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BRAZIL

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)
FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

FISCAL MANAGEMENT MODERNIZATION PROGRAM FOR THE STATE OF CEARÁ– PROFISCO II - CE

(BR-L1502)

LOAN PROPOSAL

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2. Itemized budget
3. Matrix of problems, causes, and solutions
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ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CE	Ceará State
COETI	Coordenadoria de Estratégias de Tecnologia da Informação e Comunicação [Information and Communication Technology Strategies Coordination Unit]
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]
ICT	Information and communication technology
IEF	Instituto de Estudios Fiscales [Institute of Fiscal Studies]
IPEA	Instituto de Pesquisa Econômica Aplicada [Institute of Applied Economic Research]
IPVA	Imposto sobre a propriedade de veículos automotores [Motor vehicle ownership tax]
ITCD	Imposto sobre transmissão “causa mortis” e doação de bens e direitos [Inheritance and gifts tax]
MD-GEFIS	Maturidade e Desempenho da Gestão Fiscal [fiscal management maturity and performance assessment]
NCI	Net current income
NF-e	Nota Fiscal Eletrônica [electronic tax invoice]
PCR	Project completion report
PCU	Program coordination unit
PGE	Procuradoria Geral do Estado [State Attorney General’s Office]
PROFISCO	Program for the Management and Integration of Tax Administrations in Brazil
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National Network for Simplification of the Registration and Legalization of Enterprises and Businesses]
S2GPR	Results-based government management system
SEFAZ	Secretaria de Fazenda do Estado [State Finance Department]
SEPLAG	Secretaria do Planejamento e Gestão [Planning and Management Department]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]

PROJECT SUMMARY

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CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)
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(BR-L1502)

Financial Terms and Conditions

Borrower: State of Ceará		
Guarantor: Federative Republic of Brazil		
Executing agency: State of Ceará, through its Finance Department (SEFAZ)		
Source	**Credit line (US$ million)**	**1st operation (US$ million)**
IDB Ordinary Capital:	900	70
Local	0	7
Total:	**900**	**77**

Flexible Financing Facility [(a)]	
Amortization period:	25 years
Disbursement period:	5 years
Grace period:	5.5 years [(b)]
Interest rate:	LIBOR-based
Credit fee:	[(c)]
Inspection and supervision fee:	[(c)]
Weighted-average life:	15.25 years
Currency of approval:	U.S. dollars

Project at a Glance

Objective of the CCLIP: The general objective of the BR-X1039 CCLIP is to contribute to fiscal sustainability, through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration, and (iii) better public expenditure management.

Objective of the first individual loan operation: The objective of the first individual loan operation is to contribute to the state's fiscal sustainability through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration, and (iii) better public expenditure management.

Contractual conditions precedent to the first disbursement: (i) adherence by the borrower to the Program Operating Regulations, as previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) establishment of the Program Coordination Unit and appointment of its members (paragraph 3.5).

Special execution conditions: Before starting to execute program activities that have outputs geared towards the State Attorney General's Office (PGE), the State Finance Department (SEFAZ) will sign a cooperation agreement with the PGE specifying the roles and responsibilities of the parties during project implementation (paragraph 3.6).

Exceptions to Bank policies: None.

Strategic Alignment

Challenges:[(d)]	SI	☐	PI	☑	EI	☐
Crosscutting issues:[(e)]	GD	☐	CC	☐	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 and interest rate conversions. When reviewing such requests, the Bank will take operational and risk management considerations into account.

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

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, rationale

1. Description of the PROFISCO II CCLIP

1.1 **Economic and fiscal situation in Brazil.** The Brazilian economy faces major challenges to maintain its economic and fiscal sustainability. Its gross domestic product (GDP) shrank by 3.8% in 2015 and by 3.6%[1] in 2016. The growth forecasts for 2017 and 2018 are just 0.3% and 1.3%, respectively.[2] The consolidated public sector recorded primary surpluses averaging 3.4% of GDP in 2002-2008, but only 1.3% in 2009-2015; and in 2016 it posted a primary deficit of 2.5%.[3] The public debt, which in 2013 stood at 60% of GDP, is forecast to reach 76.9% in 2017 and 84.3% by 2021.[4]

1.2 This lackluster economic growth has negative effects on fiscal performance at the state level. State tax revenues declined from 7.67% of national GDP in 2008 to 6.98% in 2015.[5] In this period, federal government transfers to the states also decreased, from 2.9% to 2.59% of GDP,[6] while state-level current expenditures increased, from 10.21% of GDP in 2011 to 10.96% in 2015.[5] Since 2012, the primary outturn has deteriorated, and 19 states posted primary deficits in 2014.

1.3 **Rationale**. The conditional credit line for investment projects (CCLIP)-(PROFISCO I/BR-X1005), hereinafter referred to as the PROFISCO I CCLIP),[7] was approved in 2008 for US$500 million, which was increased in 2013 to US$700 million. The PROFISCO I CCLIP aimed to promote the integration of Brazil's fiscal administrations and the modernization of the beneficiaries' fiscal, financial and asset management. In order to deepen and lock in the gains made, and to continue the fiscal modernization process, the Brazilian states, supported by the Ministry of Finance,[8] applied to the Bank for a new CCLIP. This new PROFISCO II CCLIP (BR-X1039), hereinafter referred to as PROFISCO II CCLIP, aims to increase revenue collection, improve the business climate, and boost the country's competitiveness.[7]

1.4 **Instrument**. The CCLIP modality was selected for the PROFISCO II credit line, since this is the most appropriate instrument for financing improvements to Brazil's fiscal management, through individual sovereign-guaranteed projects in the federal and state government levels. In particular, it makes it possible to standardize the common aspects of the credit line in all of the individual operations, thus generating major economies of scale. In terms of design, it makes it possible to approve several individual operations under a common set of objectives and results, components,

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1 IBGE, 2017.

2 IMF, 2017.

3 IFI, March 2017.

4 IFI, February 2017.

5 Rossi, 2016.

6 STN, 2016.

7 See PROFISCO I/II.

8 Official notice of the Ministry of Finance and letter from the Ministers of Finance.

mandatory outputs, unified evaluation and use of the same Program Operating Regulations.[9]

1.5 The CCLIP also addresses one of the key demands made by the Brazilian states, namely a streamlined mechanism that provides rapid responses for the preparation and approval of operations. The authorities also seek to achieve the programmed results in the short term, with a view to attaining and preserving fiscal balance.

2. Program in the State of Ceará (BR-L1502)

1.6 The crisis alluded to in paragraphs 1.1 and 1.2 had an even greater effect on economic activity in the State of Ceará. The state's GDP shrank by 3.48% in 2015 and by a further 5.33% in 2016.[10] Revenue obtained from the goods and services sales tax (ICMS), the main source of state revenue, dropped slightly while expenses increased despite the corrective measures implemented.[11] Investment absorbed 15.8% of net current income (NCI),[12] despite decreasing in nominal terms by US$200 million, from US$1 billion in 2015 to just US$774 million in 2016. As a result, the state reported smaller primary surpluses relative to NCI in 2014 and 2015, before recovering slightly in 2016[13] (see Ceará State fiscal performance).

1.7 The impact of the economic crisis on tax collection was minimized, partly by the fiscal management modernization investments under the PROFISCO/CE project (loan 2044/OC-BR, Project Completion Report – PCR).

1.8 The macroeconomic context at the national and state levels could put Ceará's fiscal situation at risk, thus underlining the importance of continuing to modernize its fiscal management.[14] In this connection, Ceará still faces major challenges, as identified in its fiscal management maturity and performance assessment (MD GEFIS/CE), detailed below:

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9 The use of a single set of Operating Regulations is justified because all the individual operations have the same structure of components, outputs and sub-outputs. All of the projects will be executed by the respective State Finance Departments; and the organizational structure and regulations governing the states' fiscal entities are basically the same. The PROFISCO I CCLIP was also executed satisfactorily using a single set of Operating Regulations.

10 Instituto de Pesquisa e Estratégia Econômica do Ceará [Ceará Economic Research and Strategy Institute], 2017.

11 Measures adopted to guarantee fiscal balance: (i) cap on the growth of current expenses; (ii) increase in the pension system contribution rate for civil servants from 11% to 14%; (iii) prohibition on a tax amnesty for five years; (iv) a hike in the standard ICMS rate from 17% to 18%; and (v) a 10% reduction in tax incentives.

12 FIRJAN, 2017.

13 NCI = Gross income – Transfer to municípios. Primary balance = NCI – nonfinancial expenses. Ceará fiscal restructuring and adjustment program 2016-2018 (see p. 22).

14 The effectiveness of public institutions is hampered by the restrictions faced by their officials, access to information technologies, the availability of financial resources, and the legal framework (Arenas de Mesa, 2016, Finan et al., 2017). The characterization of SEFAZ employees and information technologies are described below (paragraphs 1.10.c and 1.10.d). The average total SEFAZ/CE budget in 2013-2016 was US$7.3 million, of which 39% paid for staff and 61% (US$4.5 million) for other expenses. In terms of the legal framework, the recent amendment of Law 15.838 of 2015 redefined SEFAZ's powers to expand its functions from 190 rates to a total of 410 fees or services. SEFAZ made a detailed diagnosis of processes to prioritize investment areas, based on the MD-GEFIS in 2016. The diagnosis covers 17 areas: six associated with management, seven associated with revenue collection, and four with spending.

1.9 **Fiscal management** displays weaknesses that undermine the institutional performance of the State Finance Department (SEFAZ).[15] This is due to:

a. Poor coordination between strategic management processes (strategic planning, financial planning, consulting, project management and process management), which undermines the performance of SEFAZ operating processes (revenue collection, enforcement and inspection) and support processes (management of procurement, staff, and information and communication technologies–ICT), because the five main strategic management processes are not properly integrated.[16]

b. Shortcomings in the preparation, execution, monitoring and evaluation cycle of projects to strengthen SEFAZ, because: (i) management of the project cycle does not follow the relevant best practices, and the support instruments are inadequate; and (ii) inadequate support for strategic planning.

c. Inefficient use of the labor force, because: (i) personnel are not assigned to functions or trained based on their skills;[17] (ii) people management procedures are deficient;[18] (iii) internal control procedures are ineffective;[19] and (iv) human resources need better continuous training.

d. Low capacity of the technological infrastructure to meet the new demands for modernization and innovation,[20] because: (i) it is difficult to identify SEFAZ information risks and threats in advance; (ii) the technology stock is obsolete; (iii) data management in the various databases is inefficient; (iv) the technological platform of the systems is poorly standardized; (v) the systems' architecture is obsolete; (vi) inadequate software development methodologies are being used; and (vii) there are problems in storing large volumes of data.

e. Failure to meet the demands for goods and services from the different SEFAZ areas on a timely basis,[21] owing to: (i) deficiencies in procurement management and service contracting procedures; and (ii) difficulties in managing the various contracts with the state's goods and service suppliers.

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15 MD-GEFIS: The level of maturity of fiscal management processes is just 61%.

16 MD-GEFIS.

17 SEFAZ has 1,173 employees in primary activities and 1,713 support staff. There is no database that makes it possible to quantify their skills or experience.

18 In terms of incentives, civil servants undergo an annual performance evaluation that looks at professional qualifications and the attainment of work targets; and specific training is provided in the use of technological tools.

19 Employees are subject to the ethics regulations set out in Decree 24,544/1997. Nonetheless, in 2011-2015 only 15 out of 216 reports resulted in penalties being applied.

20 MD-GEFIS: 51% of strategic projects involving ICTs were delayed in 2016. SEFAZ-CE has 350 workstations with low processing power that have been in use for over six years. It currently has about 20 systems on its platform. Technological developments, changing security threats, and the growing volume of data in recent years create the need for upgrades. Moreover, the PROFISCO I investments made in the SPED digital public accounting system and the electronic Invoice (NF-e) involve investment opportunities to complement and update these systems. The diagnostic assessment found that seven out of every 10 of the 55 subprocesses analyzed can be made more efficient when public employees can use software. The software would support the information process in one third of cases (through automation of tasks or processes) and in another third to support coordination with other areas or institutions (through monitoring of processes or indicators).

21 MD-GEFIS: the average time between the requisition and fulfillment the demands of SEFAZ internal clients is 171 days.

f. Weak interaction between the Treasury and society, owing to: (i) the lack of social participation in governance;[22] (ii) the weak link between the demands received from taxpayers/citizens and the results of the actions undertaken; (iii) poor communication with society; and (iv) centralization of the fiscal education program in the capital.

1.10 **Regarding the Tax Administration,** tax evasion rates remain high, which undermines revenue performance. It is estimated that tax evasion in Brazil accounts for 7.6% of national GDP,[23] and results from the following:

a. The instruments used to support tax policy activities are obsolete, because of: (i) outdated legislation that is difficult to interpret and consult; (ii) ignorance of tax evasion at the state level, which makes it difficult to plan and evaluate oversight actions; and (iii) difficulties in controlling tax benefits and evaluating the results and relevance of existing ones.

b. Deficient management of the taxpayers registry,[24] due to: (i) weak interaction between the bodies responsible for registration and data modification; moreover, the registry's data and structure are outdated, and its management system does not comply with the national government's new rules and legal requirements; (ii) the incompatibility of the registration model with the national government Network to Streamline the Registration and Legalization of Enterprises and Businesses (REDESIM); and (iii) lack of integration with Brazilian customs in the control of imported goods.[25]

c. Inefficiency of fiscal control of the largest taxpayers,[26] due to: (i) the deficiency in the treatment of large volumes of data;[27] (ii) difficulty in auditing taxpayers on a large scale; and (iii) insufficient information for effective tax administration.

d. Vulnerability in controlling the transit of goods at state borders, because: (i) most of the control posts have obsolete infrastructure;[28] (ii) confiscated goods are inefficiently managed; and (iii) the system used by the Centro Integrado de Operações Fiscais [Integrated Fiscal Operations Center] (CIOF) at the control posts does not have all the necessary inspection functions.

e. Ineffective and inefficient management of tax claims,[29] because: (i) the management of tax litigation does not have sufficient information to fulfill its functions effectively; (ii) the same occurs with the management of adjudicated tax debt; and (iii) difficulties in monitoring the judicial processes of the Attorney General's Office (PGE).

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22 MD-GEFIS: the three main tax/citizen relationship programs do not achieve their objectives.

23 *SINPROFAZ, 2016. Sonegação no Brasil.* [Tax evasion in Brazil].

24 MD-GEFIS: Integration of the registry with the three levels of government is only 50% complete.

25 MD-GEFIS: the average time taken for imported merchandise to be released after the completion of customs clearance is four days, the recommended average time is 2.6 days (United Nations Economic Commission for Europe).

26 MD-GEFIS: of the 20,000 largest taxpayers, only 6,000 are monitored systematically

27 MD-GEFIS: 71.4 million online invoices (NF-e) were received in 2016.

28 MD-GEFIS: only four of the 14 tax offices are equipped with electronic monitoring systems.

29 MD-GEFIS: average time taken to complete a process in the two administrative stages: 540 days. The annual rate of recovery of adjudicated tax claims relative to stock is only 1.22% (average of the last five years).

f. Poor taxpayer assistance, with a high incidence of face-to-face dealings,[30] because: (i) taxpayer support procedures are deficient; and (ii) the five systems that are used to assist taxpayers are not integrated.[31]

g. Weak integration and obsolescence of control systems for the collection of state taxes,[32] because: (i) the system used to control the collection of ICMS, the motor vehicles ownership tax (IPVA), the inheritance and gifts tax (ITCD) and fees is obsolete; (ii) the systems used to issue the State Tax Collection Document are not integrated; and (iii) the procedures for controlling the collection of fees are deficient.

1.11 **Financial administration** lacks efficient instruments to generate budgetary, financial and property information, on a reliable and timely basis, for decision-making and optimizing the use of public funds. This is due to:

a. Imprecise estimation of income and expenses, for programming and execution purposes,[33] because the econometric projections and the cash flow management procedures are deficient.

b. Difficulty in updating and consolidating financial and property information to generate the government balance sheet,[34] due to the lack of information on: (i) variation in equity regarding receivables; (ii) provisions, assets, and contingent liabilities; (iii) movable and immovable property and their respective depreciation and amortization; and (iv) the recording of liabilities on an accruals basis.

c. Deficient management of public debt,[35] because: (i) a large part of the registration and control of information is done manually; (ii) the reports do not provide sufficient information for decision-making; (iii) projections are unreliable; and (iv) there are difficulties in obtaining information from other sources.

d. Failure to evaluate efficiency in the use of state public funds, due to ignorance of the costs of the public services provided.

1.12 **The Bank's experience in the country**. The Bank has supported various programs to improve fiscal management in Brazil, including the National Fiscal Administration Program for the Brazilian States (loan 980/OC-BR). Support has also been provided to the Federal Revenue Service's Fiscal Modernization Project,[36] the Fiscal

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30 MD-GEFIS: only seven of the 27 service units adopt a service excellence standard.

31 Systems: Merchandise Transit System (SITRAN), Fiscal Control of Prices (COFIP), Fiscal Rules Management (GRF), Virtualization of Processes (VIPRO), Change of Transit Invoices (SANFIT), Administrative and Judicial Processes (SIPAJ).

32 MD-GEFIS: the collection of 410 fees from 40 state agencies, now a SEFAZ responsibility, is not monitored by computer.

33 MD-GEFIS: In 2016, revenue estimates were 96% accurate, but the accuracy rate for expenses was only 92%.

34 MD-GEFIS: Movable and immovable property are not depreciated. Assets and contingent liabilities are not quantified. The financial and accounting information of government agencies takes at least 30 days to be reconciled.

35 MD-GEFIS: Information on loan operations, accruals accounting, counterparties, projections based on interest rates and contractual currencies.

36 SRF (1996).

Management Program for Brazilian Municipalities (PNAFM),[37] the São Paulo State Fiscal Modernization Project, the Program to Support Fiscal Management Modernization and Transparency in the State of Bahia,[38] and the Fiscal Stability Consolidation Programs for the states of Amazonas, Alagoas, Bahia, Pernambuco, and Rio Grande do Sul.[39]

1.13 The midterm evaluation of the PROFISCO I CCLIP, in 2014, found that ICMS collection as a percentage of GDP grew by more in states that had a PROFISCO project at a more advanced stage of execution, than in other states.[40]

1.14 **Lessons learned from the Bank's operations in the country.** The main lessons learned from previous operations that have been considered for the PROFISCO II CCLIP and for this individual program include the following:

a. **Design:** an instrument is needed to identify innovative solutions in fiscal management processes, taking account of best practices. To apply this lesson, the fiscal management maturity and performance assessment (MD-GEFIS) methodology[41] was developed to identify and evaluate the maturity of fiscal management processes in fiscal management, tax administration, and financial management. The methodology is being applied in 10 states,[42] and the results will be used as a baseline for monitoring and evaluating processes and performance indicators in individual projects.

b. **Execution:** some operations need instruments to compensate for implementation delays. For this purpose, the Bank developed the implementation acceleration plan, which will be used as a tool to support the execution of the operations under this credit line.[43]

1.15 **The Bank's experience in other countries of the region.** The Bank's recent experiences with tax administration reforms in Jamaica (loan 2658/OC-JA), Ecuador (loan 3325/OC-EC), Honduras (3541/BL-HO), Peru (loan 3214/OC-PE), El Salvador (loan 3852/OC-ES) and Guatemala (loan 3786/OC-GU), as well as those related to the modernization of financial management systems in Honduras (loan 2032/BL-HO), Guatemala (loans 2050/OC-GU and 2766/OC-GU) and Guyana (loans 1550/SF-GY and 1551/SF-GY), have been considered in this individual operation and for PROFISCO II CCLIP generally.

1.16 **Lessons learned from the Bank's experience in other countries.[44]** Recent evaluations and comparative analysis of tax administrations show that to fulfill their revenue collection role and provide better services, their organization and processes

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[37] Loans 2248/OC-BR and 3391/OC-BR.

[38] Loan 1727/OC-BR.

[39] Policy-based loans: 2081/OC-BR; 2841/OC-BR; 2850/OC-BR; 2962/OC-BR; 3039/OC-BR; 3061/OC-BR and 3139/OC-BR.

[40] BR-X1005: Midterm evaluation, 2014.

[41] Inter-American Center of Tax Administration, 2017-pp. 65-77.

[42] Five states (Ceará, Piauí, Pará, Pernambuco, and Maranhão) have preparation projects; three (Santa Catarina, Mato Grosso do Sul, and Rondônia) had consultation letters approved in September 2017; and two (São Paulo and Rio Grande do Norte) are under analysis.

[43] The implementation acceleration plan uses the Progress Monitoring Report to identify outputs that are delayed, analyze the delayed activities, and prepare a set of mitigation measures to monitor progress until the execution is normalized.

[44] See link.

need strengthening to: (i) improve access to and the quality of information available: complete, up-to-date and automated records, including information from third parties;[45] (ii) implement control models based on the intensive use of quality information;[46] (iii) simplify procedures to make it easier to comply with tax obligations;[47] and (iv) set strategies to ensure the suitability and motivation of human resources.[48]

1.17 The key lessons for strengthening public expenditure management are:[49] (i) automation without improving processes does not produce the expected results; and (ii) modernization must be accompanied by the generation of financial resources for the State.

1.18 **The Bank's strategy with the country**. The program is aligned with the Bank's Country Strategy with Brazil 2016-2018 (document GN-2850), in terms of improving the business climate; and strengthening institutions at the three levels of government to enhance efficiency in the management of public resources.

1.19 **Strategic alignment**. The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), and it is strategically aligned to the development challenge of productivity and innovation by reducing revenue collection costs; and with the crosscutting area of institutional capacity and rule of law, by strengthening tax systems and the management and planning of public resources. The program contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the indicators on: (i) taxes collected as a percentage of GDP; and (ii) government agencies benefited by projects that strengthen technological and management tools to improve the delivery of public services. It is also aligned with the Institutions for Growth and Social Welfare Sector Strategy (document GN-2587-2); the Fiscal Policy and Management Sector Framework (document GN-2831-3); and the Subnational Governments and Decentralization Sector Framework (document GN-2813-3), in the following dimensions: (i) improve the efficiency and quality of expenditure and service delivery; (ii) improve tax collection; and (iii) promote greater transparency and accountability.

B. Objectives, components, and cost

1. PROFISCO II CCLIP[50]

1.20 The general objective of the PROFISCO II CCLIP is to contribute to fiscal sustainability, through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration, and (iii) better public expenditure management.

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45 Tax evasion rates are up to eight times higher in taxes for which the Tax Administration lacks automated mechanisms to verify taxpayers' income sources (Slemrod et al., 2015, Pomeranz, 2015, Kleven et al., 2011).

46 The availability of information acts as a complement to the audit (Almunia and López Rodriguez, 2016).

47 Streamlining procedures can increase payment rates up to four percentage points (Hallsworth et al., 2014).

48 Incentives for Tax Administration staff to increase revenue collection achieved rates of return of 35% to 51% (Khan et al., 2016).

49 The PCRs for loans 1550/SF-GY and 1551/SF-GY draw lessons learned from several programs.

50 The dimensioning of the CCLIP (amount and number of operations), its components, period of use, and conditions that would apply if there were a second operation with the same borrower, and the investment loan instrument that borrowers will use are specified at PROFISCO I/II.

1.21 By enhancing public finance performance, increasing tax collection and making public spending more efficient, greater fiscal sustainability will benefit the citizens of the states through better delivery of quality services.

1.22 The CCLIP will be governed by the Operating Regulations attached to this loan proposal, which will provide guidance for the implementation of PROFISCO II.

1.23 **Eligibility conditions for the CCLIP**. The proposed operation meets the eligibility criteria specified in the policy on CCLIPs (document GN-2246-9), and its operational guidelines (document GN-2246-11).

a. **Eligibility of the CCLIP**. In conformity with the policy on CCLIPs (paragraph 1.19 of document GN-2246-9): (i) the areas to be financed by the CCLIP relate to the fiscal management of the states, which are included in the Bank's country strategy with Brazil 2016-2018 (document GN-2850), and in the country program, since the operation was included through a programming agreement signed with the International Affairs Department of the Ministry of Planning, Development, and Management (SEAIN/MP) on 19 September 2017; (ii) the executing agencies of the individual loan operations have implemented similar operations in the last five years;[51] (iii) the performance of these executing agencies was satisfactory, since they complied with the conditions set forth in the corresponding loan contracts, including the provisions applicable to procurement, budgetary and accounting execution, accountability reports, and audits and operational reports; and (iv) the executing agencies' performance is expected to remain satisfactory for the individual loan operations to be financed under the new CCLIP.

b. **Borrowers eligible to participate in the PROFISCO II CCLIP**. Under the PROFISCO II CCLIP, agencies of Brazil's 26 states,[52] together with those of the Federal District and the Federative Republic of Brazil,[53] which receive a favorable recommendation from the External Financing Commission of the Ministry of Planning (COFIEX), will be eligible as recipients, for the preparation of an individual operation. The following requirements are assessed: (i) the executing agency's fiscal and institutional capacity; (ii) experience executing

[51] Of the 28 potential borrowers under the PROFISCO II CCLIP, 23 states and the federal government have already executed similar projects in the PROFISCO I CCLIP. Moreover, while the states of Amazonas, Acre, and Amapá did not implement individual loan operations under the PROFISCO I CCLIP, they did successfully execute similar loan operations in the fiscal sector. Only the State of Roraima does not fulfill the requirement of having executed a similar project in the previous five years. It is proposed that the new PROFISCO II CCLIP be processed and approved, stating that a potential borrower without experience executing similar projects will not be eligible, unless a waiver to the eligibility requirement is approved as part of the individual loan operation in question. It is important to note that the reason why four states canceled their loans was due to noncompliance with the National Treasury's minimum borrowing requirements. Nonetheless, the four states also implemented the SPED and NF-e, thereby reducing the lag relative to other states that executed PROFISCO I.

[52] The State of Roraima will only be eligible to participate in the PROFISCO II CCLIP if the Bank's Board of Executive Directors approves a partial waiver of the requirement for the executing agency to have completed a similar project in the previous five years.

[53] Operations under PROFISCO I CCLIP included the Ministry of Finance Institutional Modernization Program. The PROFISCO II CCLIP also includes the possibility of participating in this credit line, which would be justified by the challenge of coordinating and consolidating the actions that are under way at the three levels of government, as part of the process of modernizing fiscal management in Brazil. Participation therefore needs to be strengthened and well-structured in order to effectively lead the process, and to ensure successful integration of the large volume of data that the new electronic instruments are demanding.

externally financed projects; and (iii) the technical aspects of the proposed project. The criterion used to determine the size of each individual operation will be the debt ceiling approved in each state's consultation letter.

2. Program for the State of Ceará State (BR-L1502)

1.24 The objective of the Ceará program is to contribute to the state's fiscal sustainability through: (i) the modernization of fiscal management; (ii) upgrading of the tax administration, and (iii) better management of public expenditure.

1.25 By enhancing the performance of public governance, boosting tax revenue and increasing the efficiency of public spending, the project is expected to benefit the citizens of Ceará, since the state will be able to improve the delivery of quality services. This operation will finance the following components/outputs:[54]

1.26 **Component I. Fiscal management and transparency (US$30,338,000).** This component aims to improve management instruments, and modernize the technological infrastructure and the relationship between the tax authorities and taxpayers. It will finance the following activities:

a. Upgrading of SEFAZ strategic management, by improving, integrating and automating its five main processes (strategic planning, financial planning, consultancy, project management, and process management).

b. Strengthening of the public finance project cycle, through: (i) the introduction of methodologies and tools to support the programming, preparation, execution/monitoring and evaluation phases of projects; (ii) training in project management issues; and (iii) the implementation of a system to support strategic planning.

c. Optimization of people management procedures, by implementing: (i) automated procedures for SEFAZ staff skills management; (ii) an integrated people management system; (iii) an integrated ethics management system; and (iv) a continuous training program using distance education technology.

d. Modernization of the SEFAZ software and hardware technology platform,[55] through: (i) implementation of the ICT management model; (ii) modernization of the technology stock; (iii) implementation of a cloud data management model and data processing tools; (iv) migration of SEFAZ's five critical systems to a low-code platform[56] (based on micro- and mini-computers); (v) implementation of an applications development methodology and software quality audit; and (vi) implementation of a big data platform.

e. Improvement and automation of procurement management procedures, through: (i) implementation of the integrated procurement management system; and (ii) automation of management procedures for goods and services procurement.

f. Improvement of the relationship between the tax administration and society, including modernization of the three main taxpayer-citizen communication

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[54] All outputs of the three components were dimensioned in strict coordination with the Ceará authorities and reviewed during the preparation missions, considering the investment categories required by the Bank.

[55] This will require specific remodeling of physical facilities for hardware installation.

[56] Systems: Fiscal Deferrals Control System (COPAF) and Fiscal Actions Control (CAF).

programs:[57] (i) Fiscal Education Program; (ii) Social Control Program; and (iii) Organizational Communication Modernization Program.

1.27 **Component II. Tax administration and litigation (US$37,839,000).** This component aims to grow internally generated revenues and simplify tax compliance. It will finance the following activities:

a. Improvement of tax policy support instruments, by: (i) updating tax legislation and making it easier to consult; (ii) implementing a tax benefits control system (control of requirements for tax benefit eligibility and evaluation of their effectiveness); and (iii) implementing a methodology for estimating evasion.

b. Simplification of tax obligations, through: (i) the implementation of a new taxpayer register management system integrated with REDESIM; (ii) complementation of the functionalities of the Digital Public Accounting System (SPED); and (iii) implementation of the import management system integrated into the Unified Foreign Trade Portal.

c. Modernization of tax inspection and intelligence, by implementing: (i) support tools for handling large volumes of data; (ii) an electronic control system for the largest taxpayers' tax operations; and (iii) an update of the integrated tax management system.

d. Improvement of the control of goods in transit, through: (i) modernization of seven tax inspection posts, equipped with electronic controls, scales, computer equipment and a communications network; (ii) implementation of a confiscated goods control system; and (iii) complementation of Integrated Fiscal Operations Center (CIOF) functions.

e. The integration of tax litigation and adjudicated tax debt processes with the PGE, through the implementation of: (i) the electronic tax administration process (PAT-e); (ii) adjudicated tax debt management system; and (iii) a system of tax consultations and enforcement proceedings.

f. Improvement and automation of taxpayer assistance procedures, by: (i) improving taxpayer service procedures; and (ii) integrating the five systems that assist taxpayers.[58]

g. Improvement and automation of revenue collection procedures, by implementing: (i) a new collection control system; (ii) an automated procedure to refund the ICMS credit; (iii) a new IPVA management system; (iv) a new ITCD management system; and (v) automation of fee collection procedures.

1.28 **Component III. Financial management and public expenditure (US$7,703,000).** This component aims to increase the efficiency of financial planning and execution. It will finance the following activities:

a. Improvement of budgetary and financial planning, through: (i) implementation of econometric tools for estimating expenses and revenues; and (ii) automation of cash flow management procedures.

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[57] This output opens a direct channel between the state government and society (private sector), which will provide feedback to the government on citizens' requirements.

[58] Systems: Systems: Merchandise Transit System (SITRAN), Fiscal Control of Prices (COFIP), Fiscal Rules Management (GRF), Virtualization of Processes VIPRO), Change of Transit Invoices (SANFIT), Administrative and Judicial Processes (SIPAJ).

b. Modernization of the state accounting information system, through the development and implementation of the following functions in the results-based government management system (S2GPR): (i) variations in equity; (ii) provisions, and assets and contingent liabilities; (iii) movable and immovable property, including depreciation and amortization; and (iv) recording of liabilities on an accruals basis.

c. Improvement of public debt management, through: (i) improvement and automation of its procedures; (ii) the inclusion of functions to make projections; and (iii) integration with the S2GPR public procurement system.

d. Implementation of new automated procedures for estimating and managing the costs of public services provided by the state, supported by a computerized system.

C. Key results indicators

1.29 **Expected impact and outcomes**. The expected impacts are: (i) a fall in the primary fiscal deficit to state GDP ratio; (ii) an increase in the ratio between tax collection and state GDP; and (iii) a decrease in the ratio of net current debt to state GDP. The expected outcomes are: (i) an increase in the ratio between strategic planning goals that were met and the total number of goals planned; (ii) a decrease in the ratio between collection cost and tax revenue collected; and (iii) a reduction in the discrepancy between the budget executed and the budget planned.

1.30 **Economic evaluation**. An ex ante cost-benefit analysis was made of the project considering the program's economic/financial benefits. This analysis estimated that the project's actions to modernize fiscal management in Ceará will produce the following: (i) an increase in revenue collection; (ii) a reduction in the costs of enforcing tax obligations; and (iii) savings for the state. By end-2028, using all the costs and benefits for five sub-outputs considered, the project investments show a solid rate of return and generate a net present value of US$37.6 million and an internal rate of return of 34.5%. The results are robust to the sensitivity analysis that was performed.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This first individual loan operation under the PROFISCO II CCLIP involves and investment loan for specific projects.

2.2 The program has an estimated total cost of US$77 million, of which the Bank will finance 90% (US$70 million) from the Ordinary Capital, and the local counterpart will be 10% (US$7 million), for execution over five years. The distribution of funding by sources and categories is described in the following table:

Table 1. Total budget (US$)

Categories	IDB	Local	Total	%
A. Direct costs	**68,880,290**	**7,000,000**	**75,880,290**	**98.55**
Component I. Fiscal management and transparency	27,004,207	3,333,333	30,337,540	-
Component II. Tax administration and litigation	34,172,683	3,666,667	37,839,350	-

Component III. Financial management and public expenditure	7,703,400	-	7,703,400	-
B. Project management	**418,000**	**-**	**418,000**	**0.54**
1. Monitoring	178,000	-	178,000	-
2. Evaluation	240,000	-	240,000	-
C. Contingencies	**701,710**	**-**	**701,710**	**0.91**
TOTAL	**70,000,000**	**7,000,000**	**77,000,000**	**100**

2.3 **Disbursement schedule.** Disbursements will be made over a five-year period as shown below:

Table 2. Disbursement schedule (US$ million)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	9.96	19.05	24.58	11.80	4.60	70.00
Local	0.55	1.42	2.88	2.16	0	7.00
Total	10.51	20.47	27.46	13.96	4.60	77.00
%	**14**	**27**	**36**	**18**	**6**	**100**

2.4 **Fulfillment of eligibility criteria for the first individual loan operation.** The first individual loan operation for the State of Ceará meets the eligibility requirements set in the policy on CCLIPs (document GN-2246-9, paragraph 1.21), since: (i) it is falls under the sector and components of the proposed CCLIP; (ii) it was included in the country program, in an aide-mémoire updating programming with Brazil;[59] (iii) the government will execute the operation through SEFAZ/CE, which was the executing agency for the first individual operation under the PROFISCO I CCLIP (loan 2044/OC-BR), which concluded on 20 May 2016; and (iv) the institutional analysis found that SEFAZ/CE's capacities have not deteriorated, and the execution and monitoring instruments used in the previous project will also serve for this new operation. The PCR for the previous operation noted that the project was rated likely to achieve its development objective; satisfactory in terms of progress during implementation; and likely to be sustainable. In terms of fulfillment of the impact and outcome indicators, the project met 81% of its planned targets. It also fulfilled 96% of its output indicators. The funding was 100% disbursed; the executing unit complied with the Bank's contractual requirements and disbursement policies; and its accounts were audited, meeting the deadlines and quality standards required. Moreover, during the analysis mission, the Bank's fiduciary team evaluated the executing agency's institutional capacity and found that the requirements for executing this operation were met.

B. Environmental and social risks

2.5 In accordance with the Bank's Environment and Safeguards Compliance Policy (operational policy OP-703) and the results of the Safeguard Policy Filter, this is classified as a Category "C" operation. The project will support the strengthening of tax and financial processes through systems development and institutional strengthening, and no socioenvironmental risks are anticipated.

[59] 19 September 2017 aide-mémoire updating the programming agreement with Brazil.

C. Fiduciary risks

2.6 Based on an assessment of the executing agency's institutional capacity during the program's design phase, delays that could arise in the project's procurement processes were identified as a medium risk, owing to the slowness of procedures for approving information technology procurements, since the entire process of approval of technological products has to go through the SEPLAG/COETI,[60] and this coordination considerably lengthens the time taken to award contracts. This risk will be mitigated by planning a schedule of meetings to monitor the progress of these processes in SEPLAG/COETI, which will make it possible to identify delays and make adjustments as necessary. SEFAZ will coordinate the meetings with SEPLAG/COETI to follow up on the aforementioned plan. Work will be done on planning and identifying the key processes to be undertaken annually, and will contract consultants to draw up proper terms of reference. Lastly, the Program Coordination Unit (PCU) will be supported in developing process flows and manuals, and in improving relations with SEFAZ external stakeholders.

D. Other project risks

2.7 A risk management workshop was held using the Bank's methodology, and the operation was rated medium risk. The following risks were identified:

2.8 **Fiscal sustainability**. There is a medium risk that the project's expected outcomes may not be achieved, because a further deterioration in the economic situation of the country could impede performance and undermine the state's fiscal sustainability, with negative impacts on the expected outcome of increased revenue collection. To mitigate this risk, the state adopted a series of preventive measures to guarantee its fiscal balance (see footnote 12).

2.9 **Development.** The following are classified as medium risks: (i) the public cost control system cannot be implemented as planned, owing to coordination problems between the participating departments. This risk will be mitigated by setting up cost management committees in each participating body, integrated with project coordination in SEFAZ; and (ii) the REDESIM system cannot be implemented as planned, because this depends on other spheres of government (national and municipal). This risk is currently being mitigated by creating a State REDESIM Committee,[61] which has already been operating in the various spheres of government.

2.10 **Public management and governance.** There is a medium risk of delays or interruptions occurring in the implementation of the project's outputs, owing to new priorities arising from changes in SEFAZ management, following the November 2018 elections. This risk will be mitigated through an action plan to speed up the project's main procurements in 2018. This will make it possible to keep the project operating during the transition period between the current administration and the new one.

2.11 **Sustainability**. There is a medium risk that the outputs financed by the program become obsolete or are discontinued, owing to a lack of maintenance mechanisms.

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[60] State of Ceará's Planning and Management Department's Information and Communication Technology Strategies Coordination Unit.

[61] Decree 30855/2012.

This risk will be mitigated by including additional funds, in SEFAZ's multiyear cost budget, for maintenance of program-financed solutions.

2.12 **Reputation**. There is a medium risk of damage to the image of the Bank and the state, because of a lack of transparency in procurement processes. This risk has already been mitigated through the disclosure of all program procurements in the Government Transparency Portal.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the State of Ceará. The Federative Republic of Brazil will be the guarantor of the financial obligations under the loan. Pursuant to paragraph 1.16 of the policy on CCLIPs (document GN-2246-9), the design of the operation envisaged the Federative Republic of Brazil serving as the Bank's counterpart for the CCLIP, through the Ministry of Finance.

3.2 The State of Ceará will execute the program through SEFAZ, within which a PCU will be set up. The latter will be staffed by a general coordinator, a procurement specialist, a financial specialist and a planning and monitoring specialist. The PCU will coordinate program activities, including monitoring, evaluation, and auditing, with the aim of overseeing proper execution of the program and achievement of its objectives.

3.3 The PCU's main functions will be to: (i) plan the execution of the activities; (ii) prepare, implement and update the program's work plans, including the multiyear execution plan, the annual work plan (AWP), the procurement plan, and the financial plan; (iii) supervise execution and submit semiannual progress reports; (iv) coordinate the processes for preparing terms of reference, bidding processes, goods procurement, and the selection and contracting of services; (v) present justifications and disbursement requests to the Bank; (vi) prepare financial statements and submit them audited to the Bank; and (vii) submit the program evaluation.

3.4 The program will be executed in accordance with the Operating Regulations approved by the Bank for the PROFISCO II CCLIP, which will establish criteria for projects and outputs to be eligible for financing, as well as supervision and monitoring, among others.

3.5 **Special contractual conditions precedent to the first disbursement: (i) the borrower's adherence to the** Operating Regulations**, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) creation of the PCU, and appointment of its members.** These conditions are essential to ensure that the executing agency has detailed regulations on operational and fiduciary issues, among others, and to mitigate the risks of delay in program execution.

3.6 **Special execution conditions**. Before starting to execute program activities that have outputs geared towards the State Attorney General's Office (PGE), the State Finance Department (SEFAZ) will sign a cooperation agreement with the PGE specifying the roles and responsibilities of the parties during execution. This condition is crucial for ensuring that the activities' beneficiary entities provide the necessary cooperation to SEFAZ, which will be responsible for executing the

activities; and it is justified because the PGE is independent of SEFAZ and a beneficiary of Component II.

3.7 **Retroactive financing and recognition of eligible expenses**. The Bank may retroactively finance up to US$4 million (5.7% of the proposed loan amount), from the loan proceeds, and recognize up to US$1 million charged to the local contribution (14.3% of the estimated counterpart contribution), in respect of eligible expenses incurred by the borrower before the loan approval date. To be eligible, the expenses will relate to preinvestment activities, such as consulting services and equipment purchases, and must satisfy requirements substantially similar to those specified in the loan contract. The expenses in question must have been incurred on or after 26 September 2017 (the project profile approval date), but in no case more than 18 months before loan approval.

3.8 **Advance procurement.** The executing agency will start the processes related to the control of interstate transit and will make the signing of the contracts subject to the signing of the loan contract.

3.9 **Direct contracting.**[62] In accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), the following entities will be contracted directly: (i) government training schools and data processing entities[63] (paragraphs 1.11(c) and 3.10). The schools in question have a long experience and infrastructure in the training of civil servants. The data processing firm is already participating in the development of SEFAZ's ICT systems; (ii) The Inter-American Center of Tax Administration (CIAT) (paragraphs 3.10 and 3.15), an international organization, in view of its specialization in technical assistance for updating and modernizing tax administrations; (iii) the Institute of Applied Economic Research (IPEA) and the Institute of Fiscal Studies (IEF) (paragraph 3.10 (d)). The IPEA is the most important research center in Brazil. The IEF is internationally recognized for supporting the training of civil servants in Latin America; and (iv) COMPSIS Computadora e Sistemas Comercio Ltda (paragraph 3.10 (d)), which, was competitively hired in PROFISCO I to develop the system for managing Ceará's electronic invoice. If another firm were contracted to make system improvements, there could be quality risks and it would certainly take longer.

3.10 **Disbursement period and modality**. The disbursement period will be five years. Disbursements will be made in U.S. dollars, in the form of advances of funds. The exchange rate to be used will be the internalization rate. Advances will be based on a projection of financial needs for a maximum 120 days; it will be necessary to account for at least 80% of funds previously advanced before a new advance can be processed.

3.11 **Procurement**. Project procurements will abide by the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), in conjunction with the provisions of the procurement plan.

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[62] See Annex III-Chapter IV.

[63] At the federal level: (i) Escola de Administração Fazendária [School of Finance Administration] (ESAF), and (ii) the National School of Public Administration of the Ministry of Planning, Budget and Management. At the state level: (i) Government civil servant training schools; and (ii) data processing firms.

3.12 **Audited financial statements.** The borrower will submit audited financial statements to the Bank annually, within 120 days following each fiscal year-end. The audit will be performed by the State of Ceará's audit office or by an audit firm hired by SEFAZ, for which the terms of reference would need approval from the PCU and the Bank's no objection.

B. Summary of arrangements for monitoring results

3.13 **Monitoring** will be based on: (i) the multiyear execution plan and the AWP; (ii) the procurement plan; (iii) the Results Matrix; (iv) the Monitoring and Evaluation Plan; and (v) the progress monitoring report. The PCU will prepare semiannual reports on progress made toward the outcome, output and financial targets, for Bank approval; and the latter will conduct inspection visits and ex post reviews as part of project monitoring.

3.14 **Evaluation**. The project will be evaluated relative to the annual targets and indicators for the outcomes and outputs specified in the project's Results Matrix. The Monitoring and Evaluation Plan envisages an independent midterm and final evaluation. The borrower will prepare and send to the Bank a midterm evaluation report, 90 days after the date on which 50% of program funds have been disbursed or when 36 months of execution have elapsed, whichever occurs first. It will also send the Bank a final evaluation 90 days after the date at which 90% of the program resources have been disbursed, to be used as an input for the PCR.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)* -Accountability institutions strengthened (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2850**	**(i) Improve the business climate and (ii) enhance efficiency in the management of public resources.**
Country Program Results Matrix		**The intervention is not included in the 2017 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	**Evaluable**	
3. Evidence-based Assessment & Solution	**8.4**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**2.4**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**8.5**	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**	
4.2 Identified and Quantified Benefits	**1.5**	
4.3 Identified and Quantified Costs	**1.5**	
4.4 Reasonable Assumptions	**0.0**	
4.5 Sensitivity Analysis	**1.5**	
5. Monitoring and Evaluation	**9.1**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.6**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant.**
Non-Fiduciary	**Yes**	**Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment	**Yes**	**Reduction in use of paper due to automization of fiscal management processes.**
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) to assess the state of public finances and fiscal mangement processes in the State of Ceará, to design the project and to monitor future performance against the baseline.**
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	**Yes**	**The proposal is to use the synthetic control method to estimate the causal impact of the program on ICMS collection.**

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

The main goal of the operation is to contribute to the fiscal sustainability of the State of Ceara. To achieve this end, the proposal defines three specific areas on which the project will intervene: fiscal management and transparency, tax administration and litigation, and financial administration of public expenditure. Each of these areas defines a component. The document includes a description of the process gaps that lead to weaknesses in each of these three areas. The project is the first of a series of operations under the Conditional Credit Line for Investment Projects BX-L1502.

The project proposal diagnoses a primary balance as a share of the State GDP of -0.58 percent in 2016, and a Current Net Debt as a share of the State GDP of 7.1 Percent. The diagnosis is based on the MD-GEFIS tool which analyzes processes in the three main areas which define the components. The Ministry of Finance provides a diagnosis for a total of seventeen sub areas. Each diagnosis identified the main restrictions for the Ministry to increase tax revenue, decrease running costs or improve efficiency in expenditures, and improve service delivery to citizens. Overall, the diagnosis identifies gaps in institutional arrangements, deficits in personnel management and training, and gaps in capital investments. The quantification of these needs is disaggregated for each of the 17 processes.

The economic analysis provides a quantification of savings to the State through technological tools which allow for efficiency gains. It also provides a quantification of the additional revenue in taxes expected to result from the investment. Under a social perspective, additional tax revenue is usually assumed neutral. Thus, the economic analysis focuses on benefits to the State account. The quantification of benefits is associated to five of the seventeen working areas. The costs include investment and maintenance. The analysis concludes with a net present value of US$50 million.

The monitoring relies on reports by the Ministry of Finance. The ex post evaluation consists of estimating the effects of the program on tax revenue. It aims to assess the impact of innovative aspects such as electronic taxation and the use of big data to increase tax revenue. The analysis will use administrative data and a synthetic-control methodology. For the rest of the result indicators, the proposed methodology is a before-after comparison.

All risks are classified as medium or low. The main risks identified to achieve fiscal sustainability are macroeconomic shocks, weak coordination with other ministries, changes in priorities, low maintenance to systems, delays in procurement, and affects to Bank reputation.

RESULTS MATRIX

Project objective:	The objective of the Ceará program is to contribute to the state's fiscal sustainability through: (i) modernization of fiscal management; (ii) upgrading of the tax administration; and (iii) better public expenditure management.

EXPECTED IMPACT

Indicators	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT #1: Reduction in the state's primary fiscal deficit/GDP ratio											
Primary balance/GDP	% (R$/R$)	-0.58	2016	-0.58	-0.58	-0.4	-0.2	0	0	SEFAZ Treasury coordination management report (COTES)	The reduction in the primary fiscal deficit contributes directly to the fiscal balance, in conjunction with the increase in revenue collection and effective control of public spending.[1] **Calculation formula (CF):** Primary balance as a percentage of GDP **Baseline (BL):** -0.58[2] Primary balance (2016) = -R$800 million GDP (2014) = R$137.4 billion
IMPACT #2: Increase in the state's tax revenue/GDP ratio											
Tax revenue/GDP	% (R$/R$)	8.2	2016			8.5	8.7		9.2	SEFAZ COTES report	The real increase in revenue collection contributes directly to fiscal balance, in conjunction with effective control of public spending.[3] **CF:** Value of revenue collection at the end of the project / GDP of the corresponding year. **BL:** 8.2% Tax revenue (2016) = R$11.3 billion GDP (2014) = R$137.4 billion

[1] *IMF-A Macroeconomic Perspective on Resilience, 2016.*

[2] Ceará fiscal restructuring and adjustment program (PAF) 2016-2018.

[3] *IMF-A Macroeconomic Perspective on Resilience, November 2016.*

Indicators	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
IMPACT #3: Reduction in state net current debt/GDP ratio											
Net current debt/GDP	% (R$/R$)	7.1	2016	7.1	7.1	7.0	6.5	6.5	6.5	SEFAZ COTES report	The decrease in net current debt contributes directly to the fiscal balance, in conjunction with the increase in revenue collection and effective control of public spending.[1] **CF:** Net current debt as a percentage of GDP **BL:** 7.1%[4] Net current debt (2016) = R$9.8 billion GDP (2014) = R$137.4 billion

EXPECTED OUTCOMES[5]

Indicators	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
OUTCOME #1: Increase in the ratio between strategic planning targets that were met and the total number of targets planned											
Number of targets fulfilled/total number of targets planned	% (quantity/ quantity)	83	2016	83	-	85	86	87	87	SEFAZ Institutional development consultancy report (ADINS)	The increase in the ratio between strategic planning targets met and the total number of targets planned shows that SEFAZ institutional capacity has improved, thereby contributing to a better institutional environment for maintaining fiscal balance. **CF:** Number of strategic targets met as a percentage of the total number of targets planned **BL:** 83% Targets met (2016) = 503 Total targets (2016) = 606

4 Ceará PAF 2016-2018.

5 The expected outcomes are cumulative.

<u>OUTCOME #2:</u> Reduction in the ratio between collection cost and tax revenue collected											
SEFAZ operating budget/tax revenue	% (R$/R$)	5.4	2016	5.4	5.4	5.2	5.0	4.9	4.8	SEFAZ Annual tax administration coordination report (CATRI)	The decrease in the ratio between tax collection cost and revenue collected shows that a twin effort has been made in terms of saving resources and increasing revenue collection. Both results contribute toward fiscal sustainability. **CF:** Value of SEFAZ executed budget relative to tax revenue collected. **BL:** 5.4% SEFAZ operating budget (2016) = R$645 million Tax collection (2016) = R$11.8 billion
<u>OUTCOME #3:</u> Reduction in the discrepancy between the planned budget and the executed budget											
Executed budget/ planned budget	% (R$/R$)	11.5	2016	11.5	11.5	9.0	7.0	5.0	5.0	SEFAZ COTES report	The reduction in the discrepancy between the executed and planned budgets contributes to fiscal sustainability, and demonstrates the precision of planning and the efficiency of execution. The target was quantified by comparing the original budget as published in the Annual Budget Law[6] with that executed. **CF:** 100 (-) Value of the executed budget as a percentage of the planned budget. According to the Public Expenditure and Financial Accountability[7] methodology, the ideal discrepancy is 5%. **BL**: (2016): 11.5% Planned budget = R$24.3 billion Executed budget = R$21.5 billion

[6] LOA = Annual Budget Law.

[7] The Public Expenditure and Financial Accountability (PEFA) program is used to evaluate the performance of public financial management. It identifies 94 characteristics (dimensions) in 31 key components of public financial management (indicators) in seven broad areas of activity (pillars).

OUTPUTS

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<u>Component I.</u> Fiscal management and transparency											
1.1 Management model implemented	Model	0	2016	-	-	0	0	1	1	SEFAZ ADINS report	The model's main objective is to help monitor the performance of processes in the tax collection, enforcement, and inspection areas, and also in the areas responsible for public expenditure.[8]
1.2 Project management methodology implemented	Methodology	0	2016	0	0	0	0	1	1	Idem	The methodology's main objective is to help monitor the evaluation of investments, and planning and project management subprocesses.
1.3 Human resource management strengthening plan	Plan	0	2016	0	0	0	0	1	1	SEFAZ Administration and information technology coordination report (CAT)	Training requires the development of a system to automate contract management and monitor training, personnel audit processes and support for fiscal/socioenvironmental education. It will be complemented with an electronic bibliography inventory.
1.4 Technological platform modernization plan implemented	Plan	0	2016	0	0	0	0	1	1	SEFAZ CAT report	The objective of this new platform is to satisfy the increased demand for processing that new computerized tools require.

[8] A system is considered implemented when the first user accesses the information for which it was developed. The systems' users are SEFAZ civil servants. The exceptions are indicated in the comments column. See the monitoring and evaluation plan.

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
1.5 Procurement management system implemented	System	0	2016	0	0	1	0	0	1	idem	The system's main objective is to automate the procurement, storage, and distribution of purchases; and contract management.
1.6 Tax administration /society relationship program implemented	Program	0	2016	0	0	0	1	0	1	Communication consultancy report/SEFAZ	The program's main objective is to support tax education for the general public. The program's users are citizens at large. The program will also track citizens' complaints.
Component II. Tax administration and litigation											
2.1 Tax policies management model implemented	Model	0	2016	0	0	0	1	-	1	SEFAZ CATRI report	The model's main objective is to support the granting and evaluation of tax benefits, identification of tax evasion, and the organization and consultation of tax legislation.
2.2 Tax liabilities management system implemented	System	0	2016	0	0	1	0	0	1	idem	The system's main objective is to support integration of the registry of taxpayers at the three levels of government.
2.3 Tax inspection and fiscal intelligence system modernized	System	0	2016	0	0	0	0	1	1	idem	The system's main objective is to help monitor confiscated merchandise by mobile tax inspection stations, and smart analysis to detect irregularities.
2.4 Tax inspection stations equipped	Tax inspection stations	4	2016	0	0	3	4	0	11	idem	See the monitoring and evaluation plan. The equipment is complemented with a system to support the monitoring of debtors and their compliance with obligations.

Output	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
2.5 Litigation management and/or adjudicated tax debt system consolidated	System	0	2016	0	0	0	0	1	1	SEFAZ tax litigation report	The system's main objective is to help collate information from administrative and judicial enforcement processes.
2.6 Taxpayer support system implemented	System	0	2016	0	0	0	0	1	1	SEFAZ tax execution coordination report	The system's main objective is to support taxpayer assistance. The system's users are taxpayers.
2.7 Tax collection system implemented	System	0	2016	0	0	0	1	0	1	SEFAZ CATRI report	The system's main objective is to integrate the control and information from ICMS, IPVA and ITCD.
Component III. Financial management and public expenditure											
3.1 Cash flow management system implemented	System	0	2016	0	0	0	1	0	1	SEFAZ COTES report	The system's main objective is to automate expenditure and revenue estimation and the processes associated with the control of cash flow.
3.2 Information and accounting management system complemented	System	0	2016	0	0	0	1	0	1	idem	The system's main objective is to keep accounting records for information generated by the public debt and revenue, accounting routines support, and tax collection systems.
3.3 Public debt management system implemented	System	0	2016	0	0	0	1	0	1	idem	The system's main objective is to facilitate the monitoring of public debt.
3.4 Cost management model implemented	Model	0	2016	0	0	0	0	1	1	idem	The model's main objective is to support estimation and control of the costs of services provided to the population.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Brazil
Project number:	BR-L1502
Name:	Fiscal Management Modernization Program for the State of Ceará – PROFISCO II-CE
Executing agency:	State of Ceará, through its Finance Department (SEFAZ)
Fiduciary team:	Karina Diaz and Santiago Schneider (VPC/FMP)

I. EXECUTIVE SUMMARY

1.1 The institutional evaluation for the program's fiduciary management was based on: (i) the country's fiduciary context; (ii) an evaluation of fiduciary risks; (iii) the PROFISCO I experience; (iv) a diagnostic assessment of the financial management and procurement processes of the Ceará State Attorney General's Office (PGE); and (v) an evaluation of the fiscal management of the Brazilian States--the fiscal management maturity and performance assessment (MD-GEFIS), which was part of the preparation of PROFISCO II.

1.2 Brazil has robust country fiduciary systems that enable sound management of administrative, financial, control and procurement processes, fulfilling the principles of transparency, economy and efficiency. In terms of their capacity for planning and organization, execution and control, the executing agency's systems have a medium level of development and represent a medium risk level.

1.3 SEFAZ has the legal capacity and experience to execute the program's activities, since this is a second phase of the PROFISCO program. It will take advantage of the structure already implemented and consolidated, drawing on the lessons learned from execution of the first phase.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

2.1 The structure of SEFAZ consists of the Secretary's Office, an adjunct secretariat, an executive secretariat, six technical coordination offices, four advisory bodies, a brokerage department and the tax administration area. The project will benefit several of these areas. Information technology products must be approved by the Information Technology Strategies Coordination Unit (COETI) which is located in the State Planning and Management Department (SEPLAG), and therefore outside the SEFAZ organizational structure.

2.2 The executing unit's team that implemented PROFISCO I will be used again in the new program.

2.3 Ceará State's procurement processes are centralized in the PGE. Law 65 of 3 January 2008 created the Special Bidding Committee within the PGE, which works

exclusively on tendering and contracting processes financed by international organizations.

2.4 Internal control of the executing agency is a responsibility of the State Comptroller General's Office (CGE). External control is exercised by the State Audit Office (TCE/CE), a strategic partner of the Bank in audits of Bank-funded projects financed in the state.

2.5 The first stage of the PROFISCO project in Ceará had a 36-month extension, and one of the lessons learned was the need to better clarify the flow of execution processes through manuals and flowcharts, to have clear terms of reference in place sufficiently in advance to start the administrative processes, and improve knowledge of the Bank's Procurement Policies. The factors that contributed to sound execution of the first phase include the following: use of the online auction system (PE) as a streamlined contracting tool, the creation of a structure to support the project's technical leaders, and ongoing dealings with the PGE and SEPLAG as part of management and constant training in the Bank's policies.[1]

III. Fiduciary Risk Evaluation and Mitigation Actions

3.1 The institutional capacity assessment concludes that SEFAZ has high institutional capacity with experience in executing operations with the Bank, and a medium fiduciary risk for the operation.

3.2 The delays that could arise from the project's procurement and contracting processes were identified as a medium fiduciary risk, owing to the approval procedures for information technology procurements, since the entire approval process for technological products has to go through SEPLAG/COETI.

3.3 To mitigate this risk, a series of meetings will be planned to monitor procurement procedures in SEPLAG/COETI, which will be coordinated by SEFAZ. Work will also be done on planning and identifying the key processes to be undertaken annually, hiring consultants for thorough preparation of the terms of reference. Lastly, the PCU will be supported in developing flows and manuals for processes and improving relations with SEFAZ external stakeholders.

3.4 As regards the strengthening of external control capacity, external audit resources will be allocated to strengthen the activities of the TCE/CE.

IV. Agreements and Requirements for Procurement Execution

A. Procurement execution

4.1 **Procurement of works, goods and nonconsulting services.** Contracting for the project's works, goods and nonconsulting services subject to international competitive bidding will be implemented using the standard bidding documents (SBDs) issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The technical specifications of the procurements will be reviewed by the project's sector specialist during the preparation of selection processes.

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1 Project completion report for loan 2044/OC-BR.

4.2 **Selection and contracting of consultants**. Consulting service contracts generated under the project will be executed using the Standard Request for Proposals (SRP) issued by the Bank. The corresponding terms of reference will be reviewed by the project's sector specialist.

4.3 **Use of the country procurement system**. The country procurement (sub)system approved by the Bank (PE) will be used to procure off-the-shelf goods and services costing up to US$5 million. Any system or subsystem that is approved later will be applicable to the operation. The operation's procurement plan and any updates thereto will identify the contracts to be executed using the approved country systems.

4.4 **Retroactive financing and recognition of eligible expenses**. The Bank may retroactively finance up to US$4 million (5.7% of the proposed loan amount), from the loan proceeds, and recognize up to US$1 million from the local contribution (14.3% of the estimated counterpart contribution) for eligible expenses incurred by the borrower before the loan approval date. To be eligible, the expenses will relate to preinvestment activities, such as consulting services and equipment purchases, and must satisfy requirements substantially similar to those specified in the loan contract. The expenses in question must have been incurred on or after 26 September 2017 (the project profile approval date), but in no case more than 18 months before the loan approval date.

4.5 **Advance procurement.** The executing agency will begin the processes related to the control of interstate transit and will make the signing of the contracts contingent on the signing of the loan contract.

B. Direct contracting

4.6 **Government schools and entities:** The organizational structure of Finance Departments in Brazil including the following functional development entities: (i) the School of Finance Administration (ESAF), and (ii) the National School of Public Administration of the Ministry of Budget Planning and Management (ENAP/MP). At the state level: (i) government civil servant training schools; and (ii) state data processing companies. Pursuant to paragraphs 1.11 (c) and 3.10 of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), and to make the outputs developed and financed by the program sustainable, the aforementioned federal and state training entities will be contracted directly. Data processing firms will be hired for IT development services provided that the Bank considers that the firm in question has the installed capacity needed to provide the services, and its costs are compatible with those prevailing on the market.

4.7 **Specialized international agencies:** Pursuant to paragraphs 3.10 and 3.15 of document GN-2350-9, the Inter-American Center of Tax Administration (CIAT), an international organization specialized in technical assistance for updating and modernizing tax administrations, will also be contracted.

4.8 **Research institutes and studies**: As indicated in paragraph 3.10 (d) of document GN-2350-9, the Institute of Applied Economic Research (IPEA) and the Institute of Fiscal Studies (IEF) will be contracted. The IPEA, is the most important research center in Brazil, internationally recognized for its production of data and scientific studies. The IEF, an entity linked to the Ministry of Finance and Public Administration

of Spain, conducts studies, research and advisory services, and promotes training activities that will help the State Treasury civil servants benefited by the program's activities.

4.9 **Electronic tax modules (MF-e):** Single-source selection of the firm COMPSIS Computadora e Sistemas Comercio Ltda. is envisaged, for an estimated US$6 million. This firm was hired as part of a competitive process (quality- and cost-based selection–QCBS) financed by PROFISCO I to develop the electronic tax modules (MF-e), which enabled SEFAZ to upgrade the paper tax invoice to an electronic version. To improve connectivity, fiscal integration, implementation of BIFFAZ, and improvement of payment mechanisms, new modules not envisaged in the initial project need to be developed. Hiring a new firm for this purpose would entail a risk of losing integration with the main MF-e, the synergy already developed in the implementation of the system (learning curve and stakeholder knowledge of SEFAZ), with a consequent increase in development time that would increase costs and the risk of developing the new modules on different platforms. There would also be an additional cost to make them technologically compatible. Accordingly, a competitive process is a less efficient alternative in this case, and direct contracting pursuant to the provisions of paragraph 3.10 (d) of document GN-2350-9 is recommended.

Table 1. Thresholds for international competitive bidding and international shortlist (US$ million)

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

Table 2. Main procurements

Activity	Selection method	Estimated date of tender/invitation	Estimated amount (US$ million)
Consulting services			
CIOF	QCBS	1st half 2018	8.6
Customization of MF-e	QCBS	1st half 2018	6.0
Foreign exchange monitoring	QCBS	1st half 2018	11.8
Goods			
Technology base	PE	2018, 2019	8.8

*To access the 18-month procurement plan.

C. Procurement supervision

4.10 Procurements will be supervised ex post, except where ex ante supervision is justified. Procurements that are processed through the country system will also be supervised through that system.

4.11 The supervision method will be determined for each selection process. Ex post reviews will be performed every 12 months in accordance with the project

supervision plan. Ex post review reports will include at least one physical inspection visit.

Table 3. Threshold for ex post review (US$ million)

Works	Goods	Consulting services
NCB and shopping	NCB and shopping	Less than US$1

D. Records and files

4.12 The PCU will be responsible for documentation of the processand will keep all documents needed for supervision and audit purposes.

V. FINANCIAL MANAGEMENT

5.1 **Programming and budget**. SEFAZ will plan the execution of activities as foreseen in the multiyear execution plan and the annual work plan. State entities use the Multiyear Planning instruments and abide by the Budget Procedures Law (LDO) and the Annual Budget Law (LOA). The program budget will form part of the LOA.

5.2 The PCU will make sure the budgetary funds for the program, both the Bank financing and the local contribution, are duly budgeted annually and secured for execution according to the project's timeline. Budgetary funds will be recorded as an external source within the integrated financial management system in the year of execution. The LOA will include the funds needed for execution, both for the external loan and for the local counterpart.

5.3 **Accounting and information systems**. Public entities in the State of Ceará work with the SIAFI integrated financial management system, which was initially used and validated by the Bank in PROFISCO I and will be strengthened during the operation. The system meets the Bank's requirements on controls, reporting, and financial statements.

5.4 **Disbursements and cash flow**. The program will use the country system for state treasury. Expenses will be subject to the budgetary and financial execution process, and will be duly recorded in SIAFI.

5.5 As in PROFISCO I, the Bank funds will be managed through an exclusive account that enables the loan proceeds to be independently identified and reconciled. This includes income and payments. An account will be opened in a commercial bank at the discretion of the Finance Department.

5.6 Disbursements will be made in U.S. dollars in the form of advances of funds. The exchange rate to be used will be the internalization rate.

5.7 Advances will be based on a projection of financial needs for a maximum of 120 days; future advances will require at least 80% of funds previously advanced to be accounted for.

5.8 Expenses considered ineligible by the Bank will be reimbursed from the local contribution or from other funds at the Bank's discretion, depending on the nature of the ineligibility.

5.9 **Internal control and internal audit**. The State of Ceará uses the CGE as central internal control body, which will oversee program activities.

5.10 **External control and reports**. The financial statements and eligibility of program expenditures will be audited annually by the TCE/CE, which is eligible to perform external audits of the Bank's loans, or else by an eligible level-1 external audit firm.

5.11 Pursuant to the provisions of the Financial Management Policy for IDB-financed Projects (document OP-273-6), the auditor must present a report on the reasonableness of the financial statements and the eligibility of program expenses. The program's audited financial statements will be submitted to the Bank no later than 120 days after each SEFAZ fiscal year-end, pursuant to procedures and terms of reference previously agreed upon with the Bank.

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

Table 4. Supervision Plan

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

VI. EXECUTION MECHANISM

6.1 A PCU will be created for project execution, staffed by a general coordinator, a procurement specialist, a financial specialist and a planning and monitoring specialist. The PCU will coordinate program activities, including monitoring, evaluation and audit, to ensure the correct execution of the program and the achievement of its objectives.

6.2 The PCU's main functions will be to: (i) plan the execution of activities; (ii) prepare, implement, and update the program's work plans, including the multiyear execution plan, the annual work plan, the procurement plan, and the financial plan; (iii) supervise execution and submit semiannual progress reports; (iv) coordinate the processes of preparing terms of reference, bidding processes, goods procurement, and the selection and contracting of services; (v) present justifications and disbursement requests to the Bank; (vi) prepare financial statements and submit them audited to the Bank; and (vii) present the program's evaluation.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/17

Brazil. Conditional Credit Line for Investment Projects (CCLIP) BR-X1039
Fiscal Management Modernization Program in Brazil – PROFISCO II

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Federative Republic of Brazil to establish the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039, for an amount of up to US$900,000,000 chargeable to the resources of the Ordinary Capital of the Bank, to contribute to fiscal sustainability, through the: (i) modernization of finance management; (ii) improvement of tax administration; and (iii) improvement of the public expenditure management.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line (CCLIP) BR-X1039 shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, and DE-86/16; (b) the provisions set forth in documents GN-2246-9 and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on __ ____________ 2017)

LEG/SGO/CSC/EZSHARE-620307903-8057
Pipeline: BR-X1039

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

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

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Ceará, 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 Program for the State of Ceará PROFISCO II - CE, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 - Fiscal Management Modernization Program in Brazil - PROFISCO II, approved on ___ _________ 2017 by Resolution DE-___/17. Such financing will be in the amount of up to US$70,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2017)

LEG/SGO/CSC/EZSHARE-620307903-8058
Pipeline: BR-L1502