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BRAZIL

FISCAL MANAGEMENT MODERNIZATION PROJECT FOR THE STATE OF MATO GROSSO – PROFISCO II-MT

(BR-L1539)

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

FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II

(BR-X1039)

LOAN PROPOSAL

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ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
CGE/MT	Controladoria Geral do Estado de Mato Grosso [Mato Grosso State Comptroller General's Office]
CIAT	Inter-American Center of Tax Administrations
FIPLAN	Sistema Integrado de Planejamento, Contabilidade e Finanças do Estado de Mato Grosso [Mato Grosso Integrated Planning, Accounting, and Finance System]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre operações relativas à circulação de mercadorias e à prestação de serviços de transporte interestadual e intermunicipal e de comunicação [Goods and services sales tax]
IMF	International Monetary Fund
IRR	Internal rate of return
LOA	Lei Orçamentária Anual [Annual Budget Law]
MD-GEFIS	Avaliação da Maturidade e Desempenho da Gestão Fiscal [Fiscal Management Maturity and Performance Assessment]
MTI	Empresa Matogrosense de Tecnologia da Informação [Mato Grosso information technology company]
NCB	National competitive bidding
NF-e	Nota Fiscal Eletrônica [Electronic fiscal invoice]
PCR	Project completion report
PCU	Project coordination unit
PGE/MT	Procuradoria Geral do Estado de Mato Grosso [Mato Grosso State Attorney General's Office]
PROFISCO	Programa de Modernização da Gestão Fiscal no Brasil [Fiscal Management Modernization Program in Brazil]
QCBS	Quality-and-cost-based selection
SEFAZ/MT	Secretaría de Fazenda do Estado de Mato Grosso [Mato Grosso State Finance Department]
SEPLAG/MT	Secretaria de Planejamento e Gestão [Mato Grosso State Planning and Management Department]
SPED	Sistema Público de Escrituração Digital [Digital public accounting system]
SSS	Single-source selection
STN	Secretaría del Tesoro Nacional [National Treasury Department]

Project Summary

Brazil
Fiscal Management Modernization Project for the State of Mato Grosso – PROFISCO II-MT (BR-L1539)
Fifteenth Individual Loan Operation under the Conditional Credit Line for Investment Projects (CCLIP)
Fiscal Management Modernization Program in Brazil – PROFISCO II (BR-X1039)

Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility** [(a)]	
State of Mato Grosso (MT)			**Amortization period:**	25 years
Guarantor:				
Federative Republic of Brazil			**Disbursement period:**	5 years
Executing agency:				
State of Mato Grosso, through its Finance Department (SEFAZ/MT)			**Grace period:**	5.5 years [(b)]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based [(c)]
IDB (Ordinary Capital):	56,279,900	90	**Credit fee:**	[(d)]
			Inspection and supervision fee:	[(d)]
Local:	6,253,321	10	**Weighted average life:**	15.25 years
Total:	62,533,221	100	**Currency of approval:**	U.S. dollar

Project at a Glance
Project objective/description: The general objective of the project is to contribute to the fiscal sustainability of the State of Mato Grosso through the following specific objectives: (i) modernize fiscal management; (ii) improve tax administration; and (iii) improve public expenditure management. This is the fifteenth individual loan operation under the PROFISCO II CCLIP (BR-X1039) approved by the Board of Executive Directors pursuant to Resolution DE-113/17.
Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower will adhere to the Program Operating Regulations, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit will be created and its members appointed (paragraph 3.4). **Special contractual conditions for execution:** Before starting to execute activities that have outputs intended for the Mato Grosso State Planning and Management Department (SEPLAG/MT), the State Comptroller General's Office (CGE/MT), or the State Attorney General's Office (PGE/MT), the State Finance Department (SEFAZ/MT) will sign a cooperation agreement with these entities, specifying the roles and responsibilities of the parties during execution of the respective activities (paragraph 3.5).
Exceptions to Bank policies: None.

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

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

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

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

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

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

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

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

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

1.4 **Economic and fiscal situation in Brazil.** Brazil is facing challenges in maintaining its economic and fiscal sustainability. Its gross domestic product (GDP) shrank by 3.2% in 2015 and by a further 3.3% in 2016. Then, in 2017/2018, it staged a tentative recovery, growing by 1.3% in each of those years[2] and by 1.1% in 2019. The central government posted a primary deficit of 1.22% of national GDP in 2019, following the previous year's 1.69% shortfall. In December 2019, gross public represented 75.8% of national GDP, down by 0.8% relative to the January 2019 level.[3] The government and congress are debating proposals to reform the tax system and public administration that are fundamental for improving the efficiency and sustainability of fiscal policy.

1.5 **The COVID-19 pandemic and the economic situation.** The COVID-19 pandemic has been causing significant loss of life in the country. As of 6 October 2021, Brazil had recorded more than 21.5 million confirmed cases (10,239 per 100,000 inhabitants) and over 599,359 deaths (285 per 100,000 inhabitants). The response package was one of the largest in the world, equivalent to approximately 8.5% of GDP, which, combined with the decline in economic activity, had a major impact

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1 Thus far, fourteen projects (Ceará, Piauí, Pará, Maranhão, Pernambuco, Mato Grosso do Sul, São Paulo, Espírito Santo, Amapá, Paraná, Bahia, Rio Grande do Sul, Paraíba, and Alagoas) have been approved by the Bank's Board, for a total of US$649.07 million.

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

3 National Treasury Department (STN, 2020).

on public finances. The primary fiscal deficit and gross public debt came in at 9.49% and 89.3% of GDP, respectively, at year-end 2020. The measures deployed have weakened the country's fiscal position. The pandemic interrupted the gradual recovery of the economy, causing GDP to shrink by 4.11% in 2020. While activity has rebounded in 2021, the economy remains below the pre-pandemic level. The speed of the economic recovery will depend largely on the country's ability to vaccinate the population.[4] In the long term, the emergency situation generated by COVID-19 has exacerbated the structural bottlenecks impacting fiscal sustainability, productivity, and inequality in the country.

1.6 **Macroeconomic and fiscal situation in Mato Grosso.** In 2020, the state had a population of around 3.53 million, representing 1.67% of the national total;[5] it generated 1.93% of national GDP, ranking 13th among the 27 Brazilian states in this regard.[6] The state economy suffered from the economic crisis that affected Brazil as a whole, but on a smaller scale, with its real GDP growth declining from an average of 9% per year in 2002-2014 to 1.3% in 2015-2017.[7] Given the challenges facing the country, Mato Grosso has been adopting fiscal measures to keep its finances in order.[8] The primary balance deteriorated from a surplus averaging 1.2% of state GDP between 2002 and 2014, to one of 0.6% between 2015 and 2018, before increasing again to 1.15% in 2019.[9] Current income, which accounts for about 95% of the state's total revenue, slipped from an average of 14.1% of state GDP between 2002 and 2014 to 13.7% between 2015 and 2017. In the last two years, current income has recovered, to represent 14.9% of state GDP in 2018 and 15.5% in 2019. This result is heavily influenced by the revenue performance of the goods and services sales tax (ICMS), which generates 41.6% of current income on average. Current expenditure, which accounts for over 90% of total spending, grew from 12.3% of state GDP in 2002-2014 to 13.3% in 2015-2019. Payroll expenditure grew from 58.7% of current income in 2016 to 61.8% in 2019. Investment expenditure, which serves as the adjustment variable in times of crisis, averaged 10% of total expenditure between 2002 and 2014 but retreated in the last two years to average 3.7% between 2015 and 2019. The consolidated debt is relatively low and has been trending down, dropping from 74% to 38% of net current income between 2010 and 2019.

1.7 The economic effects of the health crisis have been somewhat milder in Mato Grosso than in the country as a whole. There were closures of nonessential activities at various times, but only for a short period, which helped mitigate the impact on revenue.[10] The state's total revenue grew by 11.23% in 2020, compared with growth of 2.02% in Brazil as a whole. The same pattern was observed with ICMS revenue, which expanded by 14.73% in Mato Grosso and by 2.51% nationwide.[11] This difference reflects the composition of the state economy, in

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[4] As of 6 October 2021, only 45.25% of the population was fully vaccinated.

[5] Population estimates published in the Official Journal of the Union (DOU).

[6] IBGE. 2018 is the last year with statistics available for the states.

[7] Regional accounts system, IBGE, 2020.

[8] Mato Grosso tax actions.

[9] Subnational government finance report, STN, 2020.

[10] Mato Grosso actions to combat the pandemic.

[11] National Fiscal Policy Council, 2020.

which the agriculture sector and commerce account for 39.3% of GDP, compared with 18.5% in the country as a whole.

1.8 **Rationale.** The state's fiscal vulnerability, a product of high payroll expenditure and the need to increase investment, associated with the potential fiscal risk caused by the health crisis in the country, underscore the need to implement new fiscal management modernization measures, for the purpose of maintaining fiscal sustainability. In addition, new and complementary approaches are needed to bolster the state's fiscal performance. PROFISCO I-MT (2324/OC-BR)[12] focused on improving tax administration by integrating the state treasury with other levels of government through implementation of the SPED and the electronic fiscal invoice (NF-e). It also enhanced tax auditing and collection capacity through the use of information cross-referencing tools along the lines of business intelligence software and by making tax compliance easier. This project will provide continuity to the modernization of tax collection and will go further in addressing public expenditure issues by supporting activities to strengthen financial administration, strengthen the management and quality of public expenditure, incorporate digital technologies, and simplify tax compliance to enhance the business environment.

1.9 The effectiveness and efficiency of public institutions are hampered by the restrictions faced by their staff, access to information technologies, the availability of financial resources, and the legal framework (Arenas de Mesa, 2016; Finan et al., 2017). Empirical evidence demonstrates the need to establish robust fiscal institutions to consolidate an environment that promotes fiscal sustainability (Poterba, 1999).

1.10 In this regard, the state needs to address persistent weaknesses that hinder its fiscal performance. In terms of human resources, it has 1,201 employees (1,149 permanent and 52 on contract), 88% of whom have completed higher education. Although it does not have an integrated management model, the process of improving personnel management began with an exercise to map technical and behavioral competencies in the State Finance Department (SEFAZ/MT),[13] with an evaluation of the profile of all of its staff, but still without meeting the institution's current and future needs by targeting training on a skills basis. Opportunities for training are meager, with less than 1% of SEFAZ/MT's total budget in 2017-2020 (US$94.3 million per year on average) allocated to training, compared with 76% that was used to pay staff and 2% that went to investment. Moreover, there are no programs for transferring knowledge or training new leaders, despite the fact that 17% of the staff have already reached retirement age.[14] The state has had a code of ethics since 2002, and SEFAZ/MT has an ethics commission.

1.11 As regards technology infrastructure constraints, the state's installed technology has been partially modernized under PROFISCO I-MT. However, owing to the need to digitize of large volumes of tax documents in the SPED, which requires ever greater storage space, 71% of this capacity is already committed. Thus, in addition to the demand for expansion, its integrity in terms of compliance with the Personal Data Protection Act needs to be guaranteed. The tools that support

12 PROFISCO I-MT, Final report.

13 SEFAZ/MT Skills management report, 2017.

14 SEFAZ/MT Human resource management report.

information technology management and governance processes are precarious and insufficient for decision-making processes.[15]

1.12 SEFAZ/MT manages 1,541 workstations,[16] 45% of which have been in use for longer than four years and suffer from low processing power and operational instability, generating slowness and weak performance.[17] SEFAZ/MT provides maintenance to 73 computer systems, 80% of which are operationally obsolete; and it also coordinates 11 computer systems based on the state information technology company (Empresa Matogrosense de Tecnología da Informação – MTI).[18] The fact that state-of-the-art technologies are available in the market offers a window of opportunity for sustainable, secure, and efficient technological expansion, including in terms of energy consumption, which helps to reduce costs and avoid greenhouse gas emissions.

1.13 In relation to the legal framework, in 2019 the state issued rules for granting and maintaining tax incentives but still has difficulties in consolidating tax legislation and keeping it up to date, as well as in responding amicably to internal and external queries, thereby compromising legal certainty in the application of tax law. This is the result of inadequate controls, deficient systems, and lack of automatic monitoring and control of firms that enjoy tax incentives.[19]

1.14 Climate change and natural disasters can also impact fiscal management by generating economic losses and imposing an additional cost on development and poverty reduction policies. The fiscal impacts of natural disasters stem from the need for unplanned expenditures and the revenue losses caused by the disruption of economic activities and consequent reduction of the tax base (see Climate change document).[20]

1.15 There are other major challenges in strengthening maintenance of the state's fiscal sustainability, which were identified through application of the Fiscal Management Maturity and Performance Assessment (MD-GEFIS),[21] the institutional capacity analysis,[22] and also the matrix of problems and solutions —an instrument used to define the outputs and activities based on the problems and challenges identified, as described below:

1.16 **In fiscal management and fiscal transparency,** SEFAZ/MT's corporate processes in terms of governance and strategic management, staffing, technology,

15 SEFAZ/MT Information technology master plan.

16 The number of workstations exceeds the total number of SEFAZ/MT staff (1,201) owing to the need to service the finance school and the outsourced professionals (administrative assistants, receptionists, and information technology technicians under the "software factory" contract) who provide on-site services.

17 System Instability Data, SEFAZ/MT.

18 SEFAZ/MT Information technology report.

19 Tax Policy Report.

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

21 MD-GEFIS Mato Grosso report.

22 The institutional assessment found 31 strengths out of 40 conditions assessed.

and communication with citizens, are underdeveloped and poorly integrated,[23] which impairs the department's institutional performance. This is a consequence of: (i) ineffective use of the workforce to achieve institutional results;[24] (ii) high risk of information technology services being offline;[25] (iii) potential loss of financial resources caused by weak governance of the state's public procurement;[26] and (iv) ineffective communication with society.[27]

1.17 **In relation to tax administration and tax litigation,** revenue intake falls short of potential.[28] This is the result of: (i) insufficient inputs for decision-making on tax policy and for evaluating its political impact;[29] (ii) the high cost of tax compliance both for the tax administration and for the taxpayer;[30] (iii) the ineffectiveness of tax audits, with selection based on meager evidence, and a large time lag between the audit and the operation by the taxpayer;[31] (iv) the high cost of the tax litigation process for the taxpayer and for state public administration;[32] (v) the high cost of taxpayer services;[33] (vi) inefficient administrative and judicial collection of tax claims;[34] and (vii) the high cost for the taxpayer and for the public treasury in the payment of the tax.[35]

1.18 **Financial and public expenditure management** suffer from shortcomings that make it hard to achieve better results in terms of fiscal discipline and public expenditure efficiency and effectiveness.[36] The causes are: (i) the relative immaturity of results-based budgeting, especially in respect of recurrent expenditures and investments;[37] (ii) inadequate control of accounting and capital

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

24 Personnel Management Report. Mato Grosso has 26 careers and 89 positions.

25 Information technology report: SEFAZ/MT is already using 71% of its storage capacity and works with up to 87% of its processing capacity.

26 Public procurement report. There is no procurement planning; the information is fragmented and has high transaction cost - see study: Cost of MT tenders.

27 Fiscal transparency report. The Mira Cidadão and SEFAZ/MT transparency portals have divergent data.

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

29 Tax policy report. SEFAZ/MT has no control of firms with tax exemptions totaling R$3.4 billion in 2019.

30 Tax compliance report. Multiple systems for obtaining information from the taxpayer and five tax compliance documents.

31 Inspection report. In 2019, 14,259 charges were audited, with only a 17% success rate; in 2020, 8,411 charges were audited, with 14.5% success rate.

32 Tax litigation report. 80.89% of tax assessments and 0.99% of the stock of adjudicated tax claims in 2019 have been recovered; in 2020, 79.74% and 4.22%, respectively, has already been recovered.

33 Report on taxpayer services and Evaluation of SEFAZ/MT services, where 32 services are conducted in person.

34 Tax claims collection report. The SEFAZ/MT administrative tax claims recovery rate is 1.46%, March 2020.

35 Revenue report. Average time between payment of debt and notification: 34 minutes.

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

37 Budget planning report. Budget changes amounted to 29% of the budget in the years 2017-2019.

records, and noncompliance with accounting convergence standards;[38] (iii) the potential risk of financial loss owing to weak control of public debt;[39] (iv) inefficient management of the state's assets and liabilities;[40] (v) poor knowledge of fiscal risks;[41] (vi) limited capacity to evaluate public policies;[42] and (vii) inefficient and insecure management of the active and inactive staff payroll.[43]

1.19 **The Bank's experience in the country.** The Bank has supported the modernization of fiscal management at the three levels of government in Brazil, with significant transformations in over 25 years of programs implemented, especially at the state level through the National Fiscal Administration Program for the Brazilian States (PNAFE - 980/OC-BR, approved in 1996 for US$500 million); PROFISCO I CCLIP (BR-X1005, approved in 2008, for US$900 million), and the Fiscal Stability Consolidation Programs (PROCONFIS).[44] These projects supported the implementation of the NF-e, the system that enables firms to send tax and accounting data to the tax authorities digitally, and the integrated financial management system (SIAF), which is compatible with international accounting standards. They also strengthened technological capacity, allowing for the storage and processing of electronic tax data, and the public procurement system. The main outcomes were an increase in tax revenue, a decrease in informality, and a reduction in transaction costs for the tax authorities and taxpayers alike. According to the PROFISCO I CCLIP midterm evaluation,[45] between 2009 and 2013, states that had a PROFISCO project in an advanced stage of execution took in 6% more revenue from ICMS on average than did states that had a PROFISCO project in initial stages of execution. For the municípios, the National Program to Support the Modernization of Administrative and Fiscal Management (PNAFM),[46] currently in its third phase, supports an increase in internal revenue collection, by implementing the electronic invoice for services and updating the real property register, reducing administrative costs, and expanding taxpayer services. At the federal level, among other actions, the Bank supported implementation of the risk management and anti-fraud intelligence methodology in the Office of the Attorney General for Finance, the accounting and tax information system and the federal government's cost information system, as part of the tax modernization project of the Federal Revenue Service of Brazil (SRF, approved in 1996 for US$30 million) and the Ministry of Finance's Integrated Modernization Program (PROFISCO/PMIMF, 3142/OC-BR, approved in 2013 for US$19.8 million).

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38 Financial system report. Financial management reports produced in Excel.

39 Public debt report. Report on the control of public debt with manual records.

40 Asset and liability management report. Mato Grosso does not possess analytical control of its assets and liabilities.

41 Fiscal risks report. In 2019, unexpected judicial payment orders increased the budget by 14.6%.

42 Public expenditure report. 80% of the state's public expenditure consists of mandatory expenses.

43 Payroll management report. Monthly fines for past-due social security payments.

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

45 BR-X1005: Midterm evaluation, 2014 and PROFISCO I-MT Project completion report (PCR).

46 1194/OC-BR (approved in 1999, for US$600 million); 2248/OC-BR (approved in 2009, for US$150 million); and 3391/OC-BR (approved in 2014, for US$150 million).

1.20 PROFISCO I-MT (2324/OC-BR), approved in 2010 for US$15.03 million, was executed over a period of six years, and the final evaluation concluded that the project had performed successfully (Relevance – excellent; Effectiveness – satisfactory; Efficiency – excellent; and Sustainability – satisfactory). Of the 15 planned outcome targets, 14 (94%) were achieved, and one (6%) was partially achieved, owing to a delay in the implementation of the monitoring and risk assessment system in the inspection of goods in transit at tax posts. The project also achieved 100% of its 24 output targets. In terms of tax revenue, the SPED, including the NF-e, and implementation of the outputs "system for capturing and processing of tax data from other sources" and "model for inspecting establishments and transporters, through electronic auditing" were the interventions that contributed most directly to increasing the state's revenue intake. The project contributed to the partial renewal of SEFAZ/MT's installed technology, through the expansion of data processing and storage capacities. The performance of the executing agency and the Bank were rated as satisfactory.

1.21 **Lessons learned from the Bank's operations in the country.** Lessons learned from the PROFISCO I CCLIP[47] and the PROFISCO I-MT operation include the following:

a. **Design**. The need for an instrument to identify innovative solutions in fiscal management processes. The Fiscal Management Maturity and Performance Assessment (MD-GEFIS) was developed for this purpose, making it possible to gauge the maturity of the states' fiscal management processes and identify opportunities for strengthening them.[48] In addition, the importance of planning ahead to implement complex outputs was highlighted. On this point, it was agreed that the technical specifications and terms of reference, mainly for technological innovation products, would be prepared as a priority before the start of execution, and there would be support from consulting services specialized in information technology, income, and expenditure.

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

c. **Execution.** To compensate for execution delays, the Bank created the Execution Acceleration Plan as a monitoring tool that uses the progress monitoring report to identify outputs subject to execution delays and prepare mitigation measures until execution is normalized.

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

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[47] Midterm evaluation and PCR of seven states (Minas Gerais, Rio de Janeiro, Piauí, Mato Grosso, Maranhão, Pernambuco, and Rio Grande do Norte).

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

e. **Results.** The SPED, including the NF-e, digital tax accounting, and the digital accounting record, was found to be the output that contributed most to increasing the efficiency of the states' fiscal controls.[49] By automating the flow of information between taxpayers and the state, the SPED exponentially increases the information available for auditing. This heightens the taxpayer's perception of risk by increasing the probability of being penalized in the event of committing a tax offense. PROFISCO II will invest in the evolution of the SPED and will seek to exploit its potential, for example by expanding the use of the information it generates to automate tax audits[50] and simplify tax compliance, thus leveraging the new technologies of the digital economy.

f. **PROFISCO I-MT.** The PROFISCO I-MT project completion report (PCR) found that the following factors had a negative impact on project execution: (i) difficulty in developing and executing the outputs, owing to lack of previous experience in project execution; (ii) difficulty in preparing terms of reference and technical specifications, as an example of the delay that occurred in defining the monitoring and risk assessment system for the inspection of goods in transit (paragraph 1.20); and (iii) complexity in the technical acceptance of the bidding process documents, owing to internal approval flows and insufficient knowledge of the Bank's procurement rules and policies. This project includes actions to: (i) maintain the structure and staff of the PCU that executed PROFISCO I, with additional measures to improve coordination and communication between output leaders; (ii) contract support for the preparation of terms of reference and for training in project management; and (iii) redesign the internal flows of communication between the PCU and the other technical areas of SEFAZ/MT and train key actors in the Bank's policies. In addition, actions are proposed to: (i) make information technology investments sustainable by planning and prioritizing resources for infrastructure and information security upgrades and maintenance; (ii) strategically plan interdependent outputs; and (iii) prepare complex terms of reference in advance, with support from specialized consulting services.

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

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

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

management and training should be adopted at the fiscal management entities, since human resources are strategic for improving institutional performance.

1.23 **International evidence.** Empirical evidence shows that fiscal sustainability and discipline are strongly related to robust fiscal institutions.[51] Banerjee et al. (2017) report reductions in program execution costs when the government makes use of technology. Dhaliwal and Hanna (2014) find that automated process-monitoring programs can make more efficient use of public resources and enhance service quality. Arenas de Mesa (2016) highlights the relationship between the sustainability of public finance and the institutional framework for fiscal management and transparency.

1.24 On the taxation side, recent evaluations show that revenue performance depends significantly on the institutional strengthening of tax administrations: (i) improved accessibility and quality of the available information;[52] (ii) information-intensive audit models;[53] (iii) simplified procedures to facilitate tax compliance;[54] and (iv) strategies to ensure the suitability and motivation of staff.[55] Several Latin American tax administrations have strengthened these elements, particularly those of Brazil and Uruguay.[56]

1.25 In relation to public expenditure, several studies point out the need for actions to improve technical and allocative efficiency, in order to promote fiscal sustainability, equity, and economic growth.[57] In this regard, it is essential to improve public procurement processes through:[58] strategic procurement planning; the use of online systems; systematic monitoring; and information transparency. In addition, strengthening the management of public investment can increase potential benefits in terms of economic and social development by up to 30%.[59] [60] In Latin America, countries with more developed national public investment systems report better rates of efficiency.[61] International experience also shows that adoption of the medium-term budgetary framework (MTPF), which links current budgetary decisions to their medium-term implications, has a positive impact on fiscal

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

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

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

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

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

56 1783/OC-UR PCR. Barreix and Zambrano (2018). NF-e in Latin America. IDB. The *Nota Fiscal Paulista* program [São Paulo electronic invoice program] increased ICMS revenue intake by US$226 million.

57 *Better Spending for Better Lives* (2019).

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

59 International Monetary Fund (IMF) (2015).

60 Calderón and Servén (2004); Gupta et al. (2014); IMF (2014).

61 Armendariz and Contreras (2016).

sustainability.[62] Most countries in the Organisation for Economic Co-operation and Development (OECD) have implemented this tool, and several Latin American countries have also adopted it in recent decades.[63] Countries that have a sound MTPF tend to be more effective in achieving their fiscal targets.[64]

1.26 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenge of Productivity and Innovation, inasmuch as it reduces the cost of tax collection by using information and digital technologies. It is also aligned with the following crosscutting themes: (i) Institutional Capacity and Rule of Law, by strengthening the tax and public resource management and planning systems, improving the public sector's levels of efficiency and effectiveness, and enhancing transparency and accountability through greater digitalization; and (ii) Climate Change, since, according to the joint methodology of the multilateral development banks, 19.45% of the operation's resources represent climate financing, corresponding to climate change mitigation measures in energy efficiency and digitalization. These resources contribute to the IDB Group's target of increasing lending to projects related to climate change to 30% of all approvals in 2021. In addition, the program contributes to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) emissions avoided (annual tons of CO_2 equivalent); (ii) countries with strengthened tax and expenditure policy and management; (iii) agencies with strengthened digital technology and managerial capacity; and (iv) agencies with strengthened transparency and integrity practices. It also aligns with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2); and it is consistent with the sector framework documents on Decentralization and Subnational Governments (GN-2813-8), and Fiscal Policy and Management (GN-2831-8) under the following dimensions: (i) improving the efficiency and quality of expenditure and service delivery; (ii) increasing own revenue collection; and (iii) working with greater transparency and accountability. The program is also consistent with the Climate Change Sector Framework Document (GN-2835-8) inasmuch as it will reduce greenhouse gas emissions through the procurement of efficient equipment, digitalization of services, and sustainable infrastructure.

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

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62 World Bank (2013, 1998).

63 World Bank (2013). For Latin America and the Caribbean, see IDB (2009).

64 IMF (2013); World Bank (2013).

B. Objectives, components and cost

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

1.29 **Component 1. Fiscal management and transparency (US$25,745,326).** This component seeks to improve management instruments, modernize technology infrastructure,[65] and make SEFAZ/MT's relationship with society more transparent, improving its institutional performance. It will finance implementation of the following:

a. **Institutional governance model (US$1,333,333),** including: (i) a diagnostic assessment; (ii) process mapping and redesign; (iii) an institutional strategy and results management methodology; (iv) an updated strategic plan; and (v) an institutional performance monitoring and evaluation tool.

b. **Strategic personnel management model (US$7,438,504),** including: (i) a methodology for right-sizing the workforce; (ii) a methodology for competencies-based job evaluation and mapping of organizational and job competencies; (iii) the development of new functions in the State Personnel Management System (SEAP) and its integration with other corporate systems; (iv) a training plan based on the Individual Development Plan; (v) an employee portal; (vi) a management competencies development plan; and (vii) physical remodeling.

c. **Information technology management model (US$13,994,711),** including: (i) information technology governance and management plans; (ii) an information technology risk management plan; (iii) a data center; (iv) information technology tools (software licenses); (v) information technology solutions implemented: application balancing and security solution and hyperconvergence solution; and (vi) microcomputer equipment.

d. **Public procurement governance model (US$2,434,333),** including: (i) the diagnostic assessment, mapping, and redesign of processes; (ii) procurement management methodology implemented; (iii) modules of the government procurement system (SIAG): project management; procurement planning and monitoring; reference prices based on the NF-e; management indicators; integrator with corporate systems; contract management; supply chain and supplier register and evaluation; and (iv) a training plan.

e. **Fiscal transparency and citizenship model (US$544,444),** including: (i) an action plan for fiscal transparency and education; (ii) web tools for interaction with society; and (iii) a transparency portal.

1.30 **Component 2. Tax administration and tax litigation (US$25,764,626).** This component seeks to make tax collection more efficient, grow revenues, and simplify tax compliance. It will finance implementation of the following:

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[65] The procurement of project equipment will observe energy efficiency requirements, see climate change document.

a. **Tax policy management model (US$6,103,126),** including: (i) methodologies for evaluating the impact of fiscal actions and the estimation of evasion, prioritizing ICMS; (ii) modules of the tax benefit management system: data bank; monitoring; evaluation; managerial, with projections and scenarios; (iii) data science solution for data integration and processing; (iv) updated legacy systems; and (v) business intelligence data cross-referencing tools.

b. **Taxpayer registry, control of tax compliance and foreign trade systems (US$3,427,778),** including: (i) tax compliance control module; (ii) integration module with the Single Foreign Trade Portal; and (iii) compliance indicators module of the national network for the simplification of business registration (REDESIM).

c. **Risk-based audit management model (US$5,345,111),** including: (i) process mapping and redesign; (ii) a risk management methodology; (iii) a tool for processing large volumes of structured and unstructured data; and (iv) a technological tool for monitoring transit operations.

d. **Tax litigation management model (US$5,310,833),** including: (i) process mapping and redesign; (ii) modules of the online tax administration process management system, including: protocol; trial; and integration with SEFAZ/MT and the State Attorney General's Office (PGE/MT); (iii) modules of the judicial litigation management system, including: collection, advanced investigation of *lis pendens*, and control of judicial proceedings implemented; and (iv) a training plan for the PGE/MT.

e. **Taxpayer service channels (US$822,222),** including: (i) the taxpayer services portal including the following: diagnostic assessment; automated system of internal procedures, importation of data from legacy systems, and expansion of fully online services; and (ii) a call center with cadaster, electronic address, and integrated database modules.

f. **Claims collections system (US$4,133,333),** including: (i) process mapping and redesign; and (ii) claims collection system modules: debt profile classification; debtor selection; debtor portfolio management; integration with current account and active debt management systems databases; large-scale collection; and monitoring.

g. **Revenue system (US$622,222),** including: (i) terms of reference; and (ii) collection system modules: monitoring panel; integration with corporate systems; management reports; and integration with corporate systems of agencies external to SEFAZ/MT.

1.31 **Component 3. Financial administration and public expenditure (US$10,484,380).** This component aims to make financial planning and execution more efficient and enhance expenditure quality. It will finance implementation of the following:

a. **Results-based budget planning model (US$948,222),** including: (i) a results-based budgeting methodology; (ii) a results monitoring and evaluation tool; (iii) a public investment management methodology and tool; and (iv) an

ex ante evaluation methodology for investment projects applied in a given sector.

b. **Budget, financial, accounting, agreements, and asset planning and management system (US$4,733,333),** including: (i) process mapping and redesign; (ii) manuals and instructions for budgetary, financial, and accounting procedures; and (iii) system modules for the following: planning; budget; accounting; financial; bank reconciliation; contracts; agreements; property; costs; and an integrator with other corporate systems.

c. **Public debt management system (US$666,667),** including: (i) a public debt management methodology; (ii) a public debt management procedures manual; and (iii) public debt management system modules with customizable contract rules; projections and scenarios; and integration with the finance system.

d. **Asset and liability management system (US$288,889),** including: (i) process mapping and redesign; (ii) an asset and liability management methodology; and (iii) system modules: liabilities and assets; an integrator with PGE/MT.

e. **Fiscal risk management model (US$763,356),** including: (i) terms of reference; (ii) a fiscal scenario projection and fiscal risk management methodology; (iii) economic and fiscal studies; and (iv) a fiscal risk monitoring system.

f. **Public cost and expenditure management model (US$1,161,867),** including: (i) a public cost management and estimation methodology; (ii) a strategic plan for public and regulatory cost management; (iii) a public cost estimation system; (iv) a public policy impact and expenditure efficiency assessment applied in a sector; and (v) a training plan on cost management and public policy impact assessment.

g. **Active and inactive payroll management system (US$1,922,047),** including: (i) process mapping and redesign; (ii) a social security census; (iii) a unified cadaster; and (iv) payroll management system modules: management of assets; management of inactive employees and pensioners; migration of legacy systems; and integration with state corporate systems.

1.32 **Project management (US$538,889).** The project will also finance activities to support project management and execution, including costs relating to accounting and financial auditing, and monitoring and evaluation.

1.33 The project will finance consulting services (individual consultants and firms) for US$11.6 million (18.6%); nonconsulting services for US$28.5 million (45.6%); goods for US$15.4 million (24.7%); training for US$4.2 million (6.7%); and civil works for US$2.7 million (4.4%) to remodel existing physical spaces.

1.34 **Beneficiaries:** The state's enhanced fiscal sustainability will benefit its citizens, businesses, taxpayers, and nongovernmental entities. The users will be the public sector entities which, with government support, will provide improved service delivery, simplified and lower-cost tax compliance; and more widely available information for statewide management and accountability.

C. Key results indicators

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

1.36 **Cost-benefit analysis.** A cost-benefit analysis of the project was performed to compare the economic and financial costs and benefits, considering the following outcomes: (i) an increase in revenue intake following the adoption of a new tax collection model; (ii) resource savings resulting from process automation, which substantially shortens the time spent by auditors to perform what are currently manual activities, the closure of face-to-face service agencies, and a new payroll system for retirees; and (iii) reduction of taxpayer costs owing to shorter service times following the replacement of face-to-face interactions with other channels and a reduction in the number of vehicles transporting goods obliged to stop at tax posts. By end-2031 (in 10 years' time), the project investments will have a net present value of US$35.1 million with an internal rate of return (IRR) of 50.7%. These results are robust to the sensitivity analysis performed, which considered five different scenarios as follows: exclusion of revenue increases (IRR of 16.3%); delay in the execution and realization of benefits by one and four years (IRR of 30.2% and 20.8%, respectively); a 30% devaluation of the real (IRR of 31.9%); a 25% reduction in all benefits (IRR of 29.1%); and a scenario that combines devaluation and a reduction in benefits (IRR of 15.3%).

II. Financing Structure and Main Risks

A. Financing instruments

2.1 This operation was designed as a specific investment loan under the PROFISCO II CCLIP (BR-X1039). It has a total cost of US$62,533,221, which will be financed through a loan of US$56,279,900 from the Bank's Ordinary Capital and a local counterpart contribution of US$6,253,321. The breakdown of resources by funding source and components is shown in Table 1.

Table 1. Estimated program costs (US$)

Components	IDB	Local	Total	%
A. Direct costs	**55,741,011**	**6,253,321**	**61,994,332**	**99.2**
Component 1. Fiscal management and transparency	**19,492,005**	**6,253,321**	**25,745,326**	**41.2**
1.1 Institutional governance model	1,333,333	0	1,333,333	2.1
1.2 Strategic personnel management model	2,354,596	5,083,907	7,438,504	11.9
1.3 Information technology management model	13,994,712	0	13,994,711	22.4
1.4 Public procurement governance model	1,264,920	1,169,414	2,434,333	3.9
1.5 Fiscal transparency and citizenship model	544,444	0	544,444	0.9
Component 2. Tax administration and tax litigation	**25,764,626**	0	**25,764,626**	**41.2**
2.1 Tax policy management model	6,103,126	0	6,103,126	9.8
2.2 Taxpayer registry, control of tax compliance, and foreign trade systems	3,427,778	0	3,427,778	5.5
2.3 Risk-based audit management model	5,345,111	0	5,345,111	8.5
2.4 Tax litigation management model	5,310,833	0	5,310,833	8.5
2.5 Taxpayer service channels	822,222	0	822,222	1.3
2.6 Claims collection system	4,133,334	0	4,133,333	6.6
2.7 Revenue system	622,222	0	622,222	1.0
Component 3. Financial administration and public expenditure	**10,484,380**	0	**10,484,380**	**16.8**
3.1 Results-based budget planning model	948,222	0	948,222	1.5
3.2 Budget, financial, accounting, agreements and asset planning and management system	4,733,333	0	4,733,333	7.6
3.3 Public debt management system	666,667	0	666,667	1.1
3.4 Asset and liability management system	288,889	0	288,889	0.5
3.5 Fiscal risk management model	763,355	0	763,356	1.2
3.6 Public cost and expenditure management model	1,161,867	0	1,161,867	1.9
3.7 Active and inactive payroll management system	1,922,047	0	1,922,047	3.1
B. Project management	**538,889**	0	**538,889**	**0.8**
1. Monitoring	388,889	0	388,889	0.6
2. Evaluation	150,000	0	150,000	0.2
Total	**56,279,900**	**6,253,321**	**62,533,221**	**100.0**

Note: The amounts shown in the cost table are indicative.

2.2 **Disbursement schedule.** Disbursements will be made over a period of five years as shown in Table 2.

Table 2. Disbursement schedule (US$)

Sources	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	4,657,218	10,761,181	14,614,563	16,142,292	10,104,645	**56,279,900**
Local	1,033,844	593,122	2,033,563	2,592,793	0	**6,253,321**
Total	**5,691,062**	**11,354,303**	**16,648,126**	**18,735,085**	**10,104,645**	**62,533,221**
%	**9**	**18**	**27**	**30**	**16**	**100**

2.3 **Fulfillment of the eligibility conditions for the PROFISCO II CCLIP (BR-X1039).** The project fulfills the eligibility criteria specified in the policy on CCLIPs (document GN-2246-9)[66] for individual loan operations, since: (i) it pertains to the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) the operation is included in the Update of the Annex III of the 2021 Operational Program Report (document GN-3034-2); (iii) the state will execute the operation through SEFAZ/MT, which served as executing agency for the first individual operation under the PROFISCO I CCLIP (2324/OC-BR); (iv) the state successfully executed the PROFISCO I-MT project, achieving the planned objectives as described in paragraph 1.20; and (v) the institutional analysis[67] found that SEFAZ/MT's capabilities have not deteriorated, so the same project execution and monitoring tools may be used for this new operation, and the PCU staff will also be the same. According to the PROFISCO I-MT project completion report (PCR): (i) the project objectives were achieved satisfactorily; and (ii) the execution unit complied with the contractual requirements and the Bank's disbursement policies, and its accounts were audited and found to meet the required quality standards.

B. Environmental and social risks

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

C. Fiduciary risks

2.5 **Goods and services.** A medium-high risk was identified: a failure to prepare the terms of reference for project procurement on time, or a lack of coordination between SEFAZ/MT and PGE/MT to issue instructions on the acceptance of Bank policies, will cause delays in the procurement process, thereby affecting the project's physical and financial schedule. This risk will be mitigated through: (i) timely contracting of the individual consulting services; and (ii) the issuance of policy instructions for the implementation of Bank policies.

D. Other risks and key issues

2.6 A risk management workshop held using the Bank's methodology rated the operation as medium risk. The specific risks identified are as follows:

a. **Economic and financial.** There is a medium-high risk that if revenue growth is impaired by the crisis generated by the COVID-19 pandemic, or by exchange rate variation, the borrower may have difficulties in providing the counterpart contribution on time, thereby defaulting on the *pari passu*. This risk will be mitigated through fiscal measures put in place before and during

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

[67] To start the preparation of this operation, a diagnostic assessment of the maturity and performance of Mato Grosso's fiscal management was conducted using the MD-GEFIS methodology (paragraph 1.15), as was an analysis of the institutional capacity of SEFAZ/MT.

COVID-19,[68] and by being able to adjust the physical-financial schedule of the counterpart funding.

b. **Internal processes.** There is a medium-high risk that, if the information technology area is unable to develop the specifications of the computer systems as programmed, project deliverables will be delayed. This risk will be mitigated by directly contracting MTI, appointing an information technology advisor, or hiring a specialized consulting firm.

2.7 **Fiscal analysis of the state.** The analysis of Mato Grosso's financial situation recognizes an improvement in its fiscal accounts and an increase in its payment capacity to service the contracted debt. The 2020 consolidated debt represents 0.6% of estimated state GDP and 32.8% of net current income for that year. The state's ICMS revenue grew by 14.7% in 2020, well above the 2.52% average increase in other Brazilian states, aided by tax administration measures. Classified in category "C" in 2019 by the National Treasury Department (STN) using the CAPAG methodology, the 2020 estimate changed the state's overall rating to "A". The state achieved an "A" rating in all components: Indebtedness; Net savings; and Liquidity (see Financial Situation of the State of Mato Grosso). Federal transfers to combat the health crisis, together with increased revenue, generated this substantial improvement in ability to pay.

2.8 **Program sustainability.** In addition to the steps the government is already taking (paragraph 1.6), the project includes measures that are conducive to fiscal sustainability in the medium and long terms, such as cutting expenditure and reducing tax evasion, which will generate higher revenue. To ensure that the capacities generated by the project are sustainable once execution is completed, PROFISCO II-MT includes actions to reduce payroll expenses and generate savings on procurement costs and service delivery. It will also increase revenues by improving fiscal actions and the recovery of tax claims, with the following related outputs: management of the active and inactive payroll; management of public procurement; unification of tax registers and simplification of tax compliance; use of new audit and tax intelligence technologies; among other things. In the case of investments in technology, SEFAZ/MT will mainly use its own staff, supported by MTI and specialized consulting services for the necessary developments and maintenance. The project will also finance the upgrading of data protection and cybersecurity measures.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The State of Mato Grosso will be the borrower and will execute the operation through SEFAZ/MT.[69] The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the policy on Guarantees Required from the Borrower (document GP-104-2). For project implementation, a PCU will

[68] Mato Grosso actions to combat the pandemic and study of the impact of COVID-19 on the Mato Grosso economy.

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

be set up, staffed by a general coordinator, a technical coordinator, an administrative and financial coordinator, a planning and monitoring coordinator, and a procurement coordinator. The PCU will coordinate project planning, monitoring, evaluation, and auditing activities.

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

3.3 **Interagency coordination mechanism.** SEFAZ/MT will collaborate with the State Planning and Management Department (SEPLAG/MT), the State Comptroller General's Office (CGE/MT) and the State Attorney General's Office (PGE/MT) on the execution of activities that will benefit these entities. Leaders of the corresponding outputs will be appointed in the entities, who will coordinate their actions with the PCU and supervise their technical development and implementation. To coordinate procurement processes related to personnel management, purchasing, public expenditures, tax litigation, internal control and communication with society, information flows and processes among beneficiaries will be mapped and defined, identifying roles, responsibilities, and schedules. This will be institutionalized through cooperation agreements (paragraph 3.5).

3.4 **Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower will adhere to the** Program Operating Regulations**, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit will be created and its members appointed.** These conditions are essential to ensure that the executing agency has detailed regulations governing operational and fiduciary issues and to mitigate the risks of delay in project execution. This practice was adopted in PROFISCO I and proved successful in terms of consolidating the coordination and guidance issues relevant to executing agencies in the Program Operating Regulations, guaranteeing the most efficient distribution of responsibilities among PCU members according to their functions, and streamlining contracting processes.[70]

3.5 **Special contractual conditions for execution.** Before starting to execute activities that have outputs intended for SEPLAG/MT, CGE/MT, and PGE/MT, SEFAZ/MT will sign a cooperation agreement with these entities, specifying the roles and responsibilities of the parties during execution of the respective activities. This condition is justified by the need to ensure that the entities benefiting from the

[70] PROFISCO I PCU, 2015.

activities will provide the necessary cooperation to SEFAZ/MT, which will be tasked with implementing them.

3.6 **Procurement.** Project procurement and contracting will be carried out in accordance with with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and as indicated in the procurement plan.

3.7 **Single-source selection.** Pursuant to the provisions for single-source selection of consulting firms set out in paragraph 3.11(d) of policy document GN-2350-15, when only one firm is qualified or has experience of exceptional worth for the assignment, the following will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new information technology solutions, pursuant to paragraph 1.13(c) of the aforementioned policy, on the eligibility of universities and research centers to participate in contracts; and (iii) data processing firms that are in charge of information technology development at the state level, and in the specific case of Mato Grosso, the state-owned enterprise MTI, given the advantages conferred by continuity in the provision of its services and due to the unique characteristics of the firm. By virtue of the provisions of document GN-2350-15, direct contracting will also be used to select: (i) the Inter-American Center of Tax Administrations (CIAT), pursuant to paragraph 3.11(d), previously cited, and paragraph 3.16, as a specialized international agency, considering the technical assistance that it provides to modernize tax administrations in the region; and (ii) the firm Techne to develop payroll and employee data management software, pursuant to paragraphs 3.11(a) and 3.12, as these are services that require continuity and represent the natural continuation of work that the firm has been doing for over 10 years, provided that it continues to perform satisfactorily (see Annex III and justification of single-source selection).

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

B. Summary of arrangements for monitoring results

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

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

Development Effectiveness Matrix		
Summary	BR-L1539	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Emissions avoided (annual tons CO2 equivalent) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2973**	**(i) reform the structure of public spending; (ii) improve the public investment system; (iii) use elctronic government and digital solutions to promote transparency, accountability, and efficiency, improving services to citizens and business; and (iv) build more effective government.**
Country Program Results Matrix	**GN-3034-2**	**The intervention is included in the 2020 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	**9.8**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**3.5**	
3.3 Results Matrix Quality	**3.8**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**1.5**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.5**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**0.0**	
5. Monitoring and Evaluation	**10.0**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**C**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison.**
Non-Fiduciary	**Yes**	**Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**The IDB team developed and applied a methodology (MD-GEFIS) to assess the state of public finances and fiscal mangement processes in the State Mato Grosso to design the project and to monitor future performance against the baseline**

Evaluability Assessment Note:

The main goal of the operation is to contribute to the fiscal sustainability of the State of Mato Grosso. To achieve this end, the proposal defines three specific areas on which the project will intervene. The first area is fiscal management. The second area is tax administration. The third area is the administration of public expenditure. Each of these areas is associated to 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 child of a series of operations under the Conditional Credit Line for Investment Projects (CCLIP) parent BR-X1039.

The project proposal diagnoses a primary balance as a share of the State PIB of 1.0 percent and a current net debt as a share of the State PIB of 3.7 percent in 2020 (SEFAZ, 2021). 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 18 sub areas. Each diagnosis identifies 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 an inefficient allocation of personnel to achieve goals, high risks to access technological infrastructure, financial losses due to procurement inefficiencies, and lack of communication with society.

The diagnosis provides links to the quantification of these needs for the18 processes.

The economic analysis takes a cost-benefit approach taking investment costs and benefits derived from savings to the state to collect taxes and carry out financial management processes. It also quantifies savings to taxpayers resulting from a more efficient reporting and monitoring system of goods in transit. The analysis concludes the project has a Net Present Value of US$3,6 million and an Economic Rate of Return of 16.3%.

Monitoring relies on reports by the Finance Secretariat. The ex post evaluation plan includes an impact evaluation to identify the effects of a risk-based auditing system on the ability of the auditors to detect of tax evasion. The evaluation relies on differences-in-differences methodology.

The project identifies four risks out of which three are classified as medium high and one as low. The risks classified as medium high include the adverse effects of COVID-19 on the state economy, delays caused by weak procurement, and delays in system implementation due to a slow response of local information systems.

RESULTS MATRIX[1, 2]

Project objective:	To contribute to the fiscal sustainability of the State of Mato Grosso through the following specific objectives: (i) modernize fiscal management; (ii) improve tax administration; and (iii) improve public expenditure management.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Baseline year	Expected year of achievement	Target	Means of verification	Comments
General development objective: To contribute to the state's fiscal sustainability							
Primary balance/State GDP	%	1.04	2020	2026	1.07	SEFAZ/MT Treasury Report	The targets associated with the general objective (impacts) will be verified for the project completion report.
Tax Revenue/State GDP	%	9.90	2020	2026	10.92	SEFAZ/MT Tax Administration Report	
Net current debt/State GDP	%	3.71	2020	2026	1.65	SEFAZ/MT Treasury Report	

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Specific development objective 1: To modernize fiscal management											
Number of targets met/Total number of targets planned	%	50	2020	58	67	75	80	83	83	SEFAZ/MT Annual Strategic Planning Report	See monitoring and evaluation plan
Specific development objective 2: To improve tax administration											
SEFAZ/MT operating budget/Total tax revenues	%	2.48	2020	2.56	2.54	2.52	2.50	2.49	2.49	Mato Grosso State balance sheet and SEFAZ/MT Financial Report	See monitoring and evaluation plan

1 The results are not cumulative.

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

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Specific Development Objective 3: To improve public expenditure management											
Budget as executed / Budget as planned[3]	%	13.78	2020	6.13	5.84	5.16	5.00	5.00	5.00	State balance sheet	See monitoring and evaluation plan

OUTPUTS[4, 5]

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Component 1. Financial management and transparency											
1.1 Institutional governance model implemented	Model [6]	0	2021	0	0	0	0	1	1	SEPLAG/MT management report	See monitoring and evaluation plan
1.2 Strategic personnel management model implemented	Model	0	2021	0	0	0	0	1	1		
1.3 Information technology management model implemented	Model	0	2021	0	0	0	0	1	1	SEFAZ/MT management report, including data on the procurement of efficient equipment.	
1.4 Public procurement governance model implemented	Model	0	2021	0	0	0	1	0	1	SEPLAG/MT management report	
1.5 Fiscal transparency and citizenship model implemented	Model	0	2021	0	0	0	1	0	1		

3 A high target has been set for the initial years of project execution because of uncertainty as to the evolution of the pandemic, which is reflected in future levels of revenues and expenditures. At the end of the project, the target is to maintain performance within the 5% range recommended by the Public Expenditure and Financial Accountability (PEFA) methodology.

4 The outputs are annual.

5 Outputs, systems, and models are only considered implemented when they are in use by public officials.

6 A model is a set of activities that may include the following: (i) a diagnostic assessment of the current situation; (ii) a methodology and change proposal; (iii) process reengineering; (iv) the programming of an information technology solution; and (v) training in the new processes and distribution of tools.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Component 2. Tax administration and tax litigation											
2.1 Tax policy management model implemented	Model	0	2021	0	0	0	0	1	1	SEFAZ/MT management report	See monitoring and evaluation plan
2.2 Taxpayer registry, control of tax compliance, and foreign trade systems implemented	System [7]	0	2021	0	0	1	2	0	3		
2.3 Risk-based audit management model implemented	Model	0	2021	0	0	0	0	1	1		
2.4 Tax litigation management model implemented	Model	0	2021	0	0	0	0	1	1		
2.5 Taxpayer service channels implemented	Channels [8]	0	2021	0	0	1	0	1	2		
2.6 Claims collection system implemented	System	0	2021	0	0	0	0	1	1		
2.7 Revenue system implemented	System	0	2021	0	0	0	0	1	1		
Component 3. Financial administration and public expenditure											
3.1 Results-based budget planning model Implemented	Model	0	2021	0	0	0	1	0	1	SEFAZ/MT management report	See monitoring and evaluation plan
3.2 Budget, financial, accounting, agreements, and asset planning and management system implemented.	System	0	2021	0	0	0	0	1	1		
3.3 Public debt management system implemented	System	0	2021	0	0	0	0	1	1		
3.4 Asset and liability management system implemented	System	0	2021	0	0	0	1	0	1		
3.5 Fiscal risk management model implemented	Model	0	2021	0	0	0	0	1	1		

7 The term “system” means software that provides a set of rules governing how conceptual business models operate.

8 The term “service channels” means the development of an automated portal and call center.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
3.6 Public cost and expenditure management model implemented	Model	0	2021	0	0	0	0	1	1	SEFAZ/MT management report, including information on climate change criteria	
3.7 Active and inactive payroll management system Implemented	System	0	2021	0	0	0	1	0	1	SEPLAG/MT management report	

Country: Brazil **Division:** IFD/FMM **Operation No.:** BR-L1539 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: State of Mato Grosso, through its Finance Department (SEFAZ/MT)
Project name: Fiscal Management Modernization Project for the State of Mato Grosso (PROFISCO II - MT)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the project

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

2. Fiduciary execution mechanism: See Program Operating Regulations.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The executing agency's fiduciary execution capacity is considered adequate. The project coordination unit (PCU), to be set up by SEFAZ/MT, will coordinate financial management and procurement activities.

4. Fiduciary risks and mitigation actions

Area	Mitigation measures and/or strengthening actions	Responsible entity	Deadline
If the terms of reference for project procurement are not prepared on time, or if there is no coordination between SEFAZ/MT and PGE/MT to issue instructions on the acceptance of the Bank's policies, there will be delays in the procurement process, affecting the project's physical and financial schedule.	(i) Contracting of individual consulting services on a timely basis; and (ii) Issuance of policy instructions on the implementation of the Bank's Policies.	Executing Agency SEFAZ/MT and Finance Secretary	(i) Six months prior to the publication date envisaged in the procurement plan; and (ii) up to the start-up mission.

5. Policies and guidelines applicable to the operation: documents GN-2349-15 and GN-2350-15

6. Exceptions to policies and guidelines: None.

II. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

☒	Bidding documents	The procurement of works, goods and nonconsulting services, executed in accordance with the procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB), will use the Bank's standard bidding documents (SBD) or those agreed upon between the executing agency and the Bank for the procurement in question. Similarly, consulting services will be selected and contracted in accordance with the consultant selection policies (document GN-2350-15), using the standard request for proposals (RFP) issued by the Bank, or as agreed upon between the executing agency and the Bank for the selection in question.
☒	Direct contracting and selection	The following single-source selections have been identified: 1. Government schools and entities. Pursuant to the provisions for single-source selection of consulting firms set out in paragraph 3.11(d) of policy document GN-2350-15, when only one firm is qualified or has experience of exceptional worth for the assignment, the following will be contracted directly: (i) the National School of Public Administration of the Ministry of Economy (ENAP/ME) and state government schools that train civil servants; (ii) federal and state universities that provide technical assistance in data processing and new information technology solutions, pursuant to paragraph 1.13(c) of the aforementioned policy, on the eligibility of universities and research centers to participate in contracts; and (iii) data processing firms that are in charge of information technology development at the state level, and in the specific case of Mato Grosso, the state-owned enterprise MTI, given the advantages conferred by continuity in the provision of its services and due to the unique characteristics of the firm. The estimated value of this procurement is US$1.1 million. 2. Specialized international agencies. Pursuant to paragraph 3.11(d), previously cited, and paragraph 3.16, as a specialized international agency, of document GN-2350-15, the Inter-American Center of Tax Administrations (CIAT) will also be contracted, considering the technical assistance that it provides to modernize tax administrations in the region. 3. TECHNE, US$1.1 million. This firm developed payroll and employee data management software and has been working to keep the functionality of this software up to date for over 10 years. Pursuant to paragraphs 3.11(a) and 3.12 of document GN-2350-15, this proposed direct selection is deemed appropriate as these are services that require continuity, provided that the firm continues to perform satisfactorily. See justification for direct contracting.
☒	Procurement supervision	Procurement will be subject to ex post supervision, except in those cases in which ex ante supervision is justified. Procurements processed through Brazil's country system will also be supervised through that system. The supervision method will be determined for each selection process. The threshold amounts for ex post review are as follows: **Works**: US$250,000,00 — **Goods/services**: US$50,000.00 — **Consulting services**: US$10,000.00

Main procurement items

Description of the procurement	Selection method	Estimated date	Estimated amount (US$)
Goods			
Data center	NS	April 2022	3,333
Hyperconvergence infrastructure	NS	August 2023	4,900
Nonconsulting services			
Accounting-financial management system	NS	October 2023	4,712

Description of the procurement	Selection method	Estimated date	Estimated amount (US$)
Administrative and judicial tax process management system	NS	March 2025	2,320
Integrated control solution for transit operations	NS	May 2024	3,676
Firms			
Active and inactive payroll system	SSS	February 2022	1,137
Administrative and judicial tax collection model	QCBS	April 2022	1,111
Upgrading of legacy systems	SSS	May 2022	1,111
Institutional governance model	QCBS	May 2022	889
Administrative process modeling and statistical models	QCBS	June 2022	1,333

The 60-month procurement plan can be accessed here.

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

III. Financial Management Agreements and Requirements

☒	Programming and budgeting	SEFAZ/MT is responsible for Mato Grosso's annual planning. State entities use the following planning instruments: multiyear planning (PPA); the Budget Procedures Law (LDO), which provides budget guidelines; and the Annual Budget Law (LOA). The project budget will be part of the LOA. The PCU will ensure that resources for PROFISCO II, both the Bank and local contribution, are budgeted annually, and secured for implementation according to the project schedule. Budgetary resources must be registered in the year of execution in the state's integrated planning, accounting, and finance system (FIPLAN) as an external source.
☒	Treasury and disbursement management	The project cash flow will use an exclusive account that makes it possible to identify the loan resources and to perform the respective bank reconciliations, including receipts and payments. The currency in which the operation will be managed is the U.S. dollar. The exchange rate to be used in the operation will be the effective rate on the date of conversion of the disbursement currency to local currency (the internalization rate). To determine the equivalence of the expenses incurred as local contribution or as reimbursement of expenses charged against the loan, the buying exchange rate set by the Central Bank of Brazil on the effective payment date will be used. Disbursements will be made in the form of advances of funds and will be based on a projection of financial needs for a maximum of 180 days. For future advances, accounts will be required for at least 80% of the total funding previously advanced.
☒	Accounting, information systems, and reporting	The specific accounting standards to be followed are the Brazilian Accounting Standards Applied to the Public Sector (NBC). FIPLAN will be used as the technology platform for the operation's accounting records. In PROFISCO I, the financial reports on disbursement and external audit required by the Bank were prepared in Excel, based on FIPLAN data. The project should draw on the experience of other states that have already implemented their financial management system under PROFISCO II to generate these reports for the Bank. To supplement the policies and guidelines applicable to the operation, the Program Operating Regulations will be used, with the documented definition of workflows and internal controls.

☒	Internal control and internal audit	The internal audit of the project is performed by the State Comptroller General's Office (CGE/MT).
☒	External control: external financial audit and project reports	The executing agency will select and/or contract external audit services under terms of reference previously agreed upon between the executing agency and the Bank. These will define the type of review, timeline, and scope. The external auditor selected, and the auditing standards to be applied, shall be acceptable to the Bank. External control will be exercised by a firm of external auditors acceptable to the Bank, or else by the State Audit Office (TCE/MT), if eligible. Audited financial reports will be filed annually with the Bank within 120 days after each fiscal year-end, pursuant to the agreed-upon terms of reference.
☒	Project financial supervision	The operation requires financial supervision that will include ex post review of disbursements and procurement processes, an annual audit, and review of disbursement requests. The fiduciary team will also undertake annual on-site and desk reviews and monitoring through supervision visits, subject to adjustment during execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

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

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Mato Grosso, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Fiscal Management Modernization Project for the State of Mato Grosso – PROFISCO II – MT, which constitutes the fifteenth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II, approved by Resolution DE-113/17 on 8 December 2017. Such financing will be for the amount of up to US$56,279,900, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2021)

LEG/SGO/CSC/EZSHARE-620307903-40523
BR-L1539