483,000	633,000	1,105,500	439,500	2,790,000
Total	**897,875**	**5,013,350**	**7,353,944**	**13,040,149**	**4,384,682**	**30,690,000**
%	**3**	**16**	**24**	**43**	**14**	**100**

2.3 **Fulfillment of the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** The project fulfills the eligibility criteria specified in the policy on CCLIPs (document GN-2246-9)[63] for individual loan operations, since: (i) it pertains to the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) the operation is included in the Update of the Annex III of the 2021 Operational Program Report (document GN-3034-2); (iii) the state will execute the operation through SEFAZ/SE, which served as executing agency for the first individual operation under the PROFISCO I CCLIP (2518/OC-BR); (iv) the state successfully executed the PROFISCO I-SE project, achieving the planned objectives; and (v) the institutional analysis found that SEFAZ/SE's capabilities have not deteriorated, so the same project execution and monitoring tools may be used for this new operation, and the PCU staff will also be the same. According to the PROFISCO I-SE project completion report (PCR): (i) the project objectives were achieved satisfactorily; and (ii) the execution unit complied with the contractual requirements and the Bank's disbursement policies, and its accounts were audited and found to meet the required quality standards.

B. Environmental and social risks

2.4 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), this project is classified as a category "C" operation. The project will support the strengthening of tax and financial processes. It will not finance infrastructure works or land purchase (only renovations and upgrades to existing facilities will be carried out), so no socioenvironmental risks are foreseen.

C. Other risks and key issues

2.5 A risk management workshop held using the Bank's methodology rated the operation as having a medium-low risk. There is a medium-high economic and financial risk that if the adverse effects of the COVID-19 pandemic continue to unfold, it will have a strong impact on the Brazilian economy, especially at the subnational level, which could affect the state's capacity to provide the counterpart contribution, undermining achievement of the project results. This risk will be mitigated through adjustments to the financial schedule of the project that would

[63] This operation has been prepared in accordance with the eligibility criteria specified in document GN-2246-9, pursuant to the provisions of paragraph 3.12 of document GN-2246-13.

enable a greater proportion of IDB resources to be used for execution during any period in which the state has difficulty providing its contribution, as well as periodic reviews during planning of the physical and financial aspects of the project to evaluate the capacity to produce the outputs planned with the required counterpart contribution.

2.6 **Fiscal analysis of the state.** The analysis of Sergipe's financial situation confirms its payment capacity to service the debt contracted through this loan, which represents approximately 0.27% of state GDP and just 1.22% of net current income in 2019. In addition, the state had a "C" rating in 2019, issued by the National Treasury Department (STN) using the CAPAG methodology, but a "B" in debt and "A" in liquidity, and a "C" only in net savings. An evaluation by the STN for 2020 indicates an improvement, with an overall rating of "B", with a change from "C" to "B" in net savings, from "B" to "A" in debt, and an unchanged "A" in liquidity. In addition, Sergipe remains in compliance with the LRF and the conditions of the Fiscal Adjustment Program (see Sergipe financial situation).

2.7 **Program sustainability.** In order to guarantee that the capacities generated by the project are sustainable beyond the execution period, the following outputs, alongside an improved economic and fiscal position forecast for the state, will enhance the efficiency of tax administration and public expenditure and yield higher levels of tax revenue and procurement savings for the state: (i) tax policy management model (paragraph 1.30(a)), which will help estimate potential revenue intake and analyze fiscal incentives; (ii) economic-fiscal information management model (paragraph 1.30(b)), with IPVA and ITCMD management systems, which will improve control of payments and reduce evasion; (iii) fiscal intelligence and compliance model (paragraph 1.30(c)), which will improve the identification of potential tax evaders and incentivize compliance; and (iv) financial programming and execution model (paragraph 1.31(b)), which will support execution of financial programming and better use of public resources. Regarding investments in technology, SEFAZ/SE will make greater use of its personnel, support from the company Sergipe Parque Tecnológico (SergipeTec) (paragraph 3.7), and specialized consulting assignments for necessary maintenance and upgrades. The project will finance improvements in data protection and cybersecurity measures.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The State of Sergipe will be the borrower and will execute the operation through SEFAZ/SE.[64] The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the policy on Guarantees Required from the Borrower (document GP-104-2). For project implementation, a PCU will be set up, staffed by a general coordinator, a technical coordinator, an administrative and financial coordinator, a planning and monitoring advisor, and a procurement

[64] In case of a change in governance structure, SEFAZ/SE may be replaced by another agency with the same legal competencies and authorities, subject to prior approval by the Bank.

advisor. The PCU will coordinate project planning, monitoring, evaluation, and auditing activities.

3.2 The PCU's main functions will be to: (i) plan the execution of project activities; (ii) prepare, implement and update the project's operational tools: the multiyear execution plan, the annual work plan, the procurement plan, and the monitoring and evaluation plan; (iii) supervise execution and submit progress reports; (iv) coordinate and carry out the processes involved in the preparation of terms of reference, goods procurement and bidding, and the selection and contracting of services; (v) submit supporting documentation and disbursement requests to the Bank; (vi) prepare financial statements; and (vii) submit the project evaluation. The project impact evaluation will be based on the output corresponding to fiscal intelligence and compliance model (paragraph 1.31(c)). The borrower will adhere to the Program Operating Regulations approved by the Bank for the PROFISCO II CCLIP, which specify the following: (i) project eligibility criteria and outputs eligible for financing; (ii) functions, procedures, and standards for project execution; and (iii) operational and contractual relations between the parties involved in the project.

3.3 **Interagency coordination mechanism.** SEFAZ/SE will collaborate with the State Administration Department (SEAD), the State Government Department (SEGG), the State Transparency and Control Department (SETC), and the State Attorney General's Office (PGE) on the execution of activities that will benefit these entities. Leaders of the corresponding outputs will be appointed at these institutions, who will coordinate their actions with the PCU and will be responsible for preparing the terms of reference, for their technical development and implementation. The roles and responsibilities of each institution will be established in the cooperation instruments to be signed with SEFAZ/SE prior to the start of execution of the corresponding outputs (paragraph 3.5).

3.4 **Special contractual conditions precedent to the first disbursement of the loan. (i) The borrower will adhere to the Program Operating Regulations, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP.** This condition is justified by the attention to the operational, fiduciary, and institutional responsibility aspects that will have to be regulated for an orderly launch and execution of the project. The Program Operating Regulations will be a document subject to periodic review and may be modified with the express approval of the Bank. **(ii) The project coordination unit will be created and its members appointed.** This condition is justified by virtue of the fact that formal creation of the PCU is key to mitigating the risk of execution delays and will enable the operational and fiduciary processes of the project to be carried out exclusively and with the due experience.

3.5 **Special contractual conditions for execution.** Before starting to execute activities that have outputs intended for the SEAD, the SEGG, the SETC, or the PGE, the Sergipe State Finance Department (SEFAZ/SE) will sign a cooperation instrument with the respective institutions, specifying the roles and responsibilities of the parties during execution of the respective activities. This condition is justified by the need to ensure that the entities benefiting from the activities will provide the cooperation needed to SEFAZ/SE, which will be in charge of executing them.

3.6 **Procurement.** Procurement processes will be carried out by a special bid committee appointed for the program with capacity to meet the demand, and procurement and contracting will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and as indicated in the procurement plan.

3.7 **Single-source selection.** Pursuant to the provisions for single-source selection of consulting firms set out in paragraph 3.11(d) of policy document GN-2350-15, the following will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new information technology solutions, pursuant to paragraph 1.13(c) of the aforementioned policy, on the eligibility of universities and research centers to participate in contracts; and (iii) data processing firms that are in charge of information technology development at the state level, and in the specific case of Sergipe, the firm Sergipe Parque Tecnológico (SergipeTec), which maintains a strategic partnership with the state to provide information technology services to the state government, with a focus on activities that spur economic development, will be considered adequate for the US$2 million proposed direct selection contract, given its unique characteristics and the advantages it offers in terms of continuity of service, in accordance with paragraphs 3.11(d) and 3.12, respectively, of the cited policy. By virtue of the provisions set out in paragraphs 3.11(d) and 3.16 of document GN-2350-15, direct contracting will also be used to select the Inter-American Center of Tax Administrations (CIAT), as a specialized international agency providing technical assistance to modernize tax administrations in the region; and (ii) the firm *Gartner do Brasil Serviços de Pesquisas Ltda*, pursuant to paragraph 3.11(d) of document GN-2350-15, as this proposed direct selection is considered adequate in view of the advantages obtaining from having its specialized services, experience, and qualities of exceptional worth for execution of the consulting assignment in innovation in information technology (see Annex II, Chapter IV, and justification of single-source selection).

3.8 **Audited financial statements.** The borrower will submit audited financial statements to the Bank within 120 days after each fiscal-year end. The external audit will be performed either by an external auditing firm acceptable to the Bank or else by the Sergipe State Audit Office, which is eligible to perform the external audits of Bank-financed operations. The audit will be contracted by SEFAZ/SE, under terms of reference that will require the Bank's no objection.

B. Summary of arrangements for monitoring results

3.9 **Monitoring** will be based on the following instruments: (i) the multiyear execution plan and annual work plan; (ii) the procurement plan; (iii) the Results Matrix; and (iv) the monitoring and evaluation plan. The executing agency will submit the updated version of instruments (i) and (ii) to the Bank by 30 November each year. The PCU will prepare semiannual progress reports on achievement of the outcome, output, and financial targets for approval by the Bank, which will conduct inspection visits and ex post reviews as part of project monitoring.

3.10 **Evaluation.** The project will be evaluated against the annual targets and indicators of the outcomes and outputs specified in the Results Matrix, by comparing results before and after the project. The monitoring and evaluation plan provides for an independent midterm evaluation and a final evaluation. The independent midterm evaluation will be presented 90 days after reaching the 36-month mark, as counted from signature of the loan contract, or when 50% of the project resources have been disbursed, whichever occurs first; and a final evaluation, 90 days from the date of the final disbursement. The evaluation reports will serve as inputs for the PCR.

3.11 **Impact evaluation.** The project calls for the introduction of a new large-scale electronic inspection system that encourages taxpayers to come into compliance of their own accord with any type of inconsistency, via messages that deliver reliable and accurate information, so taxpayers will be made aware if they are at risk of incurring a penalty or fine. The impact evaluation will evaluate the introduction of electronic inspection with the ultimate objective of assessing the impact of this methodology on collection of the ICMS tax. Accordingly, a methodology consisting of a randomized controlled experiment is proposed. The goal is to observe the results indicators for a group of firms for which an irregularity has been detected and the opportunity to fix it has been offered against the results for a group of firms that do not receive notification of the irregularity, at least not in the immediate. (see monitoring and evaluation plan).

Development Effectiveness Matrix		
Summary	**BR-L1550**	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Emissions avoided (annual tons CO2 equivalent) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2973**	**(i) reform the structure of public spending; (ii) improve the public investment system; (iii) use electronic government and digital solutions to promote transparency, accountability and efficiency, improving services to citizens and companies; and (iv) build a more effective government.**
Country Program Results Matrix	**GN-3034-2**	**The intervention is included in the 2021 Operations Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.8**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**3.5**	
3.3 Results Matrix Quality	**3.8**	
4. Ex ante Economic Analysis	**6.5**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**1.5**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**0.0**	
5. Monitoring and Evaluation	**10.0**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison.**
Non-Fiduciary	**Yes**	**Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**The IDB team developed and applied a methodology (MD-GEFIS), supported by TC BR-T1417, to assess the state of public finances and fiscal management processes in the State Sergipe to design the project and to monitor future performance against the baseline.**

Evaluability Assessment Note:
The specific objectives for this operation will be: (i) the modernization of tax management; (ii) improving tax administration; and (iii) improving the management of public expenditure. The achievement of these objectives will contribute to the overall objective of contributing to the fiscal sustainability of the State of Sergipe in Brazil. The diagnosis has been carried out based on the conclusions of the MD-GEFIS application, an IDB tool that evaluates the performance of fiscal management in the States of Brazil. The main specific problems to be addressed are: (i) the corporate processes of the Ministry of Finance related to its governance, strategic management and communication with citizens present an insufficient level of development and integration; (ii) collection performance is limited in relation to its potential; and (iii) expenditure management is deficient in terms of fiscal discipline and effectiveness.
The results matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. The project appropriately addresses monitoring and evaluation requirements. The MEP includes an evaluation proposal which seeks to estimate the impact of the implementation of massive electronic audit based on third-party information (electronic invoice) on tax compliance and collection. The proposed methodology is a randomized controlled experiment.
The project presents a cost-benefit analysis that has been elaborated in detail. The benefits of the project come from (i) efficiency gains for the government because of automation, (ii) reduction of costs to citizens due to reductions in time and travel associated with bureaucratic processes, and (iii) financial gains of the government due to a reduction in tax evasion and improper payments of requests for assistance. An Internal Rate of Return (IRR) of between 14% and 59%was estimated. If the reduction of tax evasion is not considered as a social benefit of the project, the IRR is estimated at 14%.
The operation is medium low risk. However, the risk would become medium-high if the adverse economic effects of the COVID-19 pandemic deepen. In that case, it may affect the state's ability to provide the loan counterpart. This risk will be mitigated through adjustments in the financial schedule of the project to allow the execution with a greater proportion of IDB resources in the period in which the government has greater liquidity restrictions.

RESULTS MATRIX[1-2-3]

Project objective:	The specific objectives of this operation will be: (i) to modernize fiscal management; (ii) to improve tax administration; and (iii) to improve public expenditure management. Achieving these objectives will contribute to the general objective of contributing to the fiscal sustainability of the State of Sergipe.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
General development objective: To contribute to the fiscal sustainability of the State of Sergipe.							
Primary balance / State GDP	%	1.04	2020	2026	1.27	State of Sergipe balance sheet	The targets associated with the general objective (impacts) will be verified for the project completion report.
Tax Revenue / State GDP	%	6.05	2020	2026	6.53		
Net consolidated debt / State GDP	%	6.99	2020	2026	6.01		

1 The results are not cumulative.

2 Calculation report for the indicators.

3 Given the prevailing COVID-19 context, the figures shown for the impact and outcome indicators may be recalculated during the launch mission.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Specific development objective 1: To modernize fiscal management											
Number of targets met / Total number of targets planned	%	36.74	2020	46.79	51.70	56.66	61.62	66.58	66.58	Annual report from SEGG/SE	See monitoring and evaluation plan.
Specific development objective 2: To improve tax administration											
Collection costs / Tax revenue intake	%	8.12	2020	7.79	7.62	7.45	7.29	7.12	7.12	Report from SEFAZ/SE	See monitoring and evaluation plan.
Specific development objective 3: To improve public expenditure management											
Budget as executed / Budget as planned[4]	%	-6.7%[5]	2019[6]	-5.76	-5.46	-5.16	-4.86	-4.56	-4.56	State balance sheet/SE	See monitoring and evaluation plan.

4 The target is to maintain performance within the 5% range recommended by the Public Expenditure and Financial Accountability (PEFA) methodology.

5 The indicator is calculated as follows: [(Budget as executed/Budget as planned)-1].

6 The baseline value corresponds to the average value of the indicator for the period 2017-2019. The year 2020 is excluded as a highly atypical year. The baseline will be updated during the launch mission with the indicator value for 2021.

OUTPUTS[7-8-9-10]

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Component 1. Fiscal management and transparency											
1.1 Public governance model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEGG/SE and SETC/SE	See monitoring and evaluation plan.
1.2 Personnel management model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE and SEAD/SE	
1.3 Information technology management model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE, including data on procurement of efficient equipment	
1.4 Procurement model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEAD/SE	
1.5 Fiscal citizenship and transparency systems, implemented	Systems	0	2020	0	0	1	1	1	3	Management report from SEFAZ/SE and SETC	

[7] The outputs are annual.

[8] Systems, models, or software are only considered implemented when they are in use by public officials.

[9] "Model" means a set of activities that may include the following: (i) a diagnostic assessment of the current situation; (ii) a methodology and change proposal; (iii) process reengineering; (iv) the programming of an information technology solution; and (v) training in the new processes and tools.

[10] System" means software that provides a set of rules governing how conceptual business models operate.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Component 2. Tax administration and fiscal litigation											
2.1 Tax policy management model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE	See monitoring and evaluation plan.
2.2 Economic-fiscal information management model	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE	
2.3 Fiscal intelligence and compliance model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE	
2.4 Fiscal litigation management model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE and PGE/SE	
2.5 Taxpayer services model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE	
2.6 Adjudicated claims collections system, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE and PGE/SE	
Component 3. Financial management and public expenditure											
3.1 Budget planning and execution model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE	See monitoring and evaluation plan.
3.2 Financial programming and execution model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE	

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
3.3 Management system for judicial payment orders, implemented	System	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE	
3.4 Accounts management model, implemented	Model	0	2020	0	0	0	0	1	1	Management report from SEFAZ/SE and SEAD/SE	
3.5 Public debt management model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE	
3.6 Public cost management model, implemented	Model	0	2020	0	0	0	1	0	1	Management report from SEFAZ/SE, including information on climate change criteria	

Country: Brazil **Division:** IFD/FMM **Operation No.:** BR-L1550 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: State of Sergipe, through SEFAZ/SE

Project name: Fiscal Management Modernization Project for the State of Sergipe (PROFISCO II/SE)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the project

☒ Budget	☒ Reports	☒ Information system	☐ Partial NCB
☒ Treasury	☒ Internal audit	☒ Shopping	☐ Advanced NCB
☒ Accounting	☒ External control	☐ Individual consultants	☐ Other

2. Fiduciary execution mechanism: See Program Operating Regulations.
3. Fiduciary capacity:

Fiduciary capacity of the executing agency	Based on the findings of the institutional capacity assessment, the executing agency's fiduciary execution capacity is considered adequate. The project coordination unit (PCU), to be set up by SEFAZ/SE, will coordinate financial management and procurement activities. The executing agency has prior experience with the Bank-financed PROFISCO I (2518/OC-BR), the fiduciary execution of which was deemed satisfactory. The proposed operation calls for the engagement of consultants to support the preparation of terms of reference. In addition, the Bank will conduct training sessions on fiduciary policies.

4. Fiduciary risks and mitigation actions: No fiduciary risks classified as high or medium-high were identified that would require mitigation measures.
5. Policies and guidelines applicable to the operation: Documents GN-2349-15 and GN-2350-15.
6. Exceptions to policies and guidelines: N/A.

II. Agreements and Requirements for Procurement Execution

☒	Bidding documents	The procurement of works, goods and nonconsulting services, executed in accordance with the procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB), will use the Bank's standard bidding documents (SBD) or those agreed upon between the executing agency and the Bank for the procurement in question. Similarly, consulting services will be selected and contracted in accordance with the consultant selection policies (document GN-2350-15), using the standard request for proposals (RFP) issued by the Bank, or as agreed upon between the executing agency and the Bank for the selection in question.
☒	Direct contracting and selection	The following contracts and direct selections have been identified: 1. Government schools and entities. Pursuant to the provisions for single-source selection of consulting firms set out in paragraph 3.11(d) of policy document GN-2350-15, when only one firm is qualified or has experience of exceptional worth for the assignment, the following will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new information technology solutions, pursuant to paragraph 1.13(c) of the aforementioned policy, on the eligibility of universities and research centers to participate in contracts; and (iii) data processing firms that are in charge of information technology development at the state level, and in the specific case of Sergipe, the firm Sergipe Parque Tecnológico (SergipeTec), which maintains a strategic partnership with the state to provide information technology services to the state government, with a focus on activities that spur economic development, will be considered adequate for the US$2 million proposed direct selection contract, given its unique characteristics and the advantages it offers in terms of continuity of service, in accordance with paragraphs 3.11(d) and 3.12, respectively, of the cited policy. 2. Specialized international agencies. By virtue of the provisions set out in paragraphs 3.11(d) and 3.16 of document GN-2350-15, direct contracting will also be used to select the Inter-American Center of Tax Administrations (CIAT), as a specialized international agency providing technical assistance to modernize tax administrations in the region. 3. *Gartner do Brasil Serviços de Pesquisas Ltda*, for US$250,000. Pursuant to paragraph 3.11(d) of document GN-2350-15, this proposed direct selection is considered adequate in view of the advantages obtaining from having the firm's specialized services, experience, and qualities of exceptional worth for execution of the consulting assignment in innovation in information technology.

<table>
<tr><td>☒</td><td>Procurement supervision</td><td>Procurement will be subject to ex post supervision, except in those cases in which ex ante supervision is justified. Procurements processed through Brazil's country system will also be supervised through that system. The supervision method will be determined for each selection process. Ex post reviews will be carried out in accordance with the project supervision plan. The threshold amounts for ex post review are as follows:
<table>
<tr><th>Works</th><th>Goods/services</th><th>Consulting services</th></tr>
<tr><td>US$25 million</td><td>US$5 million</td><td>US$1 million</td></tr>
</table>
</td></tr>
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Main procurement items

Description of the procurement	Selection method	Estimated date	Estimated amount (US$)
Goods			
Upgrade to the SEFAZ/SE asset data center	NS	September 2022	1,250
Equipment for the SEFAZ/SE backup site	NS	March 2025	1,250
Works			
Restructuring of the Cristinápolis tax post	NCB	February 2024	625
Consulting services			
Personnel system modules (SIPES)	Shopping	August 2025	1,575
Firms			
Advisory services on innovation in information technology for SEFAZ/SE	SSS	September 2022	250

In order to consult the 60-month procurement plan: (procurement plan).

Procedures	Justification of use
Notice of intention to award and suspension deadline	Pursuant to policy document GN-2350-15, applicable to international selection processes for consulting firms.

III. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

☒	Programming and budgeting	The Special Superintendency for Planning, Monitoring, and Sourcing of Funds (SUPERPLAN/SE) is responsible for Sergipe's annual planning. State entities use the following planning instruments: multiyear planning (PPA); the Budget Procedures Law (LDO), which provides budget guidelines; and the Annual Budget Law (LOA). The project budget will be part of the LOA. SEFAZ/SE, acting through the PCU, will ensure that resources for PROFISCO II, both the Bank and local contribution, are budgeted annually, and secured for implementation according to the project schedule. Budgetary resources must be registered in the year of execution in the I-GESP as an external source.
☒	Treasury and disbursement management	The project cash flow will use an exclusive account that makes it possible to identify the loan resources and to perform the respective bank reconciliations, including receipts and payments. The currency in which the operation will be managed is the U.S. dollar. The exchange rate to be used in the operation will be the effective rate on the date of conversion of the disbursement currency to local currency (the internalization rate). To determine the equivalence of the expenses incurred as local contribution or as reimbursement of expenses charged against the loan, the rate used will be the buying exchange rate set by the Central Bank of Brazil that is in effect on the date of payment of the expense in local currency. Disbursements will be made in the form of advances of funds and will be based on a projection of financial needs for a maximum of 180 days. For future advances, accounts will be required for at least 80% of the total funding previously advanced.
☒	Accounting, information systems, and reporting	The specific accounting standards to be followed are the Brazilian Accounting Standards Applied to the Public Sector (NBC/TSP). I-GESP will be used as the technology platform for the operation's accounting records. In PROFISCO I, the financial reports on disbursement and external audit required by the Bank were prepared in Excel, based on I-GESP data. The project should draw on the experience of other states that have already implemented their financial management system under PROFISCO II to generate these reports for the Bank. To supplement the policies and guidelines applicable to the operation, the Program Operating Regulations will be used, with the documented definition of workflows and internal controls.
☒	Internal control and internal audit	The internal audit of the project is performed by the State Comptroller General's Office (CGE/MT).
☒	External control: external financial audit and project reports	The executing agency will contract external audit services under terms of reference previously agreed upon between the executing agency and the Bank. These will define the type of review, timeline, and scope. The external auditor selected, and the auditing standards to be applied, will be eligible for the Bank. External control will be exercised by a firm of external auditors acceptable to the Bank, or else by the State Audit Office (TCE/SE). Audited financial reports will be filed annually with the Bank within 120 days after each fiscal year-end, pursuant to the agreed-upon terms of reference.

☒	Project financial supervision	The operation requires financial supervision that will include ex post review of disbursements and procurement processes, an annual audit, and review of disbursement requests. The fiduciary team will also undertake annual on-site and desk reviews and monitoring through supervision visits, subject to adjustment during execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

Brazil. Loan ____/OC-BR to the State of Sergipe. Fiscal Management Modernization Project for the State of Sergipe – PROFISCO II/SE. Sixteenth Individual Loan Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Sergipe, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Fiscal Management Modernization Project for the State of Sergipe – PROFISCO II/SE, which constitutes the sixteenth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II, approved by Resolution DE-113/17 on 8 December 2017. Such financing will be for the amount of up to US$27,900,000, 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 _______________ 2021)

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BR-L1550