PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

FINANCIAL DEVELOPMENT PROGRAM OF THE FEDERAL DISTRICT (PRODEFAZ/PROFISCO II) (BR-L1592)

SEVENTEENTH INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) – FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II (BR-X1039)

LOAN PROPOSAL

This document was prepared by the project team consisting of: André Martinez Fritscher, Project Team Leader; Anastasiya Yarygina, Alternate Project Team Leader; Maria Cristina Mac Dowell, Soraya Ferreira, Leslie Harper, Marcio Alvarenga, Maria Lorena Kevish, and Liza Builes (IFD/FMM); Guilherme Piereck (INT/TIN); David Salazar and Fabia Bueno (VPC/FMP); José Martinez (SPD/SDV); Krysia Avila (LEG/SGO); Helio Oliveira (CSC/CBR); and Rodrigo Speziali, Ricardo Gazel, Monise Faria, and André Cordeiro (consultants).

CONTENTS

PROJECT SUMMARY

I. DESCRIPTION AND RESULTS MONITORING 1

A. Background, problem to be addressed, and rationale 1
B. Objectives, components, and cost 9
C. Key results indicators 13

II. FINANCE STRUCTURE AND MAIN RISKS 13

A. Financing instruments 13
B. Environmental and social risks 15
C. Fiduciary risks 15
D. Other key risks and issues 16

III. IMPLEMENTATION AND MANAGEMENT PLAN 16

A. Summary of implementation arrangements 16
B. Summary of arrangements for monitoring results 18

APPENDICES

Proposed resolution

Annexes	
Annex I	Development Effectiveness Matrix – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

Electronic Links	
Required	
1	Multiyear execution plan and annual work plan
2	Monitoring and evaluation plan
3	Procurement plan

Optional	
1	Program economic analysis
2	Matrix of problems and solutions
3	Inclusion document
4	Climate change document
5	Environmental and social annex
6	Program Operating Regulations
7	Fiscal report of the Federal District
8	Fiscal management maturity and performance assessment report
9	Report on capacity to pay
10	Challenges to be addressed by the operation
11	Lessons learned from the Bank's operations in the country and international evidence
12	Authorizing law
13	Environmental and social assessment filter

ABBREVIATIONS

AWP	Annual work plan
CAPAG	Capacidade de pagamento (Metodologia da Secretaria do Tesouro Nacional) [payment capacity (National Treasury Secretariat methodology)]
CCLIP	Conditional credit line for investment projects
CGDF	Controladoria Geral do Distrito Federal [Federal District Comptroller General's Office]
ESPF	Environmental and social policy framework
GDP	Gross domestic product
GDP-DF	Federal District gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre operações relativas à circulação de mercadorias e à prestação de serviços de transporte interestadual e intermunicipal e de comunicação [goods and services sales tax]
ICB	International competitive bidding
ICT	Information and communications technology
LOA	Lei do Orçamento Anual [Annual Budget Law]
MD-GEFIS	Avaliação da maturidade e desempenho da gestão fiscal [fiscal management maturity and performance assessment]
NCB	National competitive bidding
NF-e	Nota fiscal eletrônica [electronic invoice]
PCR	Project completion report
PCU	Project coordination unit
PGDF	Procuradoria-Geral do Distrito Federal [Federal District Attorney-General's Office]
PROFISCO	Programa de Modernização da Gestão Fiscal no Brasil [Fiscal Management Modernization Program in Brazil]
PROFISCO/DF	Fiscal Management Modernization Program for the Federal District
REDESIM	Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios [National Network for the Simplification of Business Registration and Legalization]
SEEC	Secretaria de Estado de Economia do Distrito Federal [Federal District Economy Department]
SEFAZ	Secretaria de Estado de Fazenda do Distrito Federal [Federal District Finance Department]
SIGGO	Sistema Integrado de Gestão Governamental [Integrated Government Management System]
SEPLAD	Secretaria de Estado de Planejamento, Orçamento e Administração do Distrito Federal [Federal District Planning, Budget, and Administration Department]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
SSS	Single-source selection
TCDF	Tribunal de Contas do Distrito Federal [Federal District Audit Office]

PROJECT SUMMARY
BRAZIL
FINANCIAL DEVELOPMENT PROGRAM OF THE FEDERAL DISTRICT
(PRODEFAZ/PROFISCO II)
(BR-L1592)

SEVENTEENTH INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) – FISCAL MANAGEMENT MODERNIZATION PROGRAM IN BRAZIL – PROFISCO II (BR-X1039)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td colspan="3">Federal District</td><td rowspan="3">Amortization period:</td><td rowspan="3">24.5 years</td></tr>
<tr><td colspan="3">Guarantor:</td></tr>
<tr><td colspan="3">Federative Republic of Brazil</td></tr>
<tr><td colspan="3">Executing agency:</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td colspan="3">Federal District, acting through the Federal District Finance Department (SEFAZ) in coordination with the Federal District Planning, Budget, and Administration Department (SEPLAD)</td><td>Grace period:</td><td>6 years[b]</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Interest rate:</td><td>SOFR-based</td></tr>
<tr><td rowspan="2">Inter-American Development Bank (IDB) Ordinary Capital:</td><td rowspan="2">72,700,000</td><td rowspan="2">90.9</td><td>Credit fee:</td><td>[c]</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td>Local:</td><td>7,300,000</td><td>9.1</td><td>Weighted average life:</td><td>15.25 years</td></tr>
<tr><td>Total:</td><td>80,000,000</td><td>100.0</td><td>Approval currency:</td><td>U.S. dollar</td></tr>
</table>

<table>
<tr><th colspan="4">Project at a Glance</th></tr>
<tr><td colspan="4">Project objective/description: The general objective of the program is to contribute to the Federal District's fiscal sustainability through the following specific objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. This program is the seventeenth individual loan operation under the CCLIP Fiscal Management Modernization Program in Brazil (PROFISCO II) (BR-X1039) approved by the Board of Executive Directors pursuant to Resolution DE-113/17.</td></tr>
<tr><td colspan="4">Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower will adhere to the program Operating Regulations, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP; and (ii) the project coordination unit (PCU) will be created and its members appointed (paragraph 3.4).
Special contractual conditions for execution: Before initiating the execution of activities that have outputs intended for the Federal District Comptroller General's Office (CGDF), SEPLAD, and the Federal District Attorney-General's Office (PGDF), SEFAZ will sign cooperation agreements with the respective institutions, specifying the roles and responsibilities of the parties during execution of the corresponding activities (paragraph 3.5).</td></tr>
<tr><td colspan="4">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="4">Strategic Alignment</th></tr>
<tr><td>Challenges:[d]</td><td>SI ☐</td><td>PI ☒</td><td>EI ☐</td></tr>
<tr><td>Crosscutting themes:[e]</td><td>GE ☐ and DI ☒</td><td>CC ☒ and ES ☐</td><td>IC ☒</td></tr>
</table>

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

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

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

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 This program is the seventeenth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) Fiscal Management Modernization Program in Brazil (PROFISCO II) (BR-X1039), approved by the Bank's Board of Executive Directors pursuant to Resolution DE-113/17, with a view to consolidating the progress made under the PROFISCO I CCLIP (BR-X1005) and to continue modernizing the states' fiscal management.

1.2 The PROFISCO II CCLIP (BR-X1039, paragraph 1.1) was approved in 2017 for US$900 million with the objective of contributing to fiscal sustainability through: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. Eligible borrowers are agencies of the 26 Brazilian states, the Federal District, and the Federative Republic of Brazil that are recommended by the External Financing Commission of the Ministry of Economy for preparation of an individual operation.[1]

1.3 The PROFISCO II CCLIP (paragraphs 1.1 and 1.2) is intended to increase revenue, improve expenditure efficiency and transparency, and enhance the business environment and the country's competitiveness. It was primarily designed to support the following: (i) the digital public accounting system (SPED) in the automation of tax auditing and compliance; (ii) improvement of the quality of public expenditure in the adoption of multiyear budgeting and the implementation of public procurement and public investment systems; (iii) introduction of new digital technologies for the audit and management of public expenditures, cybersecurity for data security, and the use of artificial intelligence for taxpayer services; and (iv) strengthening of the processes, methodologies, and technologies first promoted by the PROFISCO I CCLIP (paragraph 1.1).

1.4 **Economic and fiscal conditions in Brazil.** Brazil is facing challenges in maintaining its economic and fiscal sustainability. Its gross domestic product (GDP) shrank by a cumulative 6.8% in real terms in 2015 and 2016 before staging a tentative recovery with growth averaging 1.5% in 2017 and 2019.[2] In 2020, GDP contracted by 4.1% in the wake of the pandemic before rebounding with 4.6% growth in 2021. Nonetheless, market expectations[3] are for lackluster growth over the next few years (2022 and 2023). As a result of the recession, the subsequent weak growth, and the economic impact of the pandemic, the central government posted cumulative primary deficits of 20% of GDP between 2014 and 2021, with a significant cutback in its investment (from 1% of GDP in 2014 to 0.4% in 2021). The gross public debt rose from 51.5% of GDP in 2013 to 80.3% in 2021.[4]

1.5 **The COVID-19 pandemic and the economic situation.** In response to the pandemic, the federal government implemented a response package equivalent to about 8% of GDP, which, in conjunction with the diminished economic activity,

---

1 To date, 16 projects totaling US$733.32 million have been approved by the Bank's Board of Executive Directors (Ceará, Piauí, Pará, Maranhão, Pernambuco, Mato Grosso do Sul, São Paulo, Espírito Santo, Amapá, Paraná, Bahia, Rio Grande do Sul, Paraíba, Alagoas, Mato Grosso, and Sergipe).

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

3 Boletim Focus, 04/22/2022.

4 Data from the Central Bank of Brazil.

had a major impact on the public finances. In 2020, subnational public finances were supported by extraordinary federal transfers, together with special conditions for suspending debt payments[5] to the central government and wage freezes. The COVID-19 pandemic in Brazil has caused the second highest mortality rate in Latin America and the Caribbean (3,000 deaths per million inhabitants).[6] In the long term, it has exacerbated the effects of structural bottlenecks affecting fiscal sustainability, productivity, and inequality in the country.

1.6 **Macroeconomic conditions in the Federal District.**[7] The Federal District is the federative unit[8] that houses the seat of the federal government. It has unique characteristics, with both state and municipal responsibilities.[9] In 2021, it had a population of 3.1 million inhabitants, or 1.45% of the national total.[10] Between 2010 and 2021, population in the Federal District grew by 20%, outpacing that of Brazil as a whole (12%). The Federal District also provides support to the population of the surrounding region, which is less developed and relies on its public services. Thus, the Integrated Development Region (RIDE) of the Federal District and surrounding area encompasses municípios in the states of Goiás and Minas Gerais, for a total of 4.7 million inhabitants. The Federal District was the eighth largest state economy in 2019, accounting for 3.7% of total national GDP. Its economy is based primarily on services, which accounted for 95.7% of its GDP in 2019.[11] At the same time, the Federal District's per capita GDP was the highest of all federative units and about twice that of São Paulo, the next most prosperous. Its human development index is also the highest among the federative units, at 0.850, according to 2017 data[12] (the Brazilian average is 0.778). However, it is also the most unequal federative unit, with a Gini coefficient of 0.548 in 2020 (compared with a national average of 0.524).[13]

1.7 **Fiscal conditions in the Federal District.**[14] The Federal District generates more revenue of its own than any other federative unit, equivalent to 175% of the state average in 2019. In 2020, transfers accounted for 26% of total primary income,

---

5 Much of the states' domestic debt is owed to the central government. In response to the pandemic, the central government enacted law LC 173/2020 suspending the states' debt payments until 2022, as a way to generate liquidity and support the subnational entities' fiscal response to the pandemic.

6 Data from 25 April 2022, Coronavirus Brasil (saude.gov.br), Brazil: Coronavirus Pandemic Country Profile - Our World in Data and COVID-19 Data Explorer (humdata.org).

7 Sources of Federal District fiscal data: National Treasury Department and Government of the Federal District. See *Análise Fiscal*.

8 Brazil's federative units are the 26 states and the Federal District.

9 The Federal District is a single federative unit which is not politically divided into municípios like the states, but only into administrative regions. It has the power to collect state taxes (ICMS, Inheritance Tax (ITCMD), Vehicle Ownership Tax (IPVA)) and municipal taxes (Services Tax (ISS), Urban Property and Land Tax (IPTU), and Property Transfer Tax (ITBI)). The Federal Government established the Constitutional Fund of the Federal District, which finances some of its public services, mainly those related to security, since it is the seat of federal powers. The Federal Government also finances the judiciary and the Federal District Public Prosecutor's Office.

10 IBGE.

11 Continuous National Household Survey (IBGE).

12 Atlas Brazil and IBGE.

13 IBGE.

14 See Federal District Fiscal Report.

compared with a state average of 36%. Prior to the pandemic, tax revenue grew by a cumulative 4.5% in real terms between 2017 and 2019. In 2020, in the midst of the pandemic, the Federal District was one of 15 federative units in which this indicator declined in real terms (-2.2%).[15] Nonetheless, extraordinary transfers from the federal government made up for the reduced revenue intake, and primary income increased by 5.5%. In 2021, primary income continued to climb, posting real growth of 2%.

1.8 Current expenditures, which account for about 95% of total spending, grew by 7% in real terms between 2017 and 2019 before falling by about 1% in 2020 and then rebounding by 3% in 2021. However, this expenditure item has a high degree of rigidity, with pensions and wages absorbing an average of 60% of current expenditures in the period 2017-2020. In 2021, the share of these items slipped to 56%. Moreover, the Federal District does not have fiscal space for public investments. On average, public investment expenditure has accounted for 4% of total spending per year since 2017. The debt level is relatively low, representing 40% of net current income on average (2017-2021).

1.9 Following several years with a “C” rating under the capacity to pay (CAPAG) methodology, the Federal District was rated “B” in 2021.[16] In the individual components it was rated “A” on indebtedness, “B” for net savings, and “A” in terms of liquidity.[17] However, the 2021 score was influenced by federal transfers in response to the pandemic, and efforts will be needed to maintain this rating in the medium term.

1.10 **Fiscal management institutions in the Federal District.** Fiscal management in the Federal District is the responsibility of a number of agencies and institutions. The Federal District Economy Department (SEEC) used to be at the top of the fiscal management execution structure but changed its name to the Federal District Planning, Budget, and Administration Department (SEPLAD) as part of an administrative restructuring of the Federal District under Decree 43826 of 7 October 2022,[18] and its administrative units have been transferred to the Federal District Finance Department (SEFAZ), a new agency responsible for fiscal policy and tax administration. Under the same decree, SEPLAD will support SEFAZ in its administrative, operational, budgetary, and financial tasks.[19] The Federal District Comptroller General’s Office (CGDF), responsible for transparency, internal control, civil society engagement, and other tasks, and the Federal District Attorney-General’s Office (PGDF), which represents the Federal District in legal, including fiscal, matters, also play important roles in the Federal District’s fiscal management.

1.11 **Rationale.** Owing to the continuous demographic pressure generated in its integrated development region, the Federal District faces growing demands for

---

15 Subnational Finance Report - National Treasury - 2021.

16 Based on 2020 data.

17 CAPAG comprises three fiscal indicators: indebtedness, liquidity, and the income-expenditure balance. By combining the ratings of each one, it generates the global indicator, which is decisive for subnational entities to gain access to finance.

18 Decree 43826/2022, articles 1, 2, and 3.

19 Decree 43826/2022, article 7.

public spending to address social inequalities and to increase public investment. This is occurring in a context where public revenues have lagged behind public expenditure, which is subject to rigidities in the personal services category. Moreover, the Federal District economy is based on public services, which, though stable, generates low rates of economic and revenue growth. The challenge of fiscal modernization should thus focus on strengthening public revenues and making public expenditure more efficient, thereby making it possible to increase investment and expand public services in a fiscally sustainable manner. While PROFISCO/DF (paragraph 1.21) strengthened the tax administration by implementing SPED and the electronic invoice (NF-e), this new program will continue to modernize the tax system and will address public expenditure issues in greater depth. In particular, it will: (i) strengthen financial administration and public expenditure management; (ii) harness digital technologies; and (iii) simplify tax compliance.

1.12 The effectiveness and efficiency of public institutions is hampered by human resource constraints and limited access to information technologies, compounded by shortcomings in the availability of financial resources and in the legal framework (Arenas de Mesa, 2016; Finan et al., 2017). The Federal District needs to address weaknesses in the management of human and technological resources, which affect performance across the board in most areas of fiscal management. On the personnel management side, these shortcomings are illustrated by an absence of evaluation, lack of knowledge of staff skills and capacity needs for the business areas, and lack of strategic training for staff.

1.13 In terms of technology constraints, the technology stock of the agencies and institutions responsible for the Federal District's fiscal management is at the limit of its processing and storage capacity, and there is a growing need for expansion in the medium term.[20] Several auditing systems are obsolete and have limited capacity to perform their functions effectively and efficiently.[21] Since human and technological resources are intrinsic to all CGDF, SEPLAD, and PGDF activities, strengthening them will be key to the modernization of fiscal management in its various dimensions, namely treasury management, tax administration, and financial and public expenditure management. The program therefore aims to address these critical elements by strengthening staff capacities, providing technology solutions and innovations to enhance their productivity and help the government to manage the resources of the citizens of the Federal District more efficiently.[22]

1.14 **Environmental and climate change considerations.** The fiscal impacts of natural disasters stem from the need for unplanned expenditures and the revenue losses caused by the disruption of economic activities and consequent reduction of the tax base. As the Federal District is not immune from such disasters, which

[20] In 2022, processing capacity was 9,530 GHZ, but in the next five years needs are expected to triple to at least 25 GHZ. Moreover, today's total available capacity of 9 petabytes (PB) will need to triple in the next five years to 29 PB.

[21] Examples include the financial and payroll systems, which are fragmented and outdated.

[22] For more detailed evidence on the information technology and human resources situation, see Matrix of problems and solutions. For further details on the challenges the program seeks to address, see optional link 10.

include floods and landslides, the fiscal risks associated with climate change need to be identified and instruments designed to improve intertemporal resource planning. No diagnostic assessment has been made of the degree to which fiscal management and policy are aligned with the need to mitigate local greenhouse gas emissions and build resilient infrastructure. There is a strategic need to plan fiscal management to address these risks, making it possible to prioritize public spending for climate action, reduce the vulnerability of tax revenues to extreme weather events, and provide incentives to transition toward a decarbonized economy.

1.15 **Inclusion.**[23] Inclusion must be mainstreamed into the services provided to citizens. Roughly 140,000 inhabitants in the Federal District have some type of disability, mostly visual impairment (50%). It is essential to make it easier for such people to gain access and make use of government services. There are also barriers in institutional portals that effectively restrict access by using technical language that is hard for the general public to understand. Facilitating accessibility by adapting the language used will contribute to inclusion of the entire population.

1.16 In this context, the Federal District requested the Bank's support to help resolve some of the challenges identified in the fiscal management maturity and performance assessment (MD-GEFIS) methodology, in the institutional capacity analysis with participation by the former SEEC (paragraphs 1.10 and 3.1), and in the matrix of problems and solutions, an instrument used to define the diagnostic study, as mentioned below (paragraphs 1.17, 1.18, and 1.19) and described in optional link 10.

1.17 **In fiscal management and fiscal transparency,** the corporate processes of the agencies and institutions responsible for the Federal District's fiscal management related to governance, personnel and technology management, and communication with citizens are underdeveloped and poorly integrated, which impairs their institutional performance.[24] This is a consequence of the following: ineffectiveness of the institutional management strategy of the agencies and institutions responsible for the Federal District's fiscal management in achieving results; people management not aligned with the institutional strategy, making it difficult to enhance worker productivity; risk of information and communication technology (ICT) services being unavailable; lack of procurement and contract management capacity; and poor knowledge of taxation policy and public expenditure management among the general public.

1.18 **In terms of tax administration and tax litigation,** revenue intake falls short of potential.[25] This is a result of the following: insufficient and inefficient inputs for tax policy decision-making, and for impact monitoring and evaluation; limited capacity to manage electronic tax documents (DF-e), the SPED and cadaster, which generates transaction costs for both the taxpayer and the tax administration; ineffective auditing, particularly of goods transit, and weak integration between the

---

[23] This paragraph is based on the diagnostic assessment presented in the Inclusion document.

[24] MD-GEFIS report: One of the six dimensions of fiscal management has an initial level of maturity, four are intermediate, and one is advanced.

[25] According to the MD-GEFIS assessment of the state, the six dimensions of this component have an intermediate level of maturity.

federal tax system and that of the Federal District for foreign trade; the high cost of tax litigation for the taxpayer and public administration; and shortcomings in taxpayer services.

1.19 **Financial and public expenditure management** present weaknesses that make it hard to achieve better results in terms of fiscal discipline and public expenditure efficiency and effectiveness.[26] Specific shortcomings include the following: public policies are designed and executed without institutional alignment with priorities and without elements for technical evaluation, thereby generating inefficiency in the use of public resources; there are deficiencies in the systems and management of budgetary and financial resources that limit control and generate delays in the preparation of accounting records; lack of management mechanisms and knowledge of costs of public services; weak payroll control leading to errors that generate financial losses for the Federal District; and high rates of electricity consumption and expenditure at the facilities the agencies and institutions responsible for the Federal District's fiscal management.

1.20 **The Bank's experience in the country and lessons learned.** The Bank has supported fiscal management modernization at the three levels of government in Brazil, with significant transformations in over 25 years of programs implemented, especially at the state level through the National Fiscal Administration Program for the Brazilian States (980/OC-BR), approved in 1996 for US$500 million, which is now closed; the PROFISCO I CCLIP (BR-X1005) approved in 2008, for US$500 million; and the Fiscal Stability Consolidation Programs (PROCONFIS), through policy-based loans.[27] These projects supported the implementation of the NF-e, the system that enables firms to send tax and accounting data to the tax authorities digitally, and the integrated financial management systems (SIAF), which are compatible with international accounting standards. They also strengthened technological capacity, allowing for the storage and processing of electronic tax data, and the public procurement system. The main outcomes were increased tax revenue intake, less informality, and lower transaction costs for tax authorities and taxpayers alike.[28] An evaluation found that the program helped the states participating in the PROFISCO I CCLIP to increase their total tax intake and number of formal business units by 11.7% and 1.7%, respectively, relative to states that did not have such a program.[29] For the municípios, the National Program to Support the Modernization of Administrative and Fiscal Management (PNAFM), currently in its third phase, supports an increase in internal revenue intake, by implementing the NF-e for services and updating the real property register,

[26] According to the MD-GEFIS, four of the six dimensions have an intermediate maturity level, while the other two are at an initial level.

[27] These include: 2081/OC-BR (approved in 2008, for US$409 million, closed); 2841/OC-BR (approved in 2012, for US$600 million, closed); 2850/OC-BR (approved in 2012, for US$200 million, closed); 3039/OC-BR (approved in 2013, for US$400 million, closed); 3061/OC-BR (approved in 2013, for US$250 million, closed); 3138/OC-BR (approved in 2013, for US$200 million, closed); and 3139/OC-BR (approved in 2013, for US$184 million, closed).

[28] Finalized project completion report (PCR) for the CCLIP PROFISCO I (BR-X1005).

[29] See Martínez Fritscher, André; Mac Dowell, Maria Cristina; Ferreira, Soraya; and Gazel, Ricardo (2022).

reducing administrative costs, and expanding taxpayer services.[30] At the federal level, among other actions, the Bank supported implementation of the risk management and anti-fraud intelligence methodology in the Office of the Attorney General for Finance, the accounting and tax information system, and the federal government's cost information system, as part of the tax modernization project of the Federal Revenue Service of Brazil[31] and the Ministry of Finance's Integrated Modernization Program (PROFISCO/PMIMF).

1.21 The first PROFISCO/DF operation (3040/OC-BR), approved in 2013 for US$31,997,000, was executed in five years with a four-month extension of the loan contract and is now closed. The self-evaluation shows that the project performed very successfully (relevance – excellent; efficiency – excellent; sustainability – satisfactory; and effectiveness – excellent). All of the five planned outcome targets were achieved, and 21 of the 23 output targets initially established were either met or surpassed. The key outcomes were: (i) revenue intake from the goods and services sales tax (ICMS) increased by about R$2.4 billion, exceeding the target by more than 23%; (ii) the total amount recovered by administrative collection actions exceeded the annual target by more than R$786 million; (iii) the time taken to grant or alter registration was cut from 30 to 5 days; and (iv) the time taken to process appeals was shortened from 12 to 8 months. The performance of the executing agency and the Bank were both rated as satisfactory.

1.22 The following lessons learned from the PROFISCO I CCLIP (paragraph 1.1) and PROFISCO/DF were taken into account in the design of this program:[32]

a. **Design.** The need to identify the maturity and opportunities for strengthening fiscal management processes; and to plan ahead for the construction of complex outputs.

b. **Development.** The exchange of experiences and solutions from other states was identified as crucial.

c. **Execution.** Development of the execution acceleration plan, which identifies outputs with execution delays and prepares mitigation measures until execution is normalized.

d. **Evaluation.** The need to simplify the number of outcome indicators to enhance the quality and focus of the evaluation.

e. **Results.** This program will invest in further development of the SPED, the output with the greatest impact on PROFISCO/DF; and it will seek to exploit its potential, for example by expanding the use of the information it generates to automate tax audits and simplify tax compliance.

f. **PROFISCO/DF.** The project completion report (PCR) found that the following factors had a negative impact on project execution: (i) difficulty in executing the outputs; and (ii) insufficient knowledge of the Bank's procurement policies.

---

[30] Through the following operations: 1194/OC-BR (approved in 1999 for US$300 million, closed); 2248/OC-BR (approved in 2009 for US$150 million, closed); and 3391/OC-BR (approved in 2014 for US$150 million, currently in execution with 67.54% disbursed).

[31] Federal Revenue Department, 1996.

[32] See optional link 11.

1.23 To address the challenges identified in the past, the program design was based on the opportunities for improvement identified in MD-GEFIS (paragraph 1.16). Technical visits to other states with good practices will also be intensified; the results indicators have been simplified (paragraph 1.35 and Annex II – Results Matrix); and support will be provided for the programming and implementation of the main outputs, as well as training on the program's fiduciary issues (paragraphs 2.6 and 2.7).

1.24 **The Bank's experience in the region.** This operation has drawn on the Bank's experiences in the following areas: tax administration reforms in Costa Rica (4819/OC-CR), approved in 2019), Ecuador (3325/OC-EC, approved in 2014), El Salvador (3852/OC-ES, approved in 2016), Honduras (3541/BL-HO), approved in 2015), Jamaica (2658/OC-JA, approved in 2011), and Peru (3214/OC-PE, approved in 2014); the modernization of financial management systems in Guyana (1550/SF-GY, approved in 2014, and 1551/SF-GY, approved in 2004), Honduras (2032/BL-HO, approved in 2008), and Nicaragua (2422/BL-NI, approved in 2010); and operations related to the management of public investment in Argentina (3835/OC-AR, approved in 2016), Bolivia (3534/BL-BO, approved in 2015), Chile (1281/OC-CH, approved in 2000), Ecuador (2585/OC-EC, approved in 2011), Mexico (2550/OC-ME, approved in 2011), Paraguay (3628/OC-PR, approved in 2015), Panama (2568/OC-PN, approved in 2011), and Peru (2703/OC-PE, approved in 2012). The lessons in question emphasize the following: (i) the reforms should focus on improving the entities' business models; (ii) widespread use of artificial intelligence and risk analysis in the handling of information makes tax auditing more effective; (iii) the use of cutting-edge technology (big data technology) makes it possible to process large volumes of data; and (iv) the entities' human capital is the most important asset to be considered in a reform.

1.25 **International evidence.**[33] Empirical evidence shows that fiscal sustainability and discipline are strongly related to robust fiscal institutions.[34] Banerjee et al. (2017) report reductions in program execution costs when the government makes use of technology. Dhaliwal and Hanna (2014) find that automated process-monitoring programs can make more efficient use of public resources and enhance service quality. Arenas de Mesa (2016) highlights the relationship between public finance sustainability and the institutionalization of fiscal management and transparency.

1.26 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2) through the development challenge of Productivity and Innovation, inasmuch as it reduces the cost of tax collection by using information and digital technologies. It is also aligned with the following crosscutting themes: (i) Institutional Capacity and Rule of Law, by strengthening the tax and public resource management and planning systems, improving public sector efficiency and effectiveness, and enhancing transparency and accountability through greater digitalization, and automating processes and services; (ii) Diversity, by improving access to government services for groups with

---

[33] For a detailed review of the literature on international experience, see optional link 11.

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

disabilities; and (iii) Climate Change, since 22.82%[35] of the operation's resources are invested in climate change mitigation activities, in accordance with the joint methodology of the multilateral development banks. The program contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) emissions avoided (annual tons of CO_2 equivalent); (ii) countries with strengthened tax and expenditure policy and management; (iii) agencies with strengthened digital technology and managerial capacity; and (iv) agencies with strengthened transparency and integrity practices. It also aligns with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2); and it is consistent with the sector framework documents on Decentralization and Subnational Governments (document GN-2813-8), and Fiscal Policy and Management (document GN-2831-8) under the following dimensions: provision and use of resources for growth and social welfare; transparency and accountability at the subnational level; and tax collection efficiency, respectively. The program is also consistent with the Climate Change Sector Framework Document (document GN-2835-8) through the reduction of greenhouse gas emissions due to the acquisition of efficient equipment.

1.27 **The Bank's country strategy.** The program aligns with the IDB Group's Country Strategy with Brazil 2019-2022 (document GN-2973), specifically through the following strategic objectives: (i) reform the structure of public expenditure (Component 3); (ii) improve the public investment system (Component 3); (iii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises (Components 1, 2, and 3); and (iv) build a more effective government (Components 1, 2, and 3). In addition, the operation is included in the Update of Annex III of the 2022 Operational Program Report (document GN-3087-2).

B. Objectives, components, and cost

1.28 The general objective of the program is to contribute to the Federal District's fiscal sustainability through the following specific objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) improvement of public expenditure management. The operation will finance the following components:

1.29 **Component 1. Fiscal management and transparency (US$40,370,573).** This component seeks to improve management instruments, modernize the technology infrastructure, and enhance the tax authority's transparency with the general public, thereby strengthening the institutional performance of the agencies and institutions responsible for the Federal District's fiscal management. Financing will be provided for the following outputs:

a. **Institutional governance model (US$1,206,305),** including: (i) the mapping and redesign of processes and flows to develop the governance model; (ii) institutional strategy management methodology; (iii) model of good practice and governance rules in the General Law on Personal Data Protection (LGPD); and (iv) an institutional performance assessment system with a results-based

[35] Climate change document (optional link 4).

management methodology reconciling performance evaluation deadlines with predefined targets.

b. **Personnel management model (US$3,440,199),** including: (i) the preparation of terms of reference and process mapping for the personnel management model; (ii) the preparation of training and professional development pathways; (iii) an skills management platform for the agencies and institutions responsible for the Federal District's fiscal management, defining the skills needed for each profile and work process, and a survey of available skills, identifying gaps; and (iv) the annual training plan and quality of life plan, which includes implementation of an occupational health management plan.

c. **Information technology management model (US$33,151,365),**[36] including: (i) ICT governance and management plans (continuity, security, risks, among other aspects); (ii) ICT platforms (data storage and processing); (iii) information technology hardware; and (iv) training for civil servants in new technologies and methodologies to improve processes of interaction between the business and ICT areas.

d. **Procurement and contract planning and management model for the agencies and institutions responsible for the Federal District's fiscal management (US$1,493,797),** including: (i) the mapping, redesign, and standardization of internal procurement and contract management process flows, to improve procurement and contract planning and management; (ii) a supply chain management methodology, including integration with other systems; and (iii) a procurement management monitoring and evaluation system.

e. **Model for training, communication, and transparency with society with an inclusion lens (US$1,078,908),** including: (i) the communication plan for the agencies and institutions responsible for the Federal District's fiscal management (diagnostics, evaluation, guidelines, strategy, definition of responsibilities, and creation of the system); (ii) modernization of the Fiscal Education Program, including a plan, a fiscal education web portal, and a game application; (iii) institutional communication tools that are also accessible to persons with disabilities, and expansion of the scope of social participation channels by making the language used easier for the general public to understand; and (iv) implementation of an open-access data web portal. See annex at optional link 3.

1.30 **Component 2. Tax administration and litigation (US$20,680,953).** This component seeks to make tax collection more efficient, increase revenue intake, and simplify tax compliance. It will finance implementation of the following outputs:

a. **Tax policy management model (US$249,687.34),** including: (i) process mapping and redesign; (ii) a methodology to evaluate the impacts and results obtained from the implementation of tax policies; (iii) the implementation of an

[36] Various hardware items purchased under this component will have energy-efficient certification. See Climate change document for details.

automatic system to evaluate the rollout and monitoring of the Special Regime; and (iv) a fiscal risk monitoring panel.

b. **Tax simplification system (US$1,985,112),** through: (i) process mapping and redesign; (ii) a SPED management and tax control module; (iii) services associated with the *Nota Legal* invoice incentives program put online; (iv) taxpayer service and consultation modules for tax accounting; and (v) implementation of the integration module of the National Network for the Simplification of Business Registration and Legalization (REDESIM).

c. **Inspection model (US$13,588,089),** including the implementation of: (i) process mapping and redesign; (ii) a methodology for monitoring goods transit; (iii) an automated system for planning inspection actions; (iv) a system for inspecting goods transit; and (v) a module for integrating the one-stop foreign trade portal.

d. **Administrative litigation management system (US$1,482,382),** through the development of: (i) a governance model for the first- and second-instance tax administration process; (ii) technology tools for the management of administrative litigation, including one that generates the automatic monetary update of the tax credit; (iii) an administrative litigation module; and (iv) administrative litigation system.

e. **Taxpayer service management model (US$3,375,682),** through: (i) process mapping and redesign; (ii) a methodology for mechanisms to monitor and evaluate services provided to citizens; (iii) a public service complaints and evaluation system for the agencies and institutions responsible for the Federal District's fiscal management; (iv) automation of internal service delivery processes; and (v) a SEFAZ services portal.

1.31 **Component 3. Financial management and public expenditure (US$17,647,460).** This component aims to make financial planning and execution more efficient and enhance expenditure quality. It will finance implementation of the following outputs:

a. **Budget planning and execution model (US$1,330,025),**[37] including implementation of: (i) a methodology for public policy evaluation; (ii) an automated methodology for projecting, monitoring, and evaluating budget execution; (iii) a public investment management system; and (iv) a fiscal risk management panel and a medium-term fiscal planning document.

b. **Modernization of the budgetary, finance, and accounting management system (US$8,138,958),** which will include: (i) process mapping and redesign; (ii) modernization of the public finance system, including the budget, finance, and accounting management modules and their integration with other corporate systems for decision-making; and (iii) creation and implementation of the budget, finance, and accounting procedures manual, and training thereon.

---

[37] The model includes consulting services to develop methodologies and instruments for climate risk management, to be incorporated into fiscal management.

c. **Cost and public expenditure management model (US$367,246),** including: (i) the establishment of a methodology for calculating and managing public costs and expenditures; (ii) the implementation of a strategic plan for public cost management, with the respective regulations implemented; (iii) a methodology for evaluating the impact of public policies and the efficiency of expenditure in a given sector; (iv) implementation of a public expenditure calculation system; and (v) a training plan.

d. **Computerized payroll system (US$2,899,256),** including: (i) development of technical specifications; (ii) mapping of payroll system processes; (iii) installation and implementation of a modernized payroll system with control functions implemented and the corresponding operating manuals; (iv) creation of a payroll databank; and (v) the establishment of an administrative organization system for the Federal District.

e. **Energy-efficiency model in public buildings of the agencies and institutions responsible for the Federal District's fiscal management (US$4,911,976),**[38] including: (i) preparation of a technical study and terms of reference; (ii) execution of an energy efficiency plan for buildings of the agencies and institutions responsible for the Federal District's fiscal management; (iii) development of a photovoltaic microgeneration project with solar panels; (iv) implementation of an energy-efficiency-oriented building maintenance system, including the acquisition of energy-efficient equipment and electronic components, such as air conditioners and lamps, as well as changes in the wiring of the buildings; and (v) implementation of a permanent program to raise awareness and promote innovation in actions to improve efficiency among staff of the agencies and institutions responsible for the Federal District's fiscal management.

1.32 **Program management (US$933,002).** The program will also finance activities to support program management and execution, including costs relating to accounting and financial auditing, and monitoring and evaluation.

1.33 The program will finance the following investment categories for all components: (i) training US$1,864,575 (2.34%); (ii) consulting services (individuals and firms) US$10,125,155 (12.71%); (iii) goods US$19,620,829 (24.64%); (iv) nonconsulting services[39] US$42,322,172 (53.15%); and (v) works[40] US$5,699,255 (7.16%).

1.34 **Beneficiaries.** The Federal District's enhanced fiscal sustainability and transparency will benefit its citizens,[41] businesses, taxpayers, and nongovernmental entities. The users will be the public sector entities which, with government support, will provide improved service delivery, facilities and lower costs for tax compliance, and more widely available information for Federal District management and accountability.

---

[38] Several by-products of the energy-efficiency model in public buildings contribute to climate finance. See [Climate change document (optional link 4)] for details.

[39] These include telephony equipment installation and maintenance services (US$3.2 million), tools contracted to support ICT management governance (US$5.3 million), and development of a system for inspecting goods in transit (US$10.5 million).

[40] Includes a photovoltaic plant (US$2.6 million) and renovation of the taxpayer service units (US$1.4 million).

[41] In 2021 the Federal District had 3,094,325 inhabitants. Source: IBGE.

C. Key results indicators

1.35 The program's general objective will be achieved by: (i) increasing the Federal District's tax revenue intake relative to its GDP; (ii) reducing the Federal District's primary fiscal deficit relative to its GDP; and (iii) reducing its net current debt relative to its GDP. The program's specific objectives will be achieved through: (i) an increase in the ratio of strategic planning targets met to total targets planned; (ii) a decrease in the ratio of administrative collection cost to total revenue intake; and (iii) a reduction in the gap between the budget as executed and the budget as planned.

1.36 **Cost-benefit analysis.** An program economic analysis was done to compare the costs and economic/financial benefits, considering the following: (i) resource savings resulting from process automation, which shortens the time taken by auditors and tax agents to perform activities that are currently manual, and a new payroll system with the capacity to reduce undue benefit payments; and (ii) reduction of energy costs with the installation of a solar energy plant and replacement of obsolete equipment with efficient alternatives. By the end of the 2032 (in 10 years' time), the program benefits will have a net present value of US$133.71 million and an internal rate of return of 37.14%. The results are robust to the sensitivity analysis performed (see Program economic analysis).

II. FINANCE STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This operation was designed as a specific investment loan under the PROFISCO II CCLIP (paragraph 1.1), with a total cost of US$80,000,000. It will be financed with US$72,700,000 in resources from the Bank's Ordinary Capital and US$7,300,000 as a local counterpart contribution. The distribution of financing by source and category is shown in Table 1 below.

Table 1. Estimated program costs (US$)

Components	IDB	Local	Total	%
A. Direct costs	**71,398,986**	**7,300,000,00**	**78,698,986**	**98.37**
Component 1. Fiscal management and transparency	**36,039,407**	**4,331,166**	**40,370,573**	**50.46**
1.1 Institutional governance model	1,206,305	0	1,206,305	1.51
1.2 Personnel management model with a gender perspective	3,440,199	0	3,440,199	4.30
1.3 Information technology management model	28,820,199	4,331,166	33,151,365	41.44
1.4 Procurement and contract planning and management model for the agencies and institutions responsible for the Federal District's fiscal management	1,493,797	0	1,493,797	1.87
1.5 Model for training, communication, and transparency with society with an inclusion lens	1,078,908	0	1,078,908	1.35
Component 2. Tax administration and litigation	**18,936,933**	**1,744,020**	**20,680,953**	**25.85**
2.1 Tax policy management model	249,687	0	249,687,34	0.31
2.2 Tax simplification system	1,908,685	76,427	1,985,112	2.48
2.3 Inspection model	12,258,065	1,330,025	13,588,089	16.99

2.4 Administrative litigation management system	1,482,382	0	1,482,382	1.85
2.5 Taxpayer service management model	3,038,114	337,568	3,375,682	4.22
Component 3. Financial management and public expenditure	**16,422,646**	**1,224,814**	**17,647,460**	**22.06**
3.1 Budget planning and execution model	1,330,025	0	1,330,025	1.66
3.2 Modernization of the budget, financial, and accounting management system	7,325,062	813,896	8,138,958	10.17
3.3 Cost and public expenditure management model	367,246	0	367,246	0.46
3.4 Computerized payroll system	2,488,337	410,918	2,899,256	3.62
3.5 Energy-efficiency model in public buildings of the agencies and institutions responsible for the Federal District's fiscal management	4,911,976	0	4,911,976	6.14
B. Program management	**933,002**	**0**	**933,002**	1.17
1. Monitoring	674,938	0	674,938	0.84
2. Audit	258,065	0	258,065	0.32
C. Contingencies	**368,012**	**0**	**368,012**	0.46
Total	**72,700,000**	**7,300,000**	**80,000,000**	**100**

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

2.2 **Disbursement schedule.** Disbursements will be made over a five-year period as shown in Table 2:

Table 2. Disbursement schedule (US$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	4,865,234	14,436,250	19,775,166	22,241,098	11,382,251	72,700,000
Local	464,767	1,572,970	2,053,598	2,264,144	944,521	7,300,000
Total	**5,330,001**	**16,009,220**	**21,828,764**	**24,505,242**	**12,326,773**	**80,000,000**
%	**7**	**20**	**27**	**31**	**15**	**100**

2.3 **Fulfillment of the eligibility conditions for the PROFISCO II CCLIP (paragraph 1.1).** The program fulfills the eligibility criteria specified in the policy on CCLIPs (document GN-2246-9)[42] for individual loan operations, since: (i) it pertains to the fiscal sector and is compatible with all components of the PROFISCO II CCLIP; (ii) the operation is included in the 2022 Operational Program Report (document GN-3087); (iii) the State will execute the operation through SEFAZ, in coordination with SEPLAD, which have offices and staff inherited from the former SEEC and executed the first individual operation under the PROFISCO I CCLIP (paragraph 1.1 and 1.10); (iv) the Federal District executed PROFISCO/DF project satisfactorily (paragraph 1.21); and (v) the institutional analysis found that the SEEC's capacities had not deteriorated, so the same project execution and monitoring tools may be used for this new operation, and the staff of the program coordination unit (PCU) will also be retained (paragraph 3.1). The preliminary findings of the PROFISCO/DF project completion report indicate the following: (i) the project objectives were achieved satisfactorily; and (ii) the execution unit

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

complied with the contractual requirements and the Bank's disbursement policies, and its accounts were audited and found to meet the requisite quality standards.

B. Environmental and social risks

2.4 In accordance with the Bank's new Environmental and Social Policy Framework (ESPF) (document GN-2965-23), this project was classified as a category "C" operation, because it is expected to cause only minimal, localized, and temporary negative environmental and social impacts. These will be the typical construction and occupational health and safety impacts, including the generation of dust, noise, management of solid waste, effluents, and others during the remodeling of physical spaces and improvement of connectivity between taxpayer service units. The operation's interventions will not involve demolition, expropriation, or resettlement. Classification as category "C" means that the operation does not require an environmental and social assessment or public consultation. In order to comply with the requirements of the ESPF and especially its standards 1, 2 and 10, any environmental and social management measures already in place in the project coordination unit (PCU) and in applicable local regulations will be reviewed. Based on the operation's level of risks and impacts, an assessment will be made of the degree of compliance with these tools, labor management processes, stakeholder engagement mechanisms, and grievance and complaint mechanisms.

2.5 During implementation of the energy efficiency model (paragraph 1.31), the risks of forced labor in the polysilicon solar panel supply chain will also be assessed. The program will finance the procurement of small-scale solar panels, with an estimated maximum of 207 KWp. The program will include measures to mitigate such risks in compliance with local regulations, specifically the Criminal/Penal Code, which prohibits forced labor and slavery (Article 149). The environmental and social strategy and measures contemplated under this operation will be fully aligned with the following: (i) IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (document GN-3062-1); (ii) Modernization of the Environmental and Social Policies of the IDB (document GN-2965-3); and (iii) the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15).

C. Fiduciary risks

2.6 **Institutional.** There is a medium-high risk that if the observations made by the Federal District Audit Office (TCDF) delay the procurement bidding processes, this could also hold up the contracting and execution of program activities. To mitigate this risk, SEFAZ will seek a memorandum of understanding with the TCDF so that the program's bidding processes are reviewed as a priority.

2.7 **Internal processes.** There is a medium-high risk that if the teams tasked with preparing the terms of reference and technical specifications do not have the technical capacity needed to define the solutions or are not trained to prepare the documents in the required formats, the solutions implemented would not satisfy the quality criteria established in the terms of reference, and the program's objectives may not be achieved. This risk will be mitigated by contracting specialized consulting services (financed as part of program management) to help

define the needs and include them in the terms of reference, and to provide fiduciary training to the program team.

D. Other key risks and issues

2.8 A risk management workshop held using the Bank's methodology found that the operation has a medium level of risk. A medium-high risk has been identified in relation to processes that, if the ICT unit is unable to meet the high demand for PROFISCO outputs from the different business areas, then this could affect the quality of the solutions implemented and fulfillment of the program's objectives. This risk will be mitigated through a set of parallel actions consisting of hiring consultants to make recommendations for improving processes, strengthening relationship mechanisms between ICT and business areas, as well as a survey of the details of each output that will make it possible to gauge the load and to design a corresponding action plan.

2.9 **Fiscal analysis of the state.** The analysis of the Federal District's financial situation highlights the improvement of its fiscal accounts and expansion of its payment capacity to service the contracted debt, which represents 0.0081% of the Federal District's GDP estimated for 2021 and 0.092% of its net current income in that year. In the most recent assessment made by the National Treasury Department (STN) in 2021, the Federal District obtained the following ratings: "A" on the debt indicator, since its consolidated debt is well below its net current income (46.8%); "B" on the current savings indicator, which measures current expenditures as a proportion of adjusted current income (94%); and "A" on the liquidity indicator, since its financial obligations are substantially less than its readily available cash holdings (59.7%).

2.10 **Program sustainability.** The program includes measures to support fiscal sustainability in the medium and long terms, such as expenditure cuts and the reduction of tax evasion, which will result in higher revenues. To ensure that the capacities generated by the program are sustainable once its execution is completed, it includes actions to save on procurement and service delivery costs, and to increase revenues by strengthening fiscal action and the recovery of tax claims. The outputs are: strengthening of technological infrastructure, procurement and auditing, and the financial system. Other outputs that will contribute to sustainability include the strengthening of planning and budget execution capacities; the creation of a costing system; and energy-efficiency measures that will reduce operating expenses.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower is the Federal District, which will execute the operation through the Federal District Finance Department (SEFAZ), in coordination with the Federal District Planning, Budget, and Administration Department (SEPLAD), for financial,

accounting, budgetary, fiscal and administrative execution.[43] The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the Bank's policy on Guarantees Required from the Borrower (document GP-104-2). For program implementation, a project coordination unit (PCU) will be created, consisting of a general coordinator, a technical coordinator, an administrative-financial coordinator, and a planning and monitoring coordinator. The PCU will coordinate program planning, execution, monitoring, evaluation, and auditing activities.

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

3.3 **Interagency coordination mechanism.** The executing agency will cooperate with the other agencies and institutions responsible for the Federal District's fiscal management on the execution of the respective activities that will benefit them. In particular, SEPLAD will support SEFAZ pursuant to Decree 43826 (paragraphs 1.10 and 3.1), and the other fiscal management governance bodies of the Federal District, the Federal District Comptroller General's Office (CGDF) and Federal District Attorney-General's Office (PGDF), will require cooperation mechanisms to implement the program outputs. For this reason, the corresponding agencies will appoint output leaders, to coordinate their actions with the PCU and oversee the technical development and implementation of the outputs. To coordinate procurement activities related to purchases and property, assets and liabilities, tax litigation, internal control and communication with society, information processes and flows between the beneficiaries will be mapped and specified. Roles, responsibilities, and time frames will be identified and formalized through cooperation agreements (paragraph 3.5).

3.4 **Special contractual conditions precedent to the first disbursement of the loan: (i) the borrower will adhere to the program Operating Regulations, previously approved by the Bank for all individual operations under the PROFISCO II CCLIP.** This condition is essential to ensure that the executing

[43] An institutional capacity assessment of the Federal District Economy Department (SEEC) during design of the operation concluded that the SEEC sufficiently satisfied the conditions to assume the responsibilities of executing agency for the program and possessed adequate fiduciary capacity, considering its experience executing projects with IDB financing. This assessment is considered valid in the context of the administrative restructuring under Decree 43826 (paragraph 1.10) because the capabilities indicated in the SEEC institutional analysis findings are now housed within SEFAZ and SEPLAD, and it has been confirmed that SEFAZ, in coordination with SEPLAD, sufficiently satisfies the conditions to assume the responsibilities of executing agency for the operation.

agency has a detailed regulation of operational and fiduciary issues, and to mitigate the risk of delays in program execution. This practice, which was adopted in PROFISCO/DF (paragraph 1.21), has proven successful in consolidating the coordination and guidance issues relevant to the executing agencies in the program Operating Regulations and in ensuring a more efficient distribution of the responsibilities among PCU members, both in terms of their functions and to speed up procurement processes**; and (ii) the project coordination unit (PCU) will be created and its members appointed.** This condition is justified because a formally created PCU is key to mitigating the risk of execution delays and will enable the project's operational and fiduciary processes to be carried out exclusively and with due experience.

3.5 **Special contractual conditions for execution.** Before initiating the execution of activities that have outputs intended for the CGDF, SEPLAD, and PGFD, the SEFAZ will sign cooperation agreements with the respective institutions, specifying the roles and responsibilities of the parties during execution of the corresponding activities. This condition is justified by the need to ensure that the entity benefiting from the activities will provide the necessary cooperation to SEFAZ, which will be tasked with executing the activities.

3.6 **Procurement.** Program procurement and contracting will be done in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and as indicated in the procurement plan. The executing agency is undertaking two advance procurements through competitive processes, using its own resources under local legislation: (i) software factory; and (ii) goods transit control system. The Bank's team is monitoring these processes to ensure compliance with its procurement policies (documents GN-2349-15 and GN-2349-15), given the potential need to use resources from this operation to make payments arising from the execution of these contracts.

3.7 **Audited financial statements.** The borrower will submit audited financial statements to the Bank annually, within 120 days after each fiscal year-end. The program's final audited financial statements will be submitted no later than 120 days after the date set for the final disbursement, or extensions thereto. The program's external audit will be conducted by the Federal District Audit Office (TCDF) or by an external audit firm acceptable to the Bank.

B. Summary of arrangements for monitoring results

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

3.9 **Evaluation.**[44] The program will be evaluated against the annual outcome and output targets and indicators specified in the Results Matrix, by comparing results before and after the program. The monitoring and evaluation plan provides for an independent midterm evaluation and a final evaluation. The former will be presented 90 days after reaching the 36-month mark, as counted from signature of the loan contract, or when 50% of the project resources have been disbursed, whichever occurs first, and a final evaluation will be submitted 90 days from the date of the final disbursement. The evaluation reports will serve as inputs for the project completion report (PCR), which will be produced along with the final evaluation at program completion. The questions asked in these evaluations will relate to whether the funded activities were successful in contributing to the program's objectives.

3.10 The program provides for an impact assessment of the tax inspection model output. This will use the experimental method, which consists of randomly assigning taxpayers to treatment and control groups to generate evidence on how communications about tax risk affect taxpayer behavior. The results will contribute to SEFAZ's decision-making. Further details can be found in the monitoring and evaluation plan.

[44] See the monitoring and evaluation plan for all monitoring and evaluation arrangements.

Development Effectiveness Matrix		
Summary	BR-L1592	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Emissions avoided (annual tons CO2 equivalent) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	Reform the structure of public expenditure; perfect the public investment system; promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises; and build a more effective government.
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	9.4	
3.1 Program Diagnosis	1.9	
3.2 Proposed Interventions or Solutions	3.5	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	4.0	
5.2 Evaluation Plan	6.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium Low	
Environmental & social risk classification	C	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison.
Non-Fiduciary	Yes	Strategic Planning National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The IDB team developed and applied a methodology (MD GEFIS) to assess the state of public finances and fiscal management processes in the Federal District to design the project and monitor future performance against the baseline. See EEO#8.

Evaluability Assessment Note:

The project is part of the CCLIP PROFISCO-II operation. The specific objectives for this operation will be: (i) the modernization of fiscal management; (ii) improving tax administration; and (iii) improving the management of public expenditure. The achievement of these objectives will contribute to the overall objective of contributing to the fiscal sustainability of the Federal District in Brazil. The diagnosis has been carried out based on evidence collected in the project missions, as well as based on the conclusions of the MD-GEFIS application, an IDB tool that evaluates the performance of fiscal management in the States of Brazil. The main specific problems that will be worked on are: (i) the corporate processes of the Ministry of Finance related to its governance, personnel and technology management, and its communication with citizens present an insufficient level of development and integration; (ii) collection performance is limited in relation to its potential; and (iii) expenditure management is deficient in terms of fiscal discipline, efficiency and effectiveness.

The results matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. The project appropriately addresses monitoring and evaluation requirements. The PME includes an evaluation proposal that seeks to estimate the impact of the new tax control model (product 2.3) on tax collection. The proposed methodology is a randomized controlled experiment.

The project presents a cost-benefit analysis. The benefits of the project come from (i) reduction of absenteeism of public employees, (ii) automation of processes associated with personnel and tax management, (iii) reduction of improper payments to public employees, (iv) reduction of energy cost with the implementation of an energy efficiency plan, and (v) economy for citizens from the reduction of face-to-face visits in administrative processes. An Internal Rate of Return (IRR) of between 24% and 37% was estimated.

RESULTS MATRIX[1 2]

Project objective:	This operation will have the following specific objectives: (i) modernization of fiscal management; (ii) improvement of tax administration; and (iii) and improvement of public expenditure management. Achievement of these objectives will contribute to the general objective of contributing to the Federal District's fiscal sustainability.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: The main objective of the program is to contribute to the fiscal sustainability of the Federal District							
Primary balance / GDP-DF[3]	%	0.06	2019	2027	0.39	Annual balance sheet and budget execution report, Accounting Department, and fiscal data	See monitoring and evaluation plan The targets associated with the general objective (impacts) will be verified for the project completion report (PCR).
Tax revenue / GDP-DF	%	4.72	2019	2027	4.77		
Net consolidated debt / GDP-DF	%	2.97	2019	2027	2.46		

[1] The results are noncumulative.
[2] The figures shown for the impact and outcome indicators may be recalculated during the start-up mission in view of the COVID-19 situation.
[3] GDP data are officially available only for 2019.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
Outcome 1: Modernization of fiscal management											
Number of targets met / Total number of targets planned	%	29	2021	40	53	67	75	80	80	Planning and Budget Directorate Management Report	See monitoring and evaluation plan
Outcome 2: Improvement of tax administration											
Operating budget of the Federal District Finance Department (SEFAZ) / Total tax revenue intake	%	1.60	2021	1.91[4]	1.86	1.74	1.68	1.62	1.62	Annual balance sheet and budget execution report, General Accounting Department	See monitoring and evaluation plan
Outcome 3: Improvement of public expenditure management											
Budget as executed / Budget as planned[5]	%	9.92	2021	9.75	8.5	7.0	6.0	5.0	5.0	Annual Budget Law and State Balance Sheet	See monitoring and evaluation plan

[4] The Federal District appointed 163 new auditors at the end of 2021, who represent 41% of the civil servants performing this function. As a result, the 2023 percentage is above the baseline.

[5] The target for the initial years of program execution is high owing to the uncertain course of the pandemic, as reflected in future income and expenditure levels. The target, at the end of the program, is to maintain performance within the 5% range recommended by the Public Expenditure and Financial Accountability (PEFA) methodology.

OUTPUTS[6] [7] [8] [9]

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
Component 1. Fiscal management and transparency											
1.1 Institutional governance model implemented[10]	Model	0	2021	0	0	0	0	1	1	SEFAZ management report	See monitoring and evaluation plan
1.2 Personnel management model, implemented	Model	0	2021	0	0	0	0	1	1	Report of the Federal District Administration Department	See monitoring and evaluation plan
1.3 Information technology management model implemented[11]	Model	0	2021	0	0	0	0	1	1	Report of the Undersecretariat for Information and Communications Technology	

6 The output figures are annual.

7 Systems, models, or software will only be considered implemented when they are in use by public officials.

8 System: the information technology system is the software that provides a set of rules governing how conceptual business models operate, together with additional business rules.

9 Platform: this is a computer hardware and software environment which supports implementation of the operational capacity of other business systems and on which the main ICT services are executed.

10 Model: (i) the procedures and business rules that define its operation; (ii) the application or computer system (software) that makes it operational; (iii) training in the execution of the procedures and in the operation of the software; and (iv) in many cases, it is necessary to increase processing capacity, through additional servers, computers for users, and storage devices due to the increased volume of data, and to improve communication for remote users.

11 Several program equipment procurement items will observe energy efficiency criteria such as Procel, Energy Star, or equivalent labeling. See Climate Change document (optional link 4) for details.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
1.4 Procurement and contract planning and management model for the agencies and institutions responsible for the Federal District's fiscal management, implemented	Model	0	2021	0	0	0	0	1	1	Report of the Federal District Administration Department	
1.5 Model for training, communication, and transparency with society with an inclusion lens, implemented[12]	Model	0	2021	0	0	0	0	1	1	SEFAZ management report	
Component 2. Tax administration and litigation											
2.1 Tax policy management model implemented	Model	0	2021	0	0	0	0	1	1	SEFAZ management report	See monitoring and evaluation plan
2.2 Tax simplification system implemented	System[13]	0	2021	0	0	0	0	1	1		
2.3 Inspection model implemented	Model	0	2021	0	0	0	0	1	1		
2.4 Administrative litigation management system implemented	System	0	2021	0	0	0	0	1	1		
2.5 Taxpayer service management model implemented	Model	0	2021	0	0	0	0	1	1		

[12] "Institutional communication tools that are accessible for persons with disability" will be a milestone in the activities to be financed.

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

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program	Means of verification	Comments
Component 3. Financial management and public expenditure											
3.1 Budget planning and execution model implemented	Model	0	2021	0	0	0	0	1	1	SEFAZ management report	See monitoring and evaluation plan
3.2 Modernization of the budgetary, financial, and accounting management system implemented	System	0	2021	0	0	0	0	1	1		
3.3 Cost and public expenditure management model implemented	Model	0	2021	0	0	0	0	1	1		
3.4 Computerized payroll system implemented	System	0	2021	0	0	0	0	1	1		
3.5 Energy-efficiency model in public buildings of the agencies and institutions responsible for the Federal District's fiscal management, implemented[14]	Model	0	2021	0	0	0	0	1	1		

[14] The activities financed in this output contribute to climate finance. See optional link 4 for details.

Country: Brazil **Division:** IFD/FMM **Operation No.:** BR-L1592 **Year:** 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The Federal District, acting through the Federal District Finance Department (SEFAZ) in coordination with the Federal District Planning, Budget, and Administration Department (SEPLAD).

Project name: Financial Development Program of the Federal District (PRODEFAZ/PROFISCO II).

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation

☒ Budget	☐ Reports	☒ Information System	☐ National competitive bidding (NCB)
☒ Treasury	☐ Internal audit	☒ Shopping	☐ Others
☒ Accounting	☒ External control	☐ Individual consultants	

2. Fiduciary execution mechanism

☒	Specifics of fiduciary execution	SEFAZ will create a project coordination unit (PCU) with the following key team: a general coordinator, a technical coordinator, an administrative-financial coordinator, a planning and monitoring coordinator, and a procurement coordinator. The program Operating Regulations will identify and specify the functions of each area involved in program execution.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	An institutional capacity assessment of the Federal District Economy Department (SEEC) during design of the operation in May 2022 concluded that the SEEC sufficiently satisfied the conditions to assume the responsibilities of executing agency for the program and possessed adequate fiduciary capacity, considering its experience executing projects with IDB financing. This assessment is considered valid in the context of the administrative restructuring of the Federal District under Decree 43826 because the capabilities indicated in the SEEC institutional analysis findings are now housed within SEFAZ and SEPLAD, and confirmed that SEFAZ, in coordination with SEPLAD, sufficiently satisfies the conditions to assume the responsibilities of executing agency for the operation. SEFAZ will formally create a PCU to coordinate and execute the program, with the necessary priority and degree of legitimacy, and it will adapt its governance and execution structures and its internal procedures to incorporate the PCU.

4. Fiduciary risks and risk response

Risk taxonomy	Risk	Risk level	Risk response
Institutional	If the observations made by the Federal District Audit Office (TCDF) delay procurement bidding processes, this could also delay the contracting and execution of program activities.	Medium-High	SEFAZ will seek to formalize a memorandum of understanding with the TCDF to ensure that program bidding processes are reviewed on a priority basis.
Internal processes	If the teams responsible for preparing the terms of reference and technical specifications do not have the technical capacity needed to define the solutions or are not trained to produce the documents in the required formats, the solutions implemented would be unlikely to meet the quality criteria established in the terms of reference, and the program objectives may not be met.	Medium-High	Hiring of specialized consulting services (financed as part of program management) to help define the needs and include them in the terms of reference, and to provide fiduciary training for the program team.

5. Policies and guidelines applicable to the operation: Documents GN-2349-15, GN-2350-15, and Financial Management Guidelines for IDB-financed Projects (OP-273-12).

6. Exceptions to policies and guidelines: N/A.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Exchange rate: For purposes of the provisions of Article 4.10 of the General Conditions, the Parties agree that the applicable exchange rate will be as indicated in subsection (b)(i) of said Article. To determine the equivalence of expenditures incurred in local currency against the local contribution or as reimbursement of expenditures charged against the loan, the agreed upon exchange rate will be the buy rate set by the Central Bank of Brazil that is in effect on the date on which the eligible program expenditures are submitted to the Bank.
Audit: During program execution, audited financial statements will be filed annually, no later than 120 days after each fiscal year-end. The external audit will be conducted either by the TCDF or by an external firm acceptable to the Bank. The program's final audited financial statements will be submitted no later than 120 days after the date of the final disbursement.

III. Agreements and Requirements for Procurement Execution

☒	Bidding documents	The procurement of works, goods, and nonconsulting services executed in accordance with the Bank's procurement policies (document GN-2349-15), subject to international competitive bidding (ICB), will use the Bank's standard bidding documents or those agreed upon between the executing agency and the Bank for the procurement in question. Consulting services will be selected and contracted in accordance with the Bank's consultant selection policies (document GN-2350-15) using the standard request for proposals issued by the Bank.
☒	Advance procurement, retroactive financing	The executing agency is undertaking two advance procurements through competitive processes, using its own resources under local legislation: (i) software factory; and (ii) goods transit control system. The Bank team is monitoring these processes to ensure compliance with its procurement policies (documents GN-2349-15 and GN-2350-15), given the potential need to use resources from this operation to make payments arising from execution of the contracts in question. Any such payments will be made after the Bank has approved the program, and the respective contracts will include the prohibited practices clauses of the Bank's procurement policy.
☒	Procurement supervision	Procurements will be supervised ex post, except in cases where ex ante supervision is justified. Procurements processed through the country system will also be supervised through that system. The supervision method ((i) ex ante, (ii) ex post, or (iii) country system) will be determined for each selection process. Ex post reviews will be conducted in accordance with the program supervision plan, subject to changes during program execution. The threshold amounts for ex post review are as follows:

Executing agency	**Works**	**Goods/ services**	**Consulting services**
SEFAZ, in coordination with SEPLAD	US$10 million	US$5 million	US$1 million

<u>Main procurements</u>

Description of the procurement	**Selection method**	**Estimated date**	**Estimated amount (US$)**
Goods			
Corporate datacenter infrastructure (new primary datacenter for SEFAZ)	ADD (procurement method using country systems)	2024-III	4,148,000
Works			
Photovoltaic mini-generator power plant		2025-I	2,667,000

Description of the procurement	Selection method	Estimated date	Estimated amount (US$)
Physical and technological renovation of the physical and virtual environments of the customer service agencies		2025-I	1,389,000
Nonconsulting services			
Customization of the financial administration system - integrated government management system (SIGGO)	National competitive bidding (NCB)	2023-III	7,543,000
Information and communication technology (ICT) governance and management support tools		2023-III	5,360,000
People and payment management software	ADD (procurement method using country systems)	2022-III	1,572,000
Systems specification, development, evolution, testing, and documentation		2022-III	1,390,000
Firms			
Execution of the training and learning plan	Single-source selection (SSS)	2024-I	596,000
Occupational health management processes		2024-I	1,985,000
Implementation of the skills-based management model and review of the training plan	Quality- and cost-based selection (QCBS)	2024-I	596,000

For further details, see procurement plan.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

☒	Programming and budgeting	SEFAZ, in coordination with SEPLAD, will be responsible for execution of the activities specified in the program execution plan and the annual work plan. For the planning and organization of project actions, the entity uses the following national instruments: (i) the multiyear plan, which establishes guidelines, objectives, and targets for public administration; (ii) the Budget Guidelines Law (LDO); and (iii) the

		Annual Budget Law (LOA), which estimates and specified public administration expenditures for the current fiscal year. SEFAZ, with support from SEPLAD, will coordinate the budget and register it in the SIGGO budgetary processes module. The PCU will coordinate directly with the Executive Secretariat for Planning (SEPLAN) to ensure that the budgetary funding for the program (both the Bank and local contribution) is appropriated annually in the LOA and secured for execution in accordance with program planning. The funding will be registered in SIGGO as an external source in the year of execution.
☒	Treasury and disbursement management	The country treasury system will be used, in which expenditures will be subject to the Federal District's budget and financial execution process and recorded in SIGGO. Disbursements will be made in U.S. dollars, mainly in the form of advances of funds. The amount of the advances will be based on projected financial execution for up to 180 days. For advances subsequent to the first one, supporting documentation will need to be submitted for at least 80% of the cumulative balance of advances that have not been substantiated. The funds disbursed by the Bank will be managed through an exclusive bank account opened to receive and manage these resources and perform bank reconciliations. The exchange rate agreed upon with the executing agency for the accounting of expenditures paid with advances from the loan will be the internalization rate. To determine the equivalence of expenditures incurred in local currency against the local contribution or as reimbursement of expenditures charged against the loan, the agreed upon exchange rate will be the buy rate set by the Central Bank of Brazil that is in force on the date on which the eligible program expenditures are submitted to the Bank. Expenditures deemed ineligible by the Bank will be reimbursed with resources from the local contribution, or from other resources at the Bank's discretion, depending on the nature of the ineligibility.
☒	Accounting, information systems and reporting	Ever since the PROFISCO/DF operation, the Federal District has been using the SIGGO system, now administered by SEPLAD, which has six integrated modules that monitor budget execution, accounting, financial, and judicial payment order activities. The system is auditable and has defined access profiles and security guidelines. It also satisfies the Bank's requirements in terms of controls. Decree 43826 of 7 October formalized SEPLAD support for SEFAZ in budgetary areas. For the execution of PRODEFAZ/PROFISCO II, SIGGO allows transactions to be recorded in reais, with breakdowns by component and by financing source (IDB-Local). In PROFISCO/DF, the financial reports required by the Bank were prepared in Excel, based on SIGGO data. For the new operation, a technology support tool is being developed to

		enable disbursement reports and program financial reports to be issued in U.S. dollars.
☒	Internal control and internal audit	Internal control of all departments is exercised by the Federal District Comptroller General's Office (CGDF). SEPLAD and SEFAZ have their own internal control units, reporting to the Office of the Secretary. During execution, the program may be subject to analysis by said unit, within its scope of action.
☒	External control and financial reporting	External control of the Federal District is performed by the TCDF. The program's external audit will be conducted either by the TCDF or by an external audit firm acceptable to the Bank. The program's fiscal year runs from 1 January to 31 December. During program execution, audited financial statements, as of December 31 each year, will be filed no later than 120 days after each fiscal year-end. The program's final audited financial statements will be submitted no later than 120 days after the date set for the final disbursement, or extensions thereto.
☒	Financial supervision of the operation	The operation requires financial supervision that will include ex post review of disbursements, an annual audit, and review of disbursement requests. The fiduciary team will also undertake annual on-site and desk reviews and monitoring through supervision visits, subject to modification during execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/22

Brazil. Loan ____/OC-BR to the Federal District. Financial Development Program of the Federal District (PRODEFAZ/PROFISCO II). Seventeenth Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil — PROFISCO II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Federal District, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Financial Development Program of the Federal District (PRODEFAZ/PROFISCO II), which constitutes the seventeenth individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-X1039 – Fiscal Management Modernization Program in Brazil – PROFISCO II, approved by Resolution DE-113/17 on 8 December 2017. Such financing will be for the amount of up to US$72,700,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2022)

LEG/SGO/CSC/EZSHARE-620307903-42087
BR-L1592