NATIONAL FISCAL ADMINISTRATION PROGRAM FOR THE BRAZILIAN STATES

(BR-0171)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	Federative Republic of Brazil	
EXECUTING AGENCY:	Ministry of Finance, through its Executive Secretariat	
FINANCIAL AGENT:	Caixa Econômica Federal (CEF)	
BENEFICIARIES:	State governments and the Federal District	
AMOUNT AND SOURCE:	IDB:	US$ 500 million (OC)
	Local contribution:	US$ 500 million
	Total:	US$1,000 million
	Currency composition:	to be specified
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period:	4 years
	Commitment period for funds from financing:	3 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%

OBJECTIVES:

The general objective of the program is to increase administrative efficiency and effectiveness and rationality and transparency in the management of the public funds of the Brazilian States, through strengthening of the different agencies responsible for the State governments' fiscal management. To achieve this objective, the program will support the implementation of specific fiscal modernization projects designed to:

(i) improve the legal, operating, technological and management mechanisms of said agencies;

(ii) strengthen and integrate financial administration and consolidate audit and internal control;

(iii) ensure effective control of tax payment by taxpayers through the use of new techniques and methods in tax collection and supervision; and

(iv) expedite legal action for collection of delinquent tax debts and strengthen integration between the tax administrations and the agencies responsible for judicial collection.

DESCRIPTION:

The program, which is global in nature, will act at the subnational level by making technical assistance and resources available to support activities aimed at institutional strengthening of certain areas in the Finance and/or Planning Secretariats of the 26 States of the Brazilian Federation and the Federal District. These activities will be carried out through specific projects for each State in tax and financial administration. The program will finance two main components:

a. Technical assistance and coordination component: aimed at strengthening the Federal Ministry of Finance in the process of supervision, integration and coordination of the fiscal area at the national level. In this connection, program funds will be used to create the program coordination unit (PCU) and funding will also be provided for the technical assistance that the States need in preparing the respective tax and financial administration projects, together with funding for seminars and courses at the national level.

b. Fiscal administration component: aimed at the States, to finance specific fiscal modernization projects in tax and financial administration (budget, cash management, accounting, audit and internal control).

The executing agency for the program will be the Federal Ministry of Finance through its Executive Secretariat, which will have to create a program coordination unit (PCU). The funds for the first component will be administered by the PCU, while those for the second will be channeled to the States through financing administered by the Caixa Econômica Federal (CEF), which will act as financial agent for the federal government.

ENVIRONMENTAL CLASSIFICATION:

The Environment Committee, at its meeting of July 2, 1996, classified this as a Category II operation.

BENEFITS:

Better expectations of sustainable fiscal equilibrium in the States, as a result of increased tax collection and better planning and control of public spending. This, in its turn, will result in a more

solid foundation for financial stability at the national level.

Greater capacity of the State governments to implement economic and social development programs, because more funds will be available for the public budget, together with instruments for more effective and efficient management of the resources.

Substantial savings for the State governments as the tax systems are integrated.

Reduction or elimination of tax distortions that affect internal industry and trade, by means of the reduction of the marked differences in the taxation efforts of the different States and the consequent lessening of a possible lack of equity in the national tax system.

Strengthening of the mechanisms for dialogue between the federal government and the State governments in fiscal matters.

RISKS: The following main risks have been identified for the execution of the program:

a. Inadequate project preparation by the States during the execution of the program. To mitigate this risk, funds have been included in the program for hiring consultants who will assist the State governments during the preparation phase of their projects. Strict technical criteria, guidelines and recommendations for project preparation have also been included in a project preparation manual which is part of the program documents.

b. Unsatisfactory execution of specific projects due to lack of institutional capacity in the States. This risk is reduced by: (i) the requirement laid down in the program conditions to the effect that each State Finance Secretariat must establish a unit that will be responsible for the execution of the projects, as stipulated in the program Operating Regulations; and (ii) by the fact that Brazil has a personnel management system under which the fiscal career path is established by legislation, thus preventing a high staff turnover in the sector.

c. Distribution of program resources to the States that do not meet the technical criteria for need for financing. This risk is reduced to a minimum

by inclusion in the program of explicit quantitative parameters that will govern the distribution of the program resources to the States.

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The program is consistent with the Bank's operating strategy for Brazil in the period 1996-1998, which comprises three priority areas: (i) support for reform and modernization of the public sector; (ii) support for the process of opening up the economy, including the initiatives to reduce the so-called "Brazil Cost"; and (iii) initiatives to alleviate poverty and inequalities in income distribution.

SPECIAL CONTRACTUAL CONDITIONS:

1. <u>The following conditions precedent to the first disbursement from the Bank financing would be agreed upon</u>:

    a. decision by the National Monetary Council to include this program as part of the fiscal adjustment program for the States referred to in Resolution 70/95 of the Federal Senate (paragraph 3.5);

    b. submission of the contract concluded between the Ministry of Finance and the financial agent (paragraph 3.10);

    c. submission of the final versions of the following documents previously agreed upon with the Bank: (i) membership agreement between the Ministry of Finance and the States; and (ii) subloan contract between the financial agent and the States (paragraphs 3.11 and 3.12);

    d. evidence, by means of legally acceptable documents, of the creation of the program coordination unit (PCU) and of the assignment of appropriate personnel to run it (paragraph 3.7); and

    e. entry into force of the Operating Regulations at the federal level (paragraph 3.7).

2. <u>The following conditions precedent to signature of a subloan contract by an individual State would be agreed upon (see paragraph 3.15)</u>:

    a. evidence that the respective State has signed a membership agreement with the Federal Ministry of Finance;

b. evidence, by means of legally acceptable documents, of the creation of the State coordination unit (SCU);

c. submission of the duly completed data-gathering questionnaire;

d. evidence of legislative approval for the contracting of the subloan and the granting of guarantees;

e. evidence of the allocation of the counterpart funding required for the financing of the respective project, or evidence that these funds have been committed to ensure the execution of the project in the first year; and

f. submission of at least one project eligible for financing under the program.

OTHER CONTRACTUAL CONDITIONS: The loan contract will also contain the standard Bank clauses concerning reports, audits, inspections, evaluations, procurement of goods and awarding of contracts for services.

CONTRACTS FOR CIVIL WORKS, GOODS AND CONSULTING SERVICES: The Bank's current procedures will be followed for the procurement of goods and awarding of contracts for services to be financed with the proceeds of the proposed loan. The threshold above which procurement under this program must be effected by international competitive bidding are: US$5 million for works and US$350,000 for goods and related services. For the awarding of contracts for consulting services, the threshold above which international competitive bidding will be required is US$200,000 (paragraph 3.38).

POVERTY-TARGETING: While it is expected that the impact of this operation on the low-income population will be favorable, in view of the increase in tax collections that will help implement social programs and poverty alleviation activities, the program does not directly target this segment. Its direct benefits are therefore not expected to be fully in alignment with paragraph 2.15(b) of the Eighth Replenishment document.

EXCEPTIONS TO BANK POLICIES: None

I. FRAME OF REFERENCE

A. Fiscal federalism

1.1 Brazil is a country organized as a Federative Republic, with three different levels of government. The 1988 Constitution ensures the autonomy of the units making up the federation, which are the federal/central government (the Union), the States (subnational governments), the Federal District (government of the federal capital) and the municipalities (local governments).

1.2 The Constitution establishes the scope and authority of the units of the federation from the legislative, administrative and financial standpoints. Their legislative authority allows the units of the federation to organize themselves politically and enact their own laws, thereby affirming their legislative autonomy.

1.3 In the sphere of governmental action, each of the levels of government possesses administrative autonomy, which is used for organizing their services in general and managing public business. Their financial autonomy is manifested fundamentally through the drawing up of their budgets, their power to define obligatory taxation and their capacity to carry out public spending.

1.4 The decentralized form of organization adopted is made up of 27 subnational governments (26 States plus one Federal District) and close to 5,600 local governments or municipalities linked to the State within whose boundaries they are located. It should be noted that the Constitution assigns to the Federal District, on a joint and cumulative basis, the legislative authority deriving from its dual capacity as a State and a municipality.

1.5 This federal structure is marked by major socioeconomic, demographic and territorial differences (see Annex I). Regarding the latter point, the difference is considerable between States such as Amazonas and Pará, which are over 1.3 million square kilometers in size, and others such as Sergipe and Alagoas, which are no bigger than 27,000 square kilometers. The variations in population are equally marked, as are those in per capita income, which ranges from US$4,240 for São Paulo to US$572 for the State of Piauí. These economic differences result in significant inequalities in terms of the State governments' fiscal capacity.

1.6 Besides being based on the federative organization of the country, the characteristics of fiscal policy also derive from historical reasons of a political, economic and social nature, shaped by these marked regional differences which influence the planning and execution of public policies, with the federal government having an important coordination role.

1.7 As part of this coordination function, the Federal Ministry of Finance, through its Executive Secretariat, is seeking solutions to the problems that currently affect fiscal policy, both at the federal level, through the Federal Revenue Secretariat and the Federal Revenue Secretariat, and at subnational level through the presidency of the Financial Policy Council (CONFAZ). CONFAZ is the collegiate body representing all the States, in which the State secretaries of finance are members and where the most important fiscal matters with which the subnational governments have to deal are discussed.

B. National fiscal system

1. Tax revenues

1.8 The main source of financing for public spending at the national level is the national tax system, which is based on general rules which have been codified since 1966 and in accordance with the most recent breakdown of sources of tax revenues laid down in the 1988 Constitution. Each sphere of government has its own field of taxation action, and the main taxes are distributed among the different levels of government as follows:

(i) UNION: taxes on the income of persons and enterprises; imports and exports; sales of industrial products; financial transactions (credit, currency exchange and operations with stocks and bearer securities); rural properties; and the social contributions payable on sales by businesses.

(ii) States: taxes on goods and transport and communications services [sales tax] (ICMS); transfer of property by inheritance or as gifts; and ownership of motor vehicles.

(iii) Municipalities: taxes on urban property; transfer of urban property; and services of any nature.

1.9 Application of this tax system resulted in a tax burden of some 30.85% of GDP in 1995, where the main source of tax revenue for the States, the ICMS sales tax, represented a tax burden of some 7.74% of GDP. The ICMS accounts for close to 90% of the budget resources of the most developed States and approximately 25% of all tax revenue at the national level, and is also the tax that generates the most revenue in the national system. The following table shows the breakdown of tax revenue by type of tax at the three levels of government.

Taxes in % of GDP Growth of tax revenues, by level of government			
Level of government	**1988**	**1992**	**1995**
UNION	**15.82%**	**17.12%**	**20.15%**
Federal taxes(*)	10.16%	10.11%	12.55%
SOCIAL SECURITY	5.66%	7.01%	7.60%
STATES	**5.95%**	**7.57%**	**9.00%**
ICMS (VAT)	5.34%	6.63%	7.14%
Other	0.61%	0.94%	1.26%
MUNICIPALITIES	**0.66%**	**1.16%**	**1.70%**
Total Brazil	**22.43%**	**25.85%**	**30.85%**

(*) = Income tax, tax on foreign trade, etc.

1.10 In 1995, the States collected some US$51 billion through the ICMS. The marked difference between the amounts collected at the regional level and at the level of each of the States should be noted (see Annex I). The southern regions (Paraná, Santa Catarina and Rio Grande do Sul) and the southeast (São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo) account for over 78% of these revenues.

1.11 A significant part of the tax revenue collected at the federal level is transferred to the subnational governments (States and municipalities) through the revenue-sharing fund for States and municipalities (FPEM), on the basis of criteria laid down in a specific law.

1.12 The chief beneficiaries of this fiscal decentralization are the municipalities, whose share of the available revenues grew from 2.41% of GDP in 1988 to 5.06% in 1995. On the other hand, the UNION has seen its available resources decline by approximately 3% of GDP.

1.13 The following table sets out the distribution of the tax burden among the different levels of government and shows the growth that has occurred over the years. The "Direct Collection" item includes the revenue directly collected by each of the different levels of government in their areas of authority, and the "Available Revenue" figures consist of the total amounts for each of them including the intergovernmental transfers mandated by the 1988 Federal Constitution:

Burden in % of GDP Growth of tax revenues, by level of government						
Level of Government	Direct collection			Available revenue		
	1988	1992	1995	1988	1992	1995
UNION	15.82%	17.12%	20.15%	13.98%	14.72%	17.35%
States	5.95%	7.57%	9.00%	6.04%	7.27%	8.44%
Municipalities	0.66%	1.16%	1.70%	2.41%	3.86%	5.06%
Total Brazil	22.43%	25.85%	30.85%	22.43%	25.85%	30.85%

1.14 The subnational entities depend on the transfers from the FPEM to fund their public spending to very different degrees. The Southern and Southeastern regions are the ones with the greatest self-financing capability, since the share of their public spending financed by their own revenues is 76% and 88.2%, respectively.

2. Financial administration

a. Legal framework

1.15 Financial administration in Brazil is regulated by two main legal instruments: the 1988 Constitution and Law 4320 of March 17, 1964. The Constitution establishes the degrees of autonomy of the echelons of the federation's government and sets out the control mechanisms for accounting, cash management, budget, operations and control of federal government revenues and of those of the direct and indirect administrative agencies. The National Treasury was created in 1986 and is the central financial planning and control agency. It has responsibility for the integrated financial administration system (SIAFI) of the federal government, which includes the budgetary control and accounting systems.

1.16 Law 4320 lays down general rules for the preparation and control of the budgets and balance sheets of the UNION, the States, the municipalities and the Federal District. It provides guidelines in certain general cases (on procedures) and in other specific ones (on classifications of expenditure) which regulate the processes of the budget cycle, the organization of the budget act and of the proposed budget, the definition of the fiscal year and of additional appropriations, the mechanisms for performance of the budget and for the administration of special funds, and control of budget performance and of governmental accounting.

b. The integrated financial administration system (SIAFI)

1.17 The federal government uses the SIAFI as an instrument for administering the public finances. The heart of the SIAFI is a single account integrated with the accounting system so that

accounting and budgetary controls can be performed. The system operates on-line, by means of a network of 3,000 terminals which include all agencies of the federal government and other agencies linked to the UNION's budget. The SIAFI provides effective and reliable link between budget performance and cash management.

c. Financial administration in the States

1.18 Based on the SIAFI, the federal government has developed a similar system for the States and municipalities (SIAFEM) which shares the basic characteristics of the SIAFI, mainly integration of financial and accounting management and unity of finances; however, its implementation at the subnational level is minimal. The majority of Brazil's States have financial administrations developed under the general framework of Law 4320 but without any integration-oriented or systematic approach.

C. Economic and fiscal context

1.19 After a long period of high inflation during which various plans to contain inflation and stabilize the currency were implemented, the Real Plan, which marked its second anniversary in July 1996, has held Brazilian inflation at its lowest levels. Brazil currently has an annual inflation rate that is expected to remain between 12% and 15% for 1996.

1.20 GDP has posted consecutive growth over the past four years, with annual growth rates of around 4%. The most significant reasons for this growth have been a gradual recovery of investment and economic activity, which has helped bring about greater price stability, and the resultant improvement in purchasing power.

1.21 Notwithstanding these results, price stability is still not assured, and neither is sustained economic growth in the medium term, because the public accounts have not yet been brought into balance at the federal level in the majority of the subnational governments, which is a prerequisite for a viable public investment program.

1.22 Overall fiscal performance by the States has deteriorated markedly over the past few years, despite the substantial increase in the fiscal revenue of the States as a result of provisions for revenue-sharing established under the 1988 Constitution. The provisions require the federal government to transfer an increasing portion of fiscal revenue to the States. However, this increase in revenue did not result in a better fiscal situation for the States because their spending rose even higher, mainly on account of salaries and pensions for civil servants. At year-end 1995, payroll for most of the States averaged from 70% to 80% of net income (total revenue less transfers to municipalities), and in some cases exceeded 90%.

1.23 As a result of these trends, by the late 1980s, many States were already experiencing a shortfall in revenue, which was covered by short-term debt and the issuance of bonds. However, resorting to bonds became an increasingly less attractive option after July 1994, because the increase in real interest rates prompted by implementation of the Real Plan led to major increases in the service of domestic debt and forced many States to capitalize their interest and principle obligations. This capitalization of unpaid obligations in turn led to much faster growth of the States' outstanding debt. Consequently, by the end of 1995, the heavy indebtedness of the States, compounded by growing debt service on such obligations and limited progress in containing salaries had left a large number of States in extremely difficult financial circumstances, in some cases bordering on bankruptcy.

1.24 Available data indicate that the fiscal situation of the States and municipalities has continued to decline, with the balance of domestic debt representing 17.8% of GDP in September 1996, compared with 12.4% in December 1995. It should be noted that four States (São Paulo, Minas Gerais, Rio Grande do Sul and Rio de Janeiro) accounted for 90.7% of the total, and of those four, São Paulo had slightly over half.

1.25 Different types of solutions to the problems of State and municipal finances will be required. First, the authorities are seeking to enact certain critical amendments to the 1988 Constitution. The most noteworthy seek to: reform the fiscal mechanism; modernize the administrative structure of the public sector; and correct shortcomings in the social security systems. In addition to the constitutional amendments, the authorities are taking a series of more technical measures that will also strengthen public finances, independently of the constitutional reforms. The purpose of these measures is to improve priority areas such as tax and financial administration. This second type of reforms constitutes the main objective of the proposed project discussed below.

D. Tax and financial administrative problems of the States

1.26 In addition to the problems already noted connected with service of the States' debt and the rigidity of public expenditures, there are also various factors connected with fiscal administration which contribute in no small measure to aggravating the problem of the States' finances.

1.27 Regarding expenditure, the lack of control and the deficiencies in the financial administration systems tend to prevent efficient management of public expenditure.

1.28 Budget preparation is not integrated into the financial cycle followed by the finance secretariats, to the extent that the codes of the items used in budget preparation are not always consistent with the codes used in budget performance.

1.29 The flow of information between the various executing units is generally very slow and rudimentary and frequently causes delays and inconsistencies in budget execution.

1.30 The lack of integration between the system used for budget preparation and that used for budget execution and the lack of a unified account make it impossible to ensure total transparency and effectiveness in public spending by the States.

1.31 In terms of revenue, the lack of investment in the tax administrations over the past 10 years has been a major factor in their weakening. Their staff do not have the necessary training to effectively audit tax evasion by taxpayers. The degree of automation is extremely low, which makes it impossible to institute the crosschecks necessary to support effective taxpayer inspection and audits.

1.32 Similarly, the programs for collecting the tax credits used by the fiscal administrations are not very efficient, mainly owing to the absence of an adequate structure for these administrations, the lack of appropriate technological resources and the fact that the legal procedures establish a variety of bodies to which delinquent taxpayers can resort. This may explains why many dilatory or evasive taxpayers do not make their payments through the normal channels but prefer instead to file time-consuming appeals in the knowledge that legal proceedings will almost certainly move very slowly.

1.33 The poor degree of control and effectiveness of collection and inspection measures by the fiscal administrations are an incentive for taxpayers not to meet their obligations, especially since there is little likelihood that their noncompliance will be promptly identified or ever punished.

1.34 Lastly, the lack of studies on tax evasion at the State level, coupled with the fact that the tax administrations are not in a position to conduct such studies, impedes a more precise estimate of the tax revenues that the States fail to collect through administrative inefficiency. However, tax evasion is estimated at over 40% in many States and an average of 35% at the national level for the ICMS.

E. Initiatives to devise solutions at the federal and State levels

1.35 In light of all the deficiencies noted, different alternative solutions are being put forward to resolve the problem of State level finances. In the first place, the authorities intend to introduce certain important amendments to the 1988 Constitution, designed to revise the tax system and the guidelines and procedures used for the transfer of funds to the States and municipalities, with a view to modernizing the administrative structure of the

public sector and to correcting shortcomings in the social security system.

1.36 In this context, the federal government has achieved some progress, through enactment by Congress of specific legislation setting limits on the level of the States' indebtedness and enabling the State governments to cut back public spending.

1.37 In addition to these legislative reforms, the State governments, through their finance and planning secretariats, have been carrying out initiatives aimed at bringing their fiscal accounts into balance.

1.38 These initiatives are concentrated in two major groups of actions: on the one hand, the program for support for restructuring and fiscal adjustment, coordinated by the Executive Secretariat of the Federal Finance Ministry and designed to finance a reduction in the public sector payroll and reshape the profile of the debt. 1/ The other set of actions focuses on restructuring and modernization of the State fiscal administrations as the key instrument for obtaining additional resources in the medium term and ensuring the sustainability of their financial plan over the long term.

1.39 In addition, within the process of redefining the role of the public sector in the economy, there is discussion under way in the States of the procedures for privatization of enterprises and concession-based operation of the public services, together with changes in the system applied for social security.

1.40 The foregoing would all indicate that there is a favorable climate for the structural changes and institutional reforms required in the public sector in the near future.

F. Diagnosis and the Bank's work

1.41 In brief, the diagnosis is that the major deficiencies found in the majority of State fiscal administrations represent a significant risk for the initiatives being taken in the country to bring public finances into sustainable equilibrium. The lack of control of public spending and the low level of efficiency and effectiveness in the tax administrations are factors impeding the sustainability of the adjustment achieved in the short term through debt renegotiation, reduction of personnel expenditures and the current legal and constitutional reforms.

1/ By October 1996, 20 States had already joined the fiscal adjustment program, which specifies as one of the basic conditions for receiving loans from the financial agent that the respective State must undertake to implement a process of modernization and strengthening of the State fiscal administration.

1.42 Accordingly, whatever the policy adopted to achieve the multiple objectives of the governments (federal, state and municipal), strengthening of the States' fiscal administrations will be a crucial factor for success of the measures adopted, especially those aimed at lowering public expenditures and increasing tax revenues.

1.43 In this context, the Brazilian government has requested the Bank's assistance for preparation of the programs for modernizing the State fiscal administrations. In view of the large number of States that have sought the Bank's help, emphasis was placed on structuring an operation that would allow a prompt response to these requests while ensuring a high level of quality and holding project preparation and administration costs to a minimum.

1.44 Taking into account the experience that the Bank's technical team has gained in recent months through the preparation of the projects for the State of São Paulo and various States in the northeast and center-west regions, it was concluded that it would be highly desirable for the fiscal question to be approached from the national standpoint.

1.45 The main reasons identified by the team for making this recommendation were: (i) the need to facilitate the integration of the entire tax administration at both the national and subnational levels, as the best way of ensuring efficient control of taxpayer compliance with their obligations, and (ii) the importance of establishing coordination of the program at the federal government level, to which end the operation would be centralized in the Ministry of Finance, which is the agency responsible for coordination at the national level of matters connected with fiscal policy and administration.

1.46 In view of the desirability recognized by the Bank and the Brazilian government of establishing effective coordination between the different fiscal programs, it was considered appropriate to prepare an operation of a global nature at the national level, as described in this document.

G. Previous experience of the Bank in fiscal programs

1.47 The Bank is currently carrying out technical assistance programs in fiscal administration in 16 countries of the region. In the past 10 years, it has financed more than 65 such programs.

1.48 The lessons the Bank has learned in so doing indicate that fiscal reforms require leadership in execution and strict supervision and governmental support at the highest level, combined with considerable assistance from the Bank.

1.49 Accordingly, the proposed program has been designed taking into consideration the experience with other projects in the region, the

size of the country and the diversity of institutional capacity among the States.

1.50 In addition, coordination of the program by the Federal Ministry of Finance is all the more important for the Bank in light of the program for modernization of the federal revenue (loan 888/OC-BR) approved by the Bank in September 1995 for modernizing the federal tax administration. The activities of this program will be coordinated with those of the program proposed in this document.

H. Strategy and basis of the Bank's participation

1.51 The Bank's action in Brazil concentrates on three priority areas: (i) support for reform and modernization of the public sector; (ii) support for the process of opening up the economy, including measures to reduce the so-called "Brazil Cost"; and (iii) initiatives to alleviate poverty and reduce the inequalities in distribution of the national income.

1.52 The proposed operation is an integral part of the strategy for supporting reform and modernization of the public sector, since the fiscal administration modernization program will enable close coordination between the federal government and the States in fiscal management, while at the same time strengthening the management and collection of the States' resources. This program will also supplement the activities in which the Bank will be participating in the future in the same sector.

1.53 In this connection, for next year the Bank has programmed support for the Brazilian government in its fiscal adjustment program with the States, aimed at fostering their fiscal equilibrium through the long-term financing of their investment programs. The Bank has also programmed for 1997 an operation to support the Ministry of Administration and Reform of the State (MARE), aimed at assisting the implementation of policies for reforming the general public administration and its modernization. The series of operations programmed by the Bank are mutually complementary and integrated, serving to support measures to promote equilibrium of the public finances and modernization of the State, at both its national and subnational levels, through the structural reforms and decentralization process already being implemented in the country.

II. THE PROGRAM

A. Objective of the program

2.1 The general objective of the program is to increase administrative efficiency and effectiveness and rationality and transparency in the management of the States' public resources, through strengthening of the different agencies responsible for the State governments' fiscal management. To achieve this objective, the program will support implementation of specific fiscal modernization projects aimed at:

(i) improving the legal, operational technological and management mechanisms of the agencies concerned;

(ii) strengthening and integrating financial administration and consolidating audit and internal control;

(iii) establishing effective control of taxpayer compliance through implementation of new techniques and methodologies in tax collection and inspection; and

(iv) expediting legal action for collection of outstanding tax debts and strengthening integration between the tax administrations and the agencies responsible for judicial collection.

B. Results expected from the program

2.2 Upon completion of the program, it is expected that the following results will have been achieved, among others:

a. implementation in the States of a total of 27 tax administration modernization projects and 10 financial administration modernization projects;

b. effective integration of the tax systems of the States and of the federal government, through implementation of the State fiscal information systems;

c. integration of taxpayer lists at the State and federal levels;

d. implementation of mechanisms and procedures for exchange of information among the State tax systems, thereby allowing for effective control of tax compliance by the major taxpayers in each of the States, estimated at some 300,000, who currently account for over 80% of all commercial transactions recorded in each of the States;

e. establishment of benchmarks for State fiscal performance and regional tax evasion rates for the country's main sectors of economic activity; and

f. greater balance in the States' fiscal position, as a result of the increases in tax collection and in the effectiveness of legal action for collection, and better control and transparency of public spending.

2.3 The logical framework for the program and the benchmarks for the specific projects are presented in Annex II.

C. <u>Description of the program</u>

2.4 To meet the objective set, the program will carry out activities at the federal and state government levels, organized around two main components:

a. <u>Technical assistance and coordination component</u>: Designed to provide support for the Executive Secretariat of the Federal Finance Ministry in fiscal supervision, integration and coordination at the national level and for the States in the preparation of the specific fiscal modernization projects that would be financed by the program. For the execution of this component, the Finance Ministry will set up a program coordination unit (PCU) which will be primarily responsible for:

(i) supporting the preparation of the specific projects of each State;

(ii) coordinating the finalization of the contracts between the State and the financial agent and supervising the performance of said contracts;

(iii) promoting and coordinating the proposals for integration of the projects and fiscal integration efforts, at the State and national levels;

(iv) promoting the exchange of information and experience between the projects of each State at the national and international level, through seminars and courses, with a view to obtaining economies of scale; and

(v) coordinating the execution of the program as detailed in chapter III of this document.

2.5 The Bank financing will be used mainly to hire specialists in tax administration, financial administration, data processing and organizational development. Seminars and courses at the national level will also be financed.

2.6 The counterpart funds will be earmarked to cover the costs connected with the seminars and courses, equipment and general support services. The dimensioning of this component is set out in Annex II-2 in the technical files.

b. <u>Fiscal administration component</u>: Designed to finance institutional strengthening activities for the States' finance and/or planning secretariats. The activities will be carried out through the specific fiscal modernization projects in the following areas: tax administration and financial administration. This component is divided into two subcomponents:

(i) Tax administration subcomponent: comprises the tax projects that will be implemented at the State government level and that may include mainly activities pertaining to the following fields of action:

- economic and tax-related studies and analyses;
- State tax legislation;
- single taxpayer list;
- tax collection;
- tax inspection and audit;
- tax collection at administrative and judicial level; and
- integrated tax administration system.

(ii) <u>Financial administration subcomponent</u>: comprises the specific financial projects that will be implemented by the State governments and that may include mainly activities pertaining to the following fields of action:

- studies and analyses of public spending;
- integrated financial administration system;
- budget, cash management and governmental accounting;
- control and management of public spending; and
- institutional and regulatory framework for internal control.

2.7 The specific projects of the fiscal administration component are aimed at institutional strengthening of the State offices with responsibility for fiscal matters (finance secretariats), through consulting services in the various tax and finance areas, training programs, procurement and installation of computer equipment and systems, information systems and infrastructure remodeling.

2.8 The program will support the individual initiatives of each State within a common frame of reference, which will provide the basic structure for the specific projects, while at the same time making it possible to address the needs identified in the diagnostic study on each case.

2.9 This common frame of reference, together with the basic parameters for approving the projects and for access to the funds, such as the eligibility criteria (described in brief in the following), the main guidelines and technical recommendations and the program benchmarks, are described in the program Operating Regulations.

D. Dimensioning of the program

2.10 The dimensioning of the program, which is detailed below, specifies a total of US$10 million for the first component and US$754 million for the second. The program funds would be used to finance mainly:

a. national and international consulting services (approximately 25% of the program's investment resources);

b. training programs (approximately 25%);

c. information and data-processing systems (approximately 10%);

d. computer equipment and systems (approximately 20%);

e. support equipment for the external tax inspection (transportation, communications, trade balances, etc.) (approximately 10%); and

f. infrastructure works (facilities and remodeling of offices for taxpayers services, tax posts, State payment units, budget units, etc.) (approximately 10%).

1. Dimensioning of the technical assistance and coordination component

2.11 The dimensioning of the first component was based on the definition of the program coordination unit (PCU), as agreed upon by the Bank and the Finance Ministry. This unit will be responsible for the execution of the activities assigned to this component.

2.12 The costs of this component were determined taking into account the cost of consulting services, travel and training programs. The need for consulting services in the various areas – taxation, inspection, budget, governmental accounting, data processing, organizational development and training – was estimated, together with an average figure for PCU technical staff travel to the States and activities connected with the training programs at the national level.

2.13 These categories of expenditure, which total US$10 million, would be financed by means of the Bank funds and the federal government counterpart funding, on a 50-50 basis, as shown in consolidated form in the table below:

Investment Category	IDB	LOCAL	Total
1. Consulting services for tax, finance, data processing, organizational development, and program supervision	3,984,000		3,984,000
2. Mission travel (4 years)	504,000	1,632,000	2,136,000
3. Training programs (US$45,000 per program), four programs per quarter for 36 months	432,000	1,728,000	2,160,000
4. Data-processing and training equipment (computer network for PCU, systems, etc.)	80,000	104,000	184,000
5. General support (facilities, publications, transportation, communications, etc.)		1,536,000	1,536,000
TOTAL	**5,000,000**	**5,000,000**	**10,000,000**

2. Dimensioning of the fiscal administration component

2.14 The dimensioning of the second component was based on the diagnostic and other studies conducted by the Bank, by means of data-gathering questionnaires, identification missions and review of projects already submitted to the Bank by the States.

a. Classification

2.15 As a result of these studies, it was possible to observe the natural diversity of the levels of development of the various finance secretariats of the States involved in the program. On the basis of indicators selected by the project team, the Bank then carried out a global diagnostic study that made it possible to identify three groups of States with similar levels of development:

(i) Group A: made up of the States with less self-financing capacity and/or less capacity for making investments. These are also the ones that in general display considerable deficiencies in the organizational, technological and operational aspects and regarding human resources and basic infrastructure. This group includes the States most recently created and incorporated into the Federation, which therefore have less experience in tax and finance. These States are generally located in the less affluent regions of the country with lower levels of economic activity, all of which is reflected in lower collection levels.

(ii) Group B: made up of intermediate-level States with finance secretariats that are making efforts at modernization but still displaying structural deficiencies, chiefly in connection with integration of computerized systems, effectiveness of internal control systems and technical and management training of their

personnel. Their finance secretariats are more developed and show signs of growth as a result of incipient initiatives that have placed them on the path to modernization.

(iii) Group C: made up of the States with the greatest self-financing capability and which have already started modernization processes in various areas of the public sector, including fiscal matters. In general they are the ones that are best placed in terms of technology bases, training programs, operating procedures and infrastructure. This group consists of the States with the most experience in tax and financial administration. They are generally located in the most developed regions of the country and possess significant economic and revenue-generating potential.

2.16 Based on the definition of the groups, the Bank has observed that classification of the States according to the level of tax revenues obtained serves as a good indicator which can be used to measure their individual levels of economic development.

2.17 The following States have accordingly been placed in Group A: Roraima, Amapá, Acre, Rondônia, Tocantins, Sergipe, the Federal District, Piauí, Alagoas, Mato Grosso do Sul, Rio Grande do Norte, Paraíba and Mato Grosso. This group of 13 States accounts for some 13.5% of total State tax revenues.

2.18 Group B is made up of the States of Amazonas, Maranhão, Pará, Espírito Santo, Goiás, Ceará, Pernambuco and Santa Catarina. These eight States together account for 21% of all State tax revenues.

2.19 Group C is made up of six States, namely Paraná, Bahia, Rio Grande do Sul, Rio de Janeiro, Minas Gerais and São Paulo, which account for 65.5% of all State tax revenues.

b. Bases for the dimensioning

2.20 The Bank dimensioned this operation in two stages. First calculation of the amounts necessary for each State was based on the assumption that under normal operating conditions it is acceptable that the operating costs of a tax and financial administration amount to approximately 2% of the revenue collected. In periods of modernization and/or reform these costs are considerably higher, depending on the magnitude of the investment requirements.

2.21 Studies conducted by the International Monetary Fund and the IDB's own experience in implementing programs to strengthen and modernize fiscal administrations show that the costs rise, on average, by 0.5% per year when fiscal modernization and reform programs are carried out and that these programs generally have a duration of between four and eight years.

2.22 Based on these considerations, a theoretic model was developed, according to which it is estimated that the amount needed for execution of a comprehensive program for modernization of the State fiscal administrations would be US$2.807 billion, a figure obtained from calculating 4% of the tax revenues obtained by the States in 1995, when their cumulative total revenues were of the order of US$70 billion. The figure of 4% was derived from the assumption that the States would need on average an additional 0.5% for a period of eight years.

2.23 The second stage consisted in determination by the Bank that the amount of US$2.807 billion would be technically acceptable for a global process of modernization of the finance secretariats, but that in light of the Bank's experience in this area, it was advisable to carry out this process in at least two stages by means of two four-year projects.

2.24 Following the Bank's technical recommendation, and in an effort to adjust and prioritize existing needs, taking into account the resources available from both the Bank and the local counterpart, and also taking into consideration the basic terms of the programming agreed upon by the Bank and the Brazilian government, the project team then adjusted the model so as to size the program in accordance with the following criteria.

c. Dimensioning criteria

2.25 To adjust the theoretic model described in the foregoing, two basic guidelines were followed:

(i) confirm the idea of executing the program in an initial project extending over just four years;

(ii) pay special attention to the differences observed in income levels and degree of development of the different States.

2.26 Thus, the coefficient used in the theoretic modernization model, set overall at 4% of tax revenues, was replaced by three different coefficients, to be used for the three groups of States already defined, as detailed below:

(i) 2% for Group A, the States with the lowest revenues and the greatest need of investments;

(ii) 1.5% for Group B, the States ranked as intermediate in the classification;

(iii) 0.75% for Group C, the States with the greatest self-financing capacity.

2.27 Application of these percentages to the tax revenues of each State gave rise to the adjusted model, in which a reference value (RV) was generated for each of them, representing the (reference) investment figure required by each State to modernize its fiscal administration. The total for all the States amounts to US$754 million. (Dimensioning matrix, Annex II-3 in the Bank's technical files).

d. Revision of the dimensioning

2.28 To demonstrate the consistency of the dimensioning of the program, the amount assigned to each State in the adjusted model (the total figure for which is US$754 million) was compared with the figures resulting from the dimensioning made by each State, as shown in the requests for financing submitted to the Bank.

2.29 This comparison showed that the total amount of those requests (some US$700 million) was consistent with the amounts assigned by the model developed by the Bank.

2.30 The Bank's estimate that approximately 80% of this component's resources would be used for strengthening the tax administrations and the remaining 20% would be used to finance the financial administration projects was confirmed by the number and dimensions of the projects requested by the States and reviewed by the Bank.

E. Cost and financing

2.31 Based on the dimensioning by the Bank, the total cost of the program is estimated at US$1 billion. The Bank contribution would be US$500 million and the local counterpart would be US$500 million equivalent, to be jointly financed by the federal government and the beneficiary States.

CATEGORY	IDB (*)	LOCAL (*)	TOTAL (*)	%
1. **Administration**		105	105	10.5
1.1 PCU (Federal)		3	3	
1.2 SCU (State)		102	102	
2. **Component I**	5	5	10	1.0
2.1 Consulting services and training	4.9	3.5	8.4	
2.2 General support	0.1	1.5	1.6	
3. **Component II**	452	302	754	75.4
3.1 State tax admin.	362	241	603	
3.2 State financial admin.	90	61	151	
4. **Unallocated**	38	23	61	6.1
4.1 Contingencies (Comp. I)	1	1	2	
4.2 Contingencies (Comp. II)	37	22	59	
5. **Finance charges**	5	65	70	7.0
5.1 Inspection and supervision	5	-	5	
5.2 Bank interest	-	60	60	
5.3 Credit fee	-	5	5	
TOTAL	**500**	**500**	**1,000**	**100**

(*) US$ millions

1. Bases for the financing

2.32 The financing of component II was calculated such that the local counterpart funding required from each State would be variable, so as to reflect the Bank's aim of selectively supporting those States that are to be benefitted by the program on a priority basis because of their economic situation and relatively lower level of development.

2.33 Regarding the administration costs, for the PCU these represent the cost of the staff assigned to the unit by the government. These staff include: one program coordinator, one administrative and financial assistant coordinator, one fiscal specialist (income and expenditure) and other personnel who will work on the program full-time. Regarding the States, all projects must have a State coordination unit (SCU) set up for each specific project approved by the Bank. Each SCU must have: (i) a coordinator who reports directly to the secretary or director of the area covered by the project; (ii) a minimum of eight specialists in the various technical areas of the project; and (iii) three specialists in the areas of information technology, networks, data banks and training programs. These specialists will be hired to work on the project on a full-time basis and will be funded from the local counterpart.

2.34 Regarding the unallocated costs, a contingency item has been established (component II) that would be used to assist the States that demonstrate the best performance with their projects and need additional funding to complete the modernization process under way.

The criteria for use of these funds are laid down in chapter III (paragraph 3.33), in the section on supervision and evaluation of the program.

2. Criteria for financing

2.35 The limit set for the amount to be financed by the Bank for each State, based on the prior dimensioning of each State program to be part of the operation and observing the classification adopted by the Bank, was designed by allocating minimum percentages of local counterpart funding to each of the three groups of States classified, in accordance with the following guidelines:

a. the program as a whole must present a global financing matrix of approximately 50%-50%;

b. the counterpart provided by the States must consist of the costs of investment, finance charges and administrative expenses; and

c. the States with the greatest needs, both technical and financial, will be favored in the financing, but without overburdening the matrixes of the more developed States.

2.36 To respect the above guidelines, and in order to avoid making the less affluent States contribute counterpart funding beyond their financial capacity, the program was adjusted to allow the Bank to recognize as part of the local counterpart funding predetermined amounts incurred for activities intrinsically linked to the final results of the program.

2.37 The Bank may thus recognize as part of the counterpart funding for investment expenses (estimated at approximately 40%), for the equivalent of up to 25% for the Group A States and up to 15% for the Group B States, in accordance with the following criteria:

(i) costs of tax auditors performing activities connected with the new inspection and collection programs implemented under the program;

(ii) operating costs of the new fiscal intelligence units set up under the program;

(iii) additional costs of processing data from the new system instituted under the program; and

(iv) fiscal specialists hired to perform program activities.

2.38 Annex II-4 in the technical files presents the matrix of financing limits for each State, to be followed by the PCU for approval of each State's respective specific projects.

2.39 The Bank will finance the program with funds from its ordinary capital. In accordance with the current rules, the terms and conditions of the financing will be the following:

Interest rate:	variable
Credit fee:	0.75%
Inspection and supervision:	1%
Amortization period:	20 years
Disbursement period:	4 years
Grace period:	4 years
Commitment period for funds from the financing:	3 years

III. EXECUTION OF THE PROGRAM

A. Borrower

3.1 The borrower of the proposed financing will be the federal government.

B. Executing agency

3.2 The Ministry of Finance, an organ of the federal government, will be responsible for the execution of the program through its Executive Secretariat, which will be assigned responsibility for coordinating the program activities with the State governments.

3.3 The Executive Secretariat is an integral part of the internal administrative structure of the Ministry of Finance. Its functions and duties, as defined by law, can be summarized as follows: (i) assist the Minister of Finance in the supervision and coordination of the activities of the other secretariats making up the ministry and of the agencies attached to it; (ii) supervise and coordinate the activities connected with the activities of the federal systems of planning and budget, administrative organization and modernization, information resources and information technology; and (iii) assist the Minister of Finance in formulating guidelines and carrying out the work of the ministry's areas of activity.

3.4 In addition to performing these extensive duties in the sphere of internal coordination with the organs of the ministry and the agencies attached to it, the Executive Secretariat, through the Executive Secretary, chairs and coordinates the work done by the collegiate bodies, such as the National Financial Policy Council. This Council is responsible for harmonizing the taxation policy and legislation of all the member States of the Federative Republic of Brazil.

3.5 Given the level of indebtedness of the States and the restrictions established under Brazilian legislation in this respect, the need was identified to include in the program as a condition precedent to the first disbursement the requirement that the National Monetary Council approve the indebtedness of the States under the program for support for restructuring and fiscal adjustment of the States, which authorizes borrowing for this type of program.

C. Coordination unit responsible for program execution (PCU)

3.6 For the execution of the program, the Ministry of Finance will formally set up a program coordination unit (PCU), as required for component I (see paragraphs 2.4, 2.5 and 2.6). The PCU will be responsible primarily for:

a. certifying the eligibility of projects submitted by the States which meet the eligibility criteria laid down in the program Operating Regulations (Annex III-1 in the technical files);

b. coordinating the finalization of the contracts between the State governments and the financial agent;

c. supervising the execution and performance of said contracts;

d. coordinating and approving the programming of disbursements between the financial agent and each State;

e. coordinating with the Bank the procedures for approval and execution of the projects of each State and providing support in the periodic evaluation procedures, as specified in the loan contract.

3.7 The PCU will report to the Executive Secretary of the Ministry of Finance and will be made up of a coordinator and two assistant coordinators, together with a team of administrative staff who will be government employees and specialists in the different fiscal areas who may be government employees or consultants hired with Bank funds, as detailed in paragraphs 2.5 and 2.6. As a condition precedent to the first disbursement of the Bank loan, the borrower shall submit evidence by means of legally acceptable documents, of the creation of the PCU and of the assignment of appropriate personnel to run it, and of the entry into effect of the program Operating Regulations.

D. <u>Beneficiary agencies</u>

3.8 The State governments will be subborrowers under the program. The agencies responsible for the execution of the projects will be the State finance and/or planning secretariats.

E. <u>Financial agent</u>

3.9 The financial agent will be the Caixa Econômica Federal (CEF), a public enterprise forming part of the indirect federal administration and linked to the Ministry of Finance. In this program, its role will just be that of an agent for onlending the program funds to the respective State governments' finance secretariats. The CEF will also act as financial agent for repayment of the subloans to the federal government.

3.10 The CEF will sign an agreement previously agreed upon with the Bank) with the federal government establishing the system for transferring the funds and the conditions for the granting of the financings for the States. Submission of the agreement concluded between the CEF and the federal government will be one of the conditions precedent to the first disbursement.

F. Procedures for the subloans

3.11 The States interested in participating in the program will sign a program membership agreement with the Ministry of Finance (Membership Agreement), which will specify the eligibility conditions (described in section H below) for taking out a subloan. Only the 26 States and the Federal District may sign Membership Agreements. Submission of the final version of the model Membership Agreement will be a condition precedent to the first disbursement of the loan.

3.12 Once compliance by the State with the eligibility requirements stipulated in the Membership Agreement has been certified by the PCU and approved by the Bank, the State may sign a subloan contract with the CEF in accordance with a model previously approved by the Bank. A condition precedent to the first disbursement of the loan will be that the final version of the model subloan contract must be submitted to the Bank.

3.13 The Bank will disburse the funds to the federal government, which will transfer them to the CEF for disbursement to the States participating in the program. Amortization payments will be made in local currency (reais) in amounts equivalent to the currency of the loan contract between the Bank and the federal government, based on the commercial selling rate for the United States dollar in effect on the date of repayment. Interest will be calculated from the dates of disbursement to the State, based on the same interest rates that the Bank will charge the federal government for the main loan. Details of the financial flows of the disbursements and repayments are shown in Annex III-7 in the program files.

G. Financial conditions of the subloans

3.14 The conditions of the subloans to the States will be the same as those of the Bank loan to the federal government. The federal government will absorb the administration cost charged by the financial agent (CEF).

H. Eligibility conditions for the subloans

3.15 The program Operating Regulations set out the conditions that the States and the projects submitted by them must meet to be eligible for program financing. The main conditions and requirements to be met by the States are listed below:

a. They must formally create, by an appropriate legal act, in the State secretariat responsible for the area covered by the program, a State coordination unit (SCU) and assign suitable personnel to it as specified in the Operating Regulations with a view to putting the accounting, financial and execution controls for the project into effect.

b. Each time a project is submitted for financing with program funds, they must fill out the data-gathering questionnaire, as stipulated by the Operating Regulations, and submit it to the PCU for review and approval.

c. They must obtain the necessary legislative approval for taking up the subloan from the CEF and for the granting of the guarantees required.

d. They must earmark in the State budget the counterpart funds required for additional project financing in accordance with the formula specified in the program documents, or submit evidence that the necessary funds have been committed to ensure execution of the program in year one.

e. They must submit to the PCU, within three months from the date of signature of the Membership Agreement between the Ministry of Finance and the respective State, at least one project eligible for financing with program funds and prepared in accordance with the rules laid down in the Operating Regulations.

3.16 In addition, to assist the States in the preparation of the specific projects and to establish a standard structure for the documents relating to these projects, in the same formats that the Bank uses, a Project Preparation Manual has been prepared which is part of the Operating Regulations.

3.17 This manual establishes a methodology for preparing fiscal projects, based on the Bank's experience in this area, and also provides guidelines and technical recommendations that must be followed as the basis of the projects that the States submit to the Bank for approval. The manual thus lays down the main technical, methodological and format requirements for these specific projects.

I. Execution period and period for commitment of the funds

3.18 The program would be executed over four years, with three years for commitment of the funds, both periods counting from the effective date of the contract for the proposed loan.

3.19 The program is defined in such a way that all the States will have access to the funds, through the predetermination of ceiling amounts per State. However, the States have a maximum period of 12 months from the signature of the loan contact for submitting projects to the PCU. After said 12-month period, the limits will be lifted and all the States may compete for the funds available, including those States that have already reached their financing ceilings and need additional resources to complete their modernization processes. The States will be informed of these conditions once the program Operating Regulations are put into effect by the PCU.

J. Status of preparation of the program

3.20 The Bank has reviewed of the status of preparation of the projects submitted by the State governments based on analysis of 20 data-gathering questionnaires and missions carried out in 16 of the States. It drew up a representative sample of 11 projects for the program and estimated that a group of another 11 projects were at an advanced stage of preparation and would be ready to receive program financing within six months after approval of the program.

1. Representative sample

3.21 The representative sample (Annex III-2) amounting to some US$301 million was identified and analyzed. It consists of 11 projects in eight States, four of them being in Group A, four in Group B and three in Group C.

3.22 The Bank considers the sample to be representative in terms of the dimensioning of the program (it accounts for 40% of the program investment resources), as regards the number of States (it covers 30% of the total number of States, and as regards the three groups defined by the Bank.

3.23 These projects, already defined and dimensioned in detail, are described in Annex III-3 in the technical files or the program.

3.24 A consolidated table of the representative sample projects, by expenditure category, is presented below. Based on these data, it is estimated that the remaining program funds would be used in the same proportions as shown in this table.

REPRESENTATIVE SAMPLE - COST TABLE
(US$ millions)

Expenditure Category	Group A	Group B	Group C	Total	%
1. Administration	4.2	5.3	11.7	21.2	7.0
2. Consulting services	16.0	19.1	53.7	88.8	29.5
3. Training	12.6	14.8	22.5	49.9	16.6
4. Equipment (computers and support for inspection)	16.5	20.0	47.4	83.9	27.9
5. Infrastructure works	5.5	7.2	16.9	29.6	9.8
6. Finance charges	5.2	6.6	15.8	27.6	9.2
TOTAL	60.0	73.0	168.0	301.0	100.0

2. Projects at an advanced stage of preparation

3.25 Eleven projects in 10 States are at an advanced stage of preparation, and total US$201 million, representing 26.6% of the program's investment funds. For them to be included in this category, the project team felt that the following requirements had to be met:

a. The team had to have made a mission to the State.

b. The data-gathering questionnaire had to have been completed.

c. The basic design or preliminary design of the project had to have been sent to the Bank.

3.26 These project would be reviewed and approved within six months of the date of program approval. Together with the representative sample, this would account for some 65% of the resources for component II of the program.

3. Projects at the orientation phase

3.27 Projects in nine States which recently took steps to formalize more specific preparations are currently at the orientation phase. It is estimated that these projects would be ready to be approved within 12 months of program approval. The full amount of the program resources would thus be committed.

K. Reports, supervision and evaluation of the program

1. Reports

3.28 The contract between the government and the Bank will specify that the Ministry of Finance is to prepare the following reports and submit them to the Bank:

a. Work plan: 60 days after the date of contract effectiveness, the ministry shall submit to the Bank a work plan containing the following: (i) an overall work schedule, indicating the main goals and objectives to be achieved by the PCU in the first 12 months; (ii) a contracting plan for consulting services and the main terms of reference for them; (iii) a list of all personnel assigned permanently and exclusively to the program; (iv) a training program; and (v) the program of technical assistance missions to the States by the PCU's team of specialists and consultants.

b. Progress reports: Throughout the program execution period, the PCU will be required to submit semiannual progress reports providing the data necessary for the Bank to perform effective monitoring of the progress of the projects in each State. These reports are to be submitted to the Bank within 60 days of

the end of each six-month period, and must contain as a minimum: (i) the overall work schedule, setting out the main goals and objectives projected for the next six months; (ii) the main problems detected by the PCU that are obstructing progress of the projects; and (iii) the degree of achievement of results and goals set for the specific projects of each State and for the program as a whole.

c. Final report: Not later than 30 days after completion of the operation, the Ministry of Finance shall submit a final report, which must contain the following as a minimum: (i) an analysis of the results achieved with the program; (ii) the main obstacles that complicated its execution; and (iii) conclusions and recommendations that could be taken into account in the preparation of future operations with similar characteristics.

d. Financial reports: No later than 90 days after the end of each calendar year, the Ministry of Finance shall submit: (i) the program financial statements, indicating the use made of the Bank and counterpart funds, audited by the Federal Control Secretariat; and (ii) the financial reports of each State's specific projects, which the PCU will receive and make available to the Bank, and which are contractually required to be prepared annually by a firm of independent auditors approved by the Bank. Counterpart funds may be used to finance the preparation of these reports.

2. Supervision and evaluation of the program

3.29 To enable monitoring by the Bank, the PCU will be required to submit questionnaires completed by the participating States after the first 18 months of execution of each of the projects, and 30 days before the last disbursement for each.

3.30 In view of the characteristics of the operation and the importance for the Bank of being able to evaluate the progress of the specific projects in greater detail and to exchange experience with the different project teams, a Bank supervision mission will be conducted yearly during program execution.

3.31 For these missions, the PCU would organize a meeting/seminar for at least three days that would be attended by the coordinators of the different State projects, for the purpose of reviewing the objectives achieved and the problems that have arisen in each project. The Bank will thus be able to monitor the projects effectively and also to compile the data needed for reassessing the use of uncommitted funds.

3.32 During the first supervision mission, the Bank will also review the funds that were not committed through submission of projects to the PCU. These funds will then be available for use by the States which have achieved the best results and need additional funds to

complete their fiscal modernization programs. This review will be based on indicators defined by the Bank for measuring the degree of efficiency and effectiveness of the different tax and financial administrations, as derived from study of the data from the completed questionnaires and the reports submitted by the government. The logical framework details 40 basic evaluation indicators prepared by the Bank.

3. Ex post evaluation

3.33 Pursuant to Bank policy, the borrower and executing agency were consulted, and the latter decided not to conduct an ex post evaluation as part of the program activities. Should the Bank decide to conduct one itself, it will be based on the data-gathering questionnaires on fiscal administration, required under the Operating Regulations. All States that participate in the program will be required to complete these questionnaires and to determine the following in particular, through the performance indicators and benchmarks contained in the logical framework: (i) the degree of tax evasion; (ii) the degree of operating efficiency achieved by use of the new procedures and systems; (iii) the degree of use and efficiency achieved in audit and collection; (iv) the degree of voluntary compliance; (v) the level of control and reliability of budget performance; and (vi) the level of transparency of public spending.

L. Procedure for submission of accounts

3.34 Taking into account the nature of the operation and the volume of transactions involved as a result of the procurement of goods and services and the characteristics of a global program, there must be an efficient and swift mechanism that will improve the process of disbursement of program funds. To this end, disbursements will be made in accordance with the Bank's rules, except in the case of justification of advances and reimbursements of payments made, for which the executing agency will only submit to the Country Office the disbursement request, accompanied by a list of payments and control record for disbursements and local contributions, and will retain the pertinent supporting documentation.

3.35 The executing agency will ensure that the information contained in the list of payments is duly supported by the vouchers and records normally required by the Bank. The executing agency will be required to retain originals and/or copies of the contracts, orders, invoices, receipts, supplier's certificates, certificates of origin and other documents that support the information provided in the list of payments. This documentation must be properly identified and filed and be available for review by authorized IDB staff and external auditors.

3.36 The Country Office, in the course of its technical and/or financial inspection visits, will verify by sampling that the executing

agency has in its files the supporting documentation for the disbursement requests and that the funds have been used as stipulated in the loan contract.

M. Procurement goods and awarding of contracts for services

3.37 For the procurement of equipment, materials and other goods connected with the program and for the awarding of contracts for works, to be financed in whole or in part with the loan proceeds, international competitive bidding will be required in all cases where the purchase price of such goods exceeds US$350,000 equivalent or the construction contracts involved exceed US$5 million equivalent. These limits are justified by the fact that in similar projects in Brazil, external bidders participated when the amounts were above these thresholds. In all other cases, bidding may be limited to local suppliers. For contracts for consulting services, the threshold above which international competitive bidding will be required will be US$200,000. Bidding for contracts in smaller amounts will be conducted in accordance with national legislation, provided the latter does not conflict with Bank procedures. The procurement of goods and the awarding of contracts for works and consulting services will be carried out in accordance with the procedures specified in Annexes B and C to the loan contract.

3.38 Based on the analysis of the projects in the representative sample, competitive bidding and procurement are expected to be carried out in accordance with the tentative program set forth below and presented in detail in Annex III-4 in the technical files. The tentative program has been prepared taking into account the characteristics of the projects in the sample. Since this is a global program, the procurement program is only indicative of the type of procurement that would be done under the program.

Main procurement items for the representative sample	Amount (US$ millions)	Percentage of total procurement	No. of lots	Method
I. Consulting services	88.8	35%		
1.1 Computers	58.8		11	ICB
1.2 Fiscal	30.0		22	LCB
II. Training	49.9	20%	22	LCB/ICB
III. Computer equipment and programs	61.0	24%	22	ICB
IV. Support equipment for inspection	22.9	9%		
4.1 Telecommunications	12.9		11	ICB
4.2 Vehicles/Scales	10.0		11	LCB
V. Infrastructure works	29.6	12%	22	LCB
TOTAL	252.2	100%		

LCB = Local competitive bidding not restricted to international participation
ICB = International competitive bidding

N. Recognition of prior expenditures

3.39 In view of the advanced stage of preparation of the projects in the representative sample, in many cases already at the implementation phase of activities specified in the work plans for these projects, the Bank may recognize as part of the counterpart contribution expenditures incurred as of January 1996, in the amount of up to US$36 million for consulting services for training, the purchase of equipment and installation of the computer systems. These expenditures would be accounted for according to the applicable Bank rules. This recognition would apply for the States where the Bank has authorized expenditures based on the matrixes of activities to be carried out in the short term and already formally approved by the Bank.

3.40 The counterpart expenditures that would be recognized retroactively by the Bank for projects in the States are listed below:

Category/State	RGN	MA	CE	PE	RGS	SP	Total
1. Administration	0.10	0.15	0.25	0.25	0.30	0.75	1.80
2. Consulting services	0.75	2.30	1.65	1.45	2.35	7.30	15.80
3. Training	0.55	0.90	1.20	1.25	1.60	2.45	7.95
4. Equipment (Computers and support for inspection)	0.60	0.65	0.90	1.05	1.75	5.50	10.45
TOTAL	2.00	4.00	4.00	4.00	6.00	16.00	36.00

(In millions of US$)

O. Advance of funds

3.41 To ensure that funds are available for the program, it is recommended that an advance of funds equivalent to 10% of the amount of the Bank financing be established.

P. Programming of disbursements

3.42 Based on the financial execution schedule for the representative sample and the execution schedule for the projects at an advanced stage of preparation, the following disbursement schedule is estimated for the operation:

SCHEDULE OF ANNUAL DISBURSEMENTS (US$ millions)

Source	1997	1998	1999	2000	TOTAL	%
Bank	114	160	149	77	500	50
Counterpart	90	158	146	106	500	50
Total	204	318	295	183	1,000	100
% of total	20.4	31.8	29.5	18.3	100	

3.43 The disbursement schedule by program component and the financial execution schedule of the program projects are set out in Annexes III-5 and III-6, respectively in the technical files.

IV. FEASIBILITY OF THE PROGRAM, BENEFITS AND RISKS

A. Justification of the program

4.1 The program is an important element of the efforts that the Brazilian government is making to modernize its public sector and, in particular, to strengthen the fiscal federalism called for under the country's Constitution. The objectives set are responsive to explicit demand on the part of two levels of the federation – the Union and the States – which are seeking to accomplish complementary goals by means of the program: in the first case, integration and conceptual consistency of the subnational fiscal reforms, and in the second, strengthening of the fiscal administrations that will enable collection and utilization of tax revenues in a manner consistent with the States' development objectives.

4.2 The Bank's participation in this exercise is part of a strategy of supporting Brazil's fiscal institutions that was launched with the federal revenue modernization program (BR-0193) approved by the Bank in September 1995. The aim of that program is to achieve many of the same organizational, methodological and information-technology goals that are proposed in the proposed fiscal program for the States. It is also consistent with the Bank's strategy for modernization of the State in the country.

4.3 It should be noted that both the volume of the demand for assistance from the States and the operating and technical coordinating role of the federal government justify the decision to carry out a national program, rather than independent individual projects with the States. The proposed organization, with a coordinating unit at the national level, a financial agent and Operating Regulations that make it possible to channel funds from the loan to the States, constitutes an efficient and transparent execution setup which the Bank will be able to supervise adequately.

B. Institutional feasibility

4.4 The institutional feasibility of this program has been analyzed at the level of the federal government, the States included in the representative sample, and the financial agent.

4.5 In the case of the federal government, the Ministry of Finance, through its Executive Secretariat, will provide the necessary support for the execution of the program. In compliance with one of the conditions precedent to the first disbursement of the loan, the ministry will create the project coordination unit (PCU), which will be staffed by fiscal specialists and administrative personnel, all of whom will report to the Executive Secretariat.

4.6 The federal government's regular coordination mechanisms with the States on fiscal matters function smoothly, as was apparent recently during the process of consultations on amendments to the law on preparation and control of public budgets (Law 4320). These links will be further strengthened by the recent establishment of a management group for the technical-cooperation "agreement" (GG-CCT), made up of representatives of the Ministry of Finance, the States and the Federal District. The GG-CCT was formed with the purpose of establishing the general bases of cooperation in projects of mutual interest in the public finance between the above-mentioned two levels of government.

4.7 In the case of the State governments, the analysis of the representative sample used for the preparation of this program showed that the finance secretariats have taken substantive steps to create adequate execution mechanisms. State coordination units (SCUs) have been set up or are in process of being created, and are being staffed with highly qualified full-time personnel, with logistic support and appropriate physical facilities. Establishment of these SCUs, by resolutions of the finance secretariats, is in fact condition for eligibility for the respective State programs.

4.8 The financial agent, the CEF, is not only linked to the organizational structure of the Ministry of Finance with a presence in all the States through over 2,000 agencies, but it is increasing its participation in different social and financial programs and projects at the federal government level.

4.9 In the case of this national program for technical assistance in fiscal administration, the CEF will be acting simply as an onlender of funds, a function it is legally authorized to perform and for which it has agencies throughout the entire country.

C. Financial feasibility

4.10 Despite the fact that the institutional-strengthening nature of the program complicates a strict study of its financial feasibility, it has been determined that the States included in the representative sample will derive significant economic benefits that will amply offset the program's costs, in both areas of activity.

4.11 In tax administration, the program's impact is expected to be significant, with collection increasing between 5% for a State such as São Paulo, which has a more sophisticated administration, and some 15% to 20% for small States such as Rio Grande do Norte and Piauí. In financial administration, annual savings are expected from human resource optimization, organizational reform, implementation of the unified account and savings in consumables.

D. Technical feasibility

4.12 The program's Project Manual contains specific technical guidelines for the identification, design, review, approval and execution of the State projects. These guidelines are based on the experience the Bank has built up in the design of programs for strengthening fiscal administrations, and will ensure: (i) preparation of projects on the basis of a menu of predetermined components; (ii) compliance with technical guidelines deemed indispensable; (iii) adequate technical supervision by the PCU using highly qualified personnel; and (iv) supervision by the Bank of compliance with the guidelines laid down in all phases of the projects. The Operating Regulations also specify additional technical recommendations which are considered important but not essential.

E. Economic feasibility

4.13 The program is key for the sustainability of the country's macroeconomic equilibrium through its direct impact on the States' public finances. The efforts that the governments are making to adjust their levels of expenditure and lower their indebtedness are complicated by the lack of financial administration systems that would enable efficient allocation of resources and proper application of legal and policy guidelines in the public budgets. As for revenue, the high level of evasion, put at around 40% by some studies, suggests that administrative efforts in inspection and information would generate significant increases in tax collections. Taken together, the tax and financial measures will contribute to laying the foundations for sustainable rehabilitation of the States' public finances.

F. Impact on the low-income population

4.14 Given the nature of the program, its impact on poverty reduction cannot be precisely quantified. Regarding the effort to increase tax collection, its is expected that the impact of the additional movement of resources from the private to the public sector would affect all income groups, in proportions that would be different in each State. However, the greater efficiency sought in public expenditure coupled with budgetary stringency eased by higher tax collections should facilitate the implementation of social programs and activities aimed at mitigating poverty.

G. Benefits

4.15 The main benefits expected from implementation of the program are the following:

a. better expectations of sustainable fiscal equilibrium in the States as a result of lower tax evasion and hence higher tax collections, estimated at some 2% of GDP, or R$13.5 billion, and also better programming and control of public expenditure,

which will in turn lead to a more solid financial situation at the national level;

b. increased capacity of the State governments for implementing economic and social development programs, as a result of the availability of more resources for the public budget and of instruments for more effective and efficient budget management;

c. substantial savings for the State governments resulting from the integration of the tax systems and lower operating costs for inspection stations, especially those located at the border, through the implementation of unified systems;

d. reduction or elimination of tax distortions that adversely impact industry and domestic trade, through reduction of the marked differences in inspection efforts by the different States, with a resultant lowering of the level of inequity of the national tax system; and

e. strengthening of the mechanisms for dialogue between the federal government and the State governments in fiscal matters.

H. <u>Risks</u>

4.16 The following main risks have been identified for the execution of the program:

a. Inadequate project preparation by the participating States during the execution of the program. When developing the representative sample the Bank supported the preparation of the projects in São Paulo, Goiás and the States of the Northeast, but responsibility for supporting the other States will fall on the PCU. To mitigate this risk, the Bank will transfer its experience to the PCU specialists and resources will be included in the PCU budget for hiring consultants who will assist the State governments in the preparation phase of their specific projects. In addition, strict technical criteria and recommendations are included in the project preparation manual that is part of the program documents.

b. Unsatisfactory execution of specific projects due to lack of institutional capacity in the States. Although the States analyzed by the Bank and included in the representative sample demonstrated adequate institutional capability, there is a possibility that certain States not included in the sample may experience difficulties in executing their projects. This risk is reduced by the requirement included among the program conditions that each State finance secretariat must adopt a resolution creating the respective SCU. The personnel system in effect in Brazil also helps to lessen this risk, since the security of government employment prevents high staff turnover.

c. Distribution of program resources to the States that is not consistent with technical criteria for determining the need for financing. This risk is reduced to a minimum by inclusion in the program of explicit quantitative parameters that govern the distribution of funds to the States.

1.2. ECONOMIC AND TAX DATA / BY STATE

STATE	Area-Km2	Population (millions)	GDP - 1995 (US$ millions)	Total Revenue 1995[1] (US$ millions)	ICMS Collection 1995 (US$ millions)	ICMS /GDP
Northeast Region						
Alagoas	27,933	2.69	4,615	863	302	6.5%
Bahia	567,295	12.65	30,929	3,931	2,277	7.4%
Ceará	146,348	6.71	10,401	2,128	1,037	10.0%
Maranhão	333,366	5.23	8,473	1,356	366	4.3%
Paraíba	56,585	3.34	4,477	1,080	384	8.6%
Pernambuco	98,938	7.45	17,841	2,341	1,289	7.2%
Piauí	252,378	2.73	2,686	826	239	8.9%
Rio G. Norte	53,307	2.58	4,477	896	324	7.2%
Sergipe	22,050	1.61	2,755	762	288	10.5%
Subtotal	***1,558,200***	***44.97***	***86,655***	***14,182***	***6,506***	***7.5%***
Northern Region						
Pará	1,253,164	5.45	9,093	1,586	692	7.6%
Amazonas	1,577,820	2.32	8,817	1,353	996	11.3%
Rondônia	238,513	1.34	1,998	532	220	11.0%
Roraima	225,116	0.26	758	273	39	5.2%
Acre	153,150	0.46	1,033	376	42	4.0%
Tocantins	278,421	1.01	1,252	617	116	9.3%
Amapá	143,454	0.33	620	371	48	7.7%
Subtotal	***3,869,638***	***11.16***	***23,570***	***5,108***	***2,153***	***9.1%***
Southern Region						
Paraná	199,709	8.71	42,088	3,666	2,698	6.4%
Santa Catarina	95,443	4.84	20,803	2,418	1,826	8.8%
Rio Grande do Sul	282,062	9.58	45,394	4,895	3,827	8.4%
Subtotal	***577,214***	***23.13***	***108,285***	***10,980***	***8,351***	***7.7%***
Southeast Region						
Espírito Santo	46,184	2.79	13,363	1,733	1,387	10,4%
Minas Gerais	588,384	16.51	86,311	6,795	5,038	5,8%
Rio Janeiro	43,910	13.30	86,242	5,432	4,923	5,7%
São Paulo	248,809	33.70	245,294	21,352	19,808	8,1%
Subtotal	***927,287***	***66.29***	***431,211***	***35,311***	***31,156***	***7,2%***
Center-West Region						
Goiás	341,289	4.31	13,352	1,813	1,238	9.3%
Mato Grosso do sul	358,159	1.91	12,330	863	611	5.0%
Mato Grosso	906,807	2.31	4,064	1,144	770	19.0%
Distrito Federal	5,822	1.74	9,368	770	686	7.3%
Subtotal	***1,612,077***	***10.27***	***39,114***	***4,590***	***3,306***	***8.5%***
Grand Total Brazil	***8,544,416***	***155.81***	***688,835***	***70,171***	***51,472***	***7,47%***

[1] Includes ICMS collection and transfers from the Union. The transfers comprise the States' and Municipalities' revenue-sharing funds (44% of IPI + Income Tax), IOF-Gold, 50% of the ITR and the export compensation fund (10% of IPI).

Source : Central Bank of Brazil Bulletin

NATIONAL FISCAL ADMINISTRATION PROGRAM FOR THE STATES OF BRAZIL
LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Aim: To contribute to creation of conditions of fiscal equilibrium in the States of Brazil, in the new context of macroeconomic stability.	– Fiscal situation of the States of Brazil – Budget performance of the States – Tax collection indicators – Public spending indicators	– Protocols and agreements on renegotiation of the States' debts – Publication by the Central Bank and the National Treasury of national fiscal data and financial statistics – Agreements concluded in the context of the fiscal adjustment program for the States – Draft reforms sent to the legislature	– Maintenance of the country's process of macroeconomic stabilization – Continuity of the process of structural reform in the country, especially the administrative and fiscal reforms – Commitment by the Federal and State governments to reduce the public deficit
Purpose: To achieve increased administrative efficiency and effectiveness and greater rationality in the management of State public funds.	– Effective control of public spending – Effective control of taxpayer compliance with tax obligations – Cost of State tax administrations no greater than 3% of tax collections	– State and federal budgets – Annual reports of the Central Bank, National Treasury and Federal Revenue Department, and reports of the State finance secretariats – State investment plans – State government programs – Fiscal and sector policies in the State	– High degree of commitment on the part of State governments to achieving fiscal equilibrium – Continuation of federal government's aim to balance the State public accounts – Continuation of macroeconomic and institutional stability in the country – Maintenance of the context of decentralization in the country

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Components: **1. Technical assistance and coordination** Strengthening of the Ministry of Finance to perform fiscal supervision and coordination at the national level. Availability of resources for technical cooperation for the States and coordination of the process of integration of the tax systems at the national level.	- Establishment and operation of the PCU. - Provision of technical support to the States by the PCU in the preparation and improvement of the State projects. - Integration of the tax systems of the States and the federal government. - Integration of taxpayer rosters at the national level.	1. Minutes of PCU meetings. 2. Progress reports on the program. 3. Supervision of operations by the Bank. 4. Submission of the studies and reports on the training programs. 5. Publications concerning events financed by the program. 6. Reports of consultants hired. 7. Access to information systems developed under the program.	1. High degree of interest in the program on the part of the Ministry of Finance. 2. Little resistance to the changes on the part of the State finance secretariats. 3. Projects prepared according to the models and methodologies specified in the Project Preparation Manual. 4. Execution of the projects within the schedule set. 5. Demand for information from the public and the private sector. 6. Capacity of the States to meet the project requirements.
2. Fiscal Administration Strengthening and modernization of tax and financial administration by means of modernization projects that include: - economic and tax-related studies and studies on public spending; - review of social legislation; - implementation of integrated tax and financial administration systems; - modernization of fiscal processes and procedures; - modernization of information systems; - strengthening of human resources.	- 18 tax administration projects signed in the first 6 months of the program. - 4 financial administration projects signed in the first 6 months of the program. - 65% of program funds committed in the first 6 months. - 27 tax administration projects and 10 financial administration projects executed upon program completion.	- Contracts and agreements concluded between the Ministry of Finance, the financial agent and the States. - Program reports - Evaluation by the Bank	7. Effective coordination by the Ministry of Finance. 8. Availability at the national level of consultants with the necessary qualifications.

BENCHMARKS FOR SPECIFIC PROJECTS

TAX AND FINANCIAL AREAS (Basic indicators)

ID	INDICATOR	CALCULATION FORMULA (based on information from the questionnaires)	BENCHMARK
1	RELIABILITY OF BUDGET (I)	Actual income / Budgeted income	Close to 1
2	RELIABILITY OF BUDGET (II)	Actual expenditure / Budgeted expenditure	Close to but not greater than 1
3	COVERAGE OF UNIFIED ACCOUNT	Actual expenditure through Cash Management Account / Total expenditure of Direct Administration	Close to but not greater than 1
4	RATIO OF TAX/FINANCIAL ADMINISTRATION	Tax revenue in budget / Tax revenue projected by Tax Area	Between 0.9 and 1.1 10% margin
5	COST OF FISCAL ADMINISTRATION	Total cost of Financial Administration / Total tax revenues	Maximum 3% by end of program
6	TAX BURDEN	Total tax revenue / State GDP	Minimum increase of 1 point in level of tax burden
7	TAX BASE	No. of tax filers / No. shown as active in rosters	50% reduction in number of nonfilers by end of program
8	PAYING TAXPAYERS	No. of paying taxpayers / No. of filers	50% reduction in number of nonpayers by end of program
9	REVENUE FROM EX OFFICIO ASSESSMENTS	Amount paid on ex officio assessment / Amount of ex officio assessments	Minimum 0.8
10	REVENUE FROM LEGAL ACTION FOR COLLECTION	Amount paid following legal action / Amounts past due	Minimum 0.8
11	REMAINING IN DISPUTE	No. of cases over 180 days past due / No. of cases in dispute	70% reduction by end of program
12	APPEALS FILED	Amount of appeals filed / Amount of ex officio assessments	50% reduction by end of program
13	YIELD OF TAX ADMINISTRATION	Total tax revenue 1/ / Total No. of taxpayers	Annual increase of 10%
14	AVAILABILITY OF TECHNOLOGICAL RESOURCES	No. of computers available / Total human resources available	Minimum proportion of 1:2

1/ When the comparative analyses between States are made, this indicator will be weighted by the proportion the State's GDP represents of the total GDP of the country as a whole.

BENCHMARKS FOR SPECIFIC PROJECTS

TAX AND FINANCIAL AREAS (Basic indicators)

ID	INDICATOR	CALCULATION FORMULA (based on information from the questionnaires)	BENCHMARK
15	AVERAGE DATA-PROCESSING TIME	Data-processing time and availability of information	24 hours
16	REVENUE RECEIVED IN INSTALLMENTS	$\frac{\text{Amount of installments paid in period}}{\text{Amount of No. of installments granted}}$	50% increase by end of program

BENCHMARKS FOR SPECIFIC PROJECTS

TAX AND FINANCIAL AREAS (Additional indicators)

ID	INDICATOR	CALCULATION FORMULA (based on information from the questionnaires)	BENCHMARK
1	RELIABILITY OF BUDGET	Expenditure per sector/Actual total expenditure / Expenditure budgeted per sector/ Total budgeted expenditure	Close to 1
2	ADMINISTRATIVE EFFICIENCY	Average No. of days for processing payment orders / Maximum No. of days authorized by law	Close to 1
3	FLEXIBILITY OF BUDGET PREPARATION	Expenditure preset by law performed / Total actual expenditure	Close to 0
4	CONCENTRATION OF COLLECTION	No. of taxpayers representing 70% of main tax / Total payers of tax	Minimum increase of 10% by end of program
5	DEPENDENCE ON MAIN TAX	Revenue from main tax / Total tax revenue	Equivalent to GDP growth (%)
6	SHARE OF TAX IN ALL BRAZIL	Revenue from main tax / All Brazil	Descriptive indicator
7	SHARE OF OUTPUT IN ALL BRAZIL	Total GDP of jurisdiction / GDP of all Brazil	Descriptive indicator
8	POPULATION AS PROPORTION OF NATIONAL POPULATION	Population of jurisdiction / Total population of Brazil	Descriptive indicator
9	AMOUNT OF REVENUE IN INSTALLMENTS	Amount of No. of installments granted / Tax revenue for main tax	50% reduction by end of program
10	AMOUNT OF REVENUE IN DISPUTE	Amount of cases in dispute / Tax revenue from main tax	50% reduction by end of program
11	AMOUNT OF REVENUE IN ACTIVE DEBT STATUS	Amount of the No. of cases in judicial collection / Tax revenue from main tax	50% reduction by end of program
12	AMOUNT OF DELINQUENT DEBTS	Amount of the No of delinquent debts / Tax revenue from main tax	50% reduction by end of program
13	AMOUNT DECIDED BY COURT	Amount of cases decided in period / Amount of No. of cases in dispute	50% increase by end of program
14	REVENUE FROM ACTIVE DEBT CASES	Amount of cases processed/payments in period / Amount of No. of cases being processed	50% increase by end of program
15	YIELD OF TAX ADMINISTRATION	Total tax revenue x No. of active taxpayers / Total number of taxpayers nationwide	Annual increase of 10%
16	ROSTER	No. of active taxpayers of main tax / No. of taxpayers nationwide	Descriptive indicator

BENCHMARKS FOR SPECIFIC PROJECTS

TAX AND FINANCIAL AREAS (Additional indicators)

ID	INDICATOR	CALCULATION FORMULA (based on information from the questionnaires)	BENCHMARK
17	OMISSIONS PROCEDURES	No. of procedures with payment order / No. of negligent taxpayers	50% increase by end of program
18	APPEALS	No. of appeals ruled on / Amount of appeals filed	50% increase in appeals decided in Tax Admin.'s favor by end of program
19	DATA-PROCESSING STAFF	No. of data-processing staff / Total human resources available	Between 10% and 20%
20	RATIO OF TAX ADMIN. STAFF TO EXTERNAL	No. of own data-processing staff / No. of external specialists in area	50% reduction by end of program
21	TERMINALS PER STAFF MEMBER	No. of network terminals available / Total human resources available	1:3
22	MODERNIZATION IN INSPECTION	No. of portable microcomputers / No. of auditors	1:2
23	MODERNIZATION IN MICROCOMPUTERS	No. of networked or portable microcomputers / No. of local or distant terminals	80%
24	AUTONOMY OF DATA-PROCESSING AREA	Number of management and technical and managerial activities performed (expressed in percentage)	100%

LEG-RG1/BR
BR/OC
Original:Spanish

PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR TO THE FEDERATIVE REPUBLIC OF BRAZIL
(National Fiscal Administration Program for Brazilian States)

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 Federative Republic of Brazil, as Borrower, for the purpose of granting a financing to cooperate in the execution of a National Fiscal Administration Program for the States of Brazil. Such financing will be for the amount of up to US$500,000,000 (five hundred million dollars of the United States of America) from the Single Currency Facility of the Ordinary Capital resources of the Bank and will be subject to the "Terms and Financial Conditions" and the "Special Conditions" of the Executive Summary of the Loan Proposal.