

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROGRAM TO STRENGTHEN THE FISCAL ADMINISTRATION OF
THE STATE OF SÃO PAULO (PROFFIS)**

(BR-0372)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Dino Capriolo (RE1/SC1), Project Team Leader; José Baiao (INT/ITD); Valnora Leister (LEG/RE1); Jaime Mano (COF/CBR); Carlos Scartascini (RE1/SC1); and Margarita Fuentes (RE1/SC1), who assisted with document production.

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BASIC SOCIOECONOMIC DATA

Basic socioeconomic data on Brazil is available at:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE1/SC1 TECHNICAL FILES

Preparation:

- Documentation on the structure and functions of SEFAZ
- São Paulo State Budgets for 2002 and 2003
- Brazil: Fiscal Accountability Law
- Document on the strategic management of tax administration
- ICMS collection targets and calculation of state taxable GDP
- Organization chart, jurisdiction, and powers of IPESP
- Organization chart, jurisdiction, powers, and statistics of PGE
- Organization chart, jurisdiction, and powers of SEP
- Government Electronic Procurement System: BEC case study
- Project report and monitoring of PNAFE (980/OC-BR)
- Information Technology Management in Public Administration: The Experience of SEFAZ
- System of tax administration performance indicators
- Results of PNAFE/SP program
- Itemized budget, terms of reference, and specifications of components
- Functions and responsibilities of the various SEFAZ units
- Terms of reference and draft decree establishing the program executing unit and steering committee
- Terms of reference of activity leaders
- Cooperation agreements for SEP, IPESP, and PGE participation in the program

Execution:

- Terms of reference for program executing unit and component managers
- Draft decree establishing the program executing unit and steering committee
- Terms of reference and specifications of components
- Cooperation agreements for SEP, IPESP, and PGE participation in the program
- Logical framework
- Program procurement plan

ABBREVIATIONS

AFR	Agentes fiscais de rendas [income tax agents]
AGE	Administração Geral do Estado [general state administration]
AWP	Annual work plan
BEC	Bolsa Eletrônica de Compras [Electronic Procurement Exchange]
CAF	Coordenação da Administração Financeira [Financial Administration Directorate]
CAT	Coordenação da Administração Tributária [Tax Administration Directorate]
CDP	Program Steering Committee
CECI	Coordenadoria Estadual de Controle Interno [State Directorate of Internal Audit]
CESI	Committee on Environment and Social Impact
CEVAF	Conselho Gestor de Ações Especiais de Combate a Evasão Fiscal [Steering Council for Special Actions to Combat Tax Evasion]
CGA	Coordenadoria Geral de Administração [Directorate-General of Administration]
CRM	Customer relationship management
DFE	Departamento de Finanças do Estado [State Finance Department]
DTI	Departamento de Tecnologia de Informação [Information Technology Department]
FAZESP	Escola Fazendária do Estado de São Paulo [Fiscal Administration School, State of São Paulo]
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatísticas [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre Operações Relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte e de Comunicação [tax on trade in goods and services]
IPESP	Instituto de Previdência do Estado de São Paulo [Social Security Institute of the State of São Paulo]
IPVA	Imposto sobre a propriedade de veículos automotores [tax on motor vehicle ownership]
ITCMD	Imposto de transmissão causa mortis e doação [inheritance and gift tax]
ITR	Imposto sobre a propriedade territorial rural [rural land tax]
LRF	Fiscal Accountability Law
MP	Ministério Público [Public Ministry]
OC	Ordinary Capital
PEU	Program executing unit
PFE	Posto fiscal eletrônico [electronic fiscal workstation]
PGE	Procuradoria Geral do Estado de São Paulo [State Prosecutor's Office of São Paulo]
PNAFE	National Fiscal Administration Program for the Brazilian States

PROMOCAT	Unidade Coordenadora da Área Tributária [Coordinating Unit for the Tax Area]
SEFAZ	Secretaria de Estado dos Negócios da Fazenda do Estado de São Paulo [State Department of Finance of São Paulo]
SEP	Secretaria de Economia e Planejamento do Estado de São Paulo [State Department of Economy and Planning of São Paulo]
SIAFEM	Sistema de Administração Financeira dos Estados e Municípios [integrated financial management system for state and local governments]
SIAFISICO	Sistema Integrado de Informações Físico-Financeiras [Registry of Materials, Services, and Providers, and Price Databank]
SIAT	Sistema Integrado de Informações da Administração Tributária [integrated tax administration system]
SIGEO	Sistema de Informações Gerais da Execução Orçamentária [budget execution management information system]
SIGOF	Sistema Integrado da Administração Financeira e Orçamentária [integrated system for budgetary and financial management]



BRAZIL

IDB LOANS

APPROVED AS OF FEBRUARY 29, 2004

	US\$Thousand	Percent
TOTAL APPROVED	25,939,733	
DISBURSED	22,120,679	85.27 %
UNDISBURSED BALANCE	3,819,054	14.72 %
CANCELATIONS	1,509,378	5.81 %
PRINCIPAL COLLECTED	9,813,190	37.83 %
APPROVED BY FUND		
ORDINARY CAPITAL	24,250,131	93.48 %
FUND FOR SPECIAL OPERATIONS	1,558,023	6.00 %
OTHER FUNDS	131,580	0.50 %
OUTSTANDING DEBT BALANCE	12,307,489	
ORDINARY CAPITAL	11,945,187	97.05 %
FUND FOR SPECIAL OPERATIONS	361,989	2.94 %
OTHER FUNDS	313	0.00 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	1,036,739	3.99 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	6,348,162	24.47 %
ENERGY	2,572,171	9.91 %
TRANSPORTATION AND COMMUNICATIONS	4,133,398	15.93 %
EDUCATION	893,690	3.44 %
HEALTH AND SANITATION	3,204,688	12.35 %
ENVIRONMENT	670,038	2.58 %
URBAN DEVELOPMENT	2,652,367	10.22 %
SOCIAL INVESTMENT AND MICROENTERPRISE	2,949,387	11.37 %
REFORM AND PUBLIC SECTOR MODERNIZATION	1,034,328	3.98 %
EXPORT FINANCING	294,977	1.13 %
PREINVESTMENT AND OTHER	99,789	0.38 %

* Net of cancellations with monetary adjustments and export financing loan collections.



BRAZIL

STATUS OF LOANS IN EXECUTION AS OF FEBRUARY 29, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1998	20	4,257,267	3,430,181	80.57 %
1998 - 1999	11	1,525,000	362,251	23.75 %
2000 - 2001	12	2,427,492	1,646,654	67.83 %
2002 - 2003	12	910,800	87,282	9.58 %
2004	1	77,859	0	0.00 %
<u>PRIVATE SECTOR</u>				
2000 - 2001	2	66,100	39,103	59.16 %
2002 - 2003	2	68,900	0	0.00 %
2004	1	50,000	0	0.00 %
TOTAL	61	\$9,383,418	\$5,565,471	59.31 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Brazil

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
BR0375	Urban Transportation Curitiba II	80.0	APPROVED
*BR0411	Unibanco - Infrastructure Credit Facility	50.0	APPROVED
*BR0402	Tele Norte Leste Bond Guarantee (Telemar)	75.0	
BR0372	São Paulo Fiscal Administration	20.0	
BR0400	Sao Bernardo do Campo Urban Transportation	144.0	
*BR1011	Brazilian Infrastructure Investment Fund (BIIF)	75.0	
*BR0370	Campos Novos Hydroelectric Power Project	75.0	
BR0396	Env. Rehab. of the Paraibuna River J. de Fora	19.3	
BR0397	San. and Env. Rehabilitation Belo Horizonte	42.5	
BR1009	São Paulo: Evaluation and Improvement of Social Policies	5.0	
BR0405	States and DF Administration Modernization I - PNAGE	93.0	
*BR0395	Termonorte	59.2	
BR0302	Fortaleza Urban Transport	85.2	
BR1001	Food and Agriculture Research	36.0	
BR0358	Financing of PYMES - BNDES	1,000.0	
*BR1014	Construtora Norberto Odebrecht S.A.(CNO) Secured Corporate Bond	20.0	
BR0403	External Control Modernization Program States PROMOEX	38.6	
*BR0412	Braskem	75.0	
BR1004	Support to BOLSA FAMILIA Program	1,000.0	
Total - A : 19 Projects		2,992.8	
BR0392	Cadaster and Land Regularization Program	18.0	
BR1005	Igarapes de Manaus Environmental-Social Prog.	140.0	
BR0318	Tourism Development South of Brazil (PRODETUR SUL)	200.0	
BR0369	Sector Program	500.0	
BR1008	BH Citizenship: Integrated Development Project	21.0	
BR1013	Ecotourism Development Mata Atlantica, S.Paulo	9.0	
BR1006	Macambira Anicuns Urban Program	52.0	
BR1010	Brazilian Infrastructure Investment Fund	300.0	
*BR0413	Ulbra University and Hospital Project	42.3	
*BR1007	Banespa Trade Finance Facility	50.0	
Total - B : 10 Projects		1,332.3	
TOTAL 2004 : 29 Projects		4,325.1	

2005

Project Number	Project Name	IDB US\$ Millions	Status
BR0376	Environmental Improvement for Amapa	21.0	
BR1012	Sustainable Development Semi-Arid in Sergipe	90.0	
BR0390	Porto Alegre Environmental Recovery	75.0	
BR0254	Florianopolis-Osorio Highway Moderniz.	322.0	
BR1002	Espirito Santo State Highways	N/A	

	Total - A : 5 Projects	508.0
BR0339	Environmental National Fund Support Program 3	N/A
	Total - B : 1 Projects	N/A
	TOTAL - 2005 : 6 Projects	508.0
	Total Private Sector 2004 - 2005	521.5
	Total Regular Program 2004 - 2005	4,311.6
* Private Sector Project		

PROGRAM TO STRENGTHEN THE FISCAL ADMINISTRATION OF THE STATE OF SÃO PAULO (PROFFIS)

(BR-0372)

EXECUTIVE SUMMARY

Borrower:	State of São Paulo	
Guarantor:	Federative Republic of Brazil for debt service payment obligations	
Executing agency:	State Department of Finance of São Paulo (SEFAZ)	
Amount and source:	IDB: (OC)	US\$20 million
	Local:	<u>US\$20 million</u>
	Total:	US\$40 million
Financial terms and conditions:¹	Amortization period:	20 years
	Grace period:	3 years
	Disbursement period:	3 years
	Interest rate:	LIBOR-based
	Inspection and supervision:	0.0%
	Credit fee:	0.25%
	Currency:	U.S. dollars from the Single Currency Facility
Objectives:	The objective of the program is to contribute to the process of fiscal reform and modernization of the State of São Paulo. Specifically, the program is aimed at enhancing the efficiency, effectiveness, and transparency of public resource management through the modernization and institutional strengthening of SEFAZ and entities involved in the state's tax, financial, and budget administration.	
Description:	To achieve the objectives of the operation, financing will be provided for the execution of activities grouped within the four following components:	

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%.

1. Strengthening of tax administration (US\$18.3 million). The objective is to enhance the efficiency of tax collection by adapting the human, technological, and material resources of the Tax Administration Directorate (CAT) to the new administrative model, which calls for better customer service to taxpayers (to stimulate voluntary compliance), setting up audit teams (to combat evasion), and greater integration with the State Prosecutor's Office (PGE) (to collect overdue taxes). It will include the following activities: (i) strengthened tax auditing actions (audit teams); (ii) strengthened strategic management (introduction of decentralized planning, the development of indicators and building of evaluation capacity to measure the impact of possible tax reforms); (iii) optimization of the integrated system for tax administration and its integration with the PGE and Public Ministry systems for monitoring and collecting overdue taxes; and (iv) the design of mechanisms for improving and integrating taxpayer assistance services.
2. Strengthening of budgetary and financial administration (US\$8 million). The objective is to optimize the use of the state's financial resources by enhancing efficiency, competition, and transparency in public procurement and strengthening budgetary and financial administration. It will include the following activities: (i) expanding the coverage of the Electronic Procurement Exchange (BEC) through: (a) adjusting the roster of materials, services, and suppliers; (b) incorporating mechanisms for updating market price benchmarks, minimizing possible distortions; and (c) integrating operations with the Health Vigilance Center so as to facilitate the procurement of products for the health sector; (ii) broadening the scope of state electronic procurement; (iii) strengthening budgetary and financial administration by: (a) developing and introducing systems for monitoring the effectiveness of state government actions (SEP); (b) broadening the mechanisms for public access to information on the state's budgetary management (SEP); (c) decentralizing the operational functions of financial implementation; and (d) developing new functions for the Integrated System for Budgetary and Financial Administration; and (iv) re-engineering the processes for managing payments to recipients of state pensions (IPESP).
3. Human resource management (US\$3.1 million). The objective is to develop and maintain a staff of civil servants who are qualified to carry out their new duties under the new management by objectives paradigm of SEFAZ, committed to

the mission and strategic objectives of the agency, and motivated by the modernization process, through the design and implementation of a new SEFAZ human resources policy and management. It will include the following activities: (i) definition of new job description and career stream models for SEFAZ; (ii) design and implementation of a new plan for ongoing training that includes an evaluation mechanism; (iii) development and implementation of a performance evaluation system and the reassignment and/or reclassification of staff trained for the new responsibilities identified in the tax area; (iv) support for the design of staff welfare policies; (v) development and implementation of a Tax Administration Ethics Code; and (vi) design and implementation of a strategic planning model.

4. Information technology management (US\$7.7 million). The objective is to refine the comprehensive management of information technology resources and to reduce their respective costs through the standardization of technology solution development processes, strengthened information security mechanisms, and reduction of the operating, administration, and maintenance costs of the network and information systems. It will include the following activities: (i) support for managing the development process for future SEFAZ information and communications systems; (ii) automation of security processes; (iii) optimization of communications systems (use of IP telephony); (iv) purchase and installation of thin client terminals; and (v) development of a registry system for the State administrative units with a view to integrating their information.

**The Bank's
country and
sector strategy:**

The Bank's country strategy with Brazil places priority on supporting government actions aimed at: (i) promoting and advancing the reform and modernization of the state at the federal, state, and municipal levels; (ii) enhancing the competitiveness and market access of Brazilian products; (iii) reducing social inequalities and poverty; and (iv) addressing problems in the area of environmental management and natural resources. The proposed operation is consistent both with the aforementioned strategy and with the Bank's institutional strategy in the area of modernization of the state, by contributing to the advancement of efforts to modernize fiscal administration in the Brazilian states with a view to contributing to restoring equilibrium to public finances and improving the efficiency and transparency of public administration.

The operation is also consistent with the strategy approved by the Board of Executive Directors for the development of subnational

governments (document GN-2125), which gives priority to actions that create conditions whereby these levels of government can assume the responsibilities delegated to them in decentralization processes, both in the area of public services and as regards the economic development infrastructure.

**Environmental
and social
review:**

The program was considered by the Committee on Environment and Social Impact (CESI) on 29 August 2003. By improving the collection and use of fiscal resources the program could have a positive impact by guaranteeing the budgets intended for environmental management activities among public services. From the social standpoint, the impacts on the restructuring of the personnel roster under the human resources component would not result in a staffing reduction, but instead in a more efficient utilization of the resources available through reassignment and training. Finally, owing to the fact that the program will primarily finance activities in the area of technical assistance, training, and hardware procurement, it will not have any adverse environmental impacts (paragraph 4.14).

Benefits:

Among the principal benefits that may be anticipated from introduction of the program are: (i) a sustainable fiscal equilibrium resulting from an increase in tax collections (a US\$700 million cumulative increase by the end of the program in collections of the tax on trade in goods and services (ICMS) over the collection level adjusted to reflect changes in the taxable GDP of the State of São Paulo) and improved budgetary programming and administration of public expenditure (US\$53 million in cumulative savings by the end of the program through the expansion of BEC coverage in government procurement); (ii) improved capacity of the state government of São Paulo to introduce economic and social development programs owing to the availability of greater resources for the public budget and of instruments permitting their more effective and efficient management; (iii) development of a corps of motivated civil servants with enhanced qualifications for assuming the various responsibilities befalling them in the performance of their duties, as the result of activities in the training area, together with the implementation of a human resources policy and management system in the tax area; (iv) improvements in the revenue collections of the State of São Paulo will have a direct impact on the fiscal health of municipalities, inasmuch as they share directly in collections of the tax on trade in goods and services (ICMS) and tax on motor vehicle ownership (IPVA). Thus, for example, the estimated US\$700 increase in ICMS collections would generate additional revenue for the municipalities on the order of US\$175 million (paragraphs 4.16 and 4.17); (v) the enhanced security of information and communications systems will permit the uninterrupted operation of the services that SEFAZ renders to taxpayers; and (vi) improved processes and

procedures for the payment of state pension benefits will make it possible to reduce the lag in making the first payment and errors in its calculation.

Risks:

Resistance to change. The Program supports the design of a new job description and career path structure at SEFAZ, to be implemented later under a different Bank project (BR-0405). Possible resistance to change on the part of civil servants could be a potential risk to its future implementation. To minimize this risk, the design stage will involve active participation by the SEFAZ staff association (paragraph 4.18).

Interagency coordination. The program calls for some activities to be carried out, with SEFAZ execution, in support of other entities associated with the tax, financial, and budgetary administration of the state, such as the Department of Economy and Planning (SEP), to improve budget management; the State Prosecutor's Office (PGE) for monitoring and collecting overdue taxes; and the Social Security Institute of the State of São Paulo (IPESP), to support greater efficiency in the execution of public expenditure. In order to minimize the potential risk which might be generated by shortcomings in interagency coordination and to address execution problems, legal and operating mechanisms have been defined which will allow for effective and flexible participation by such entities within the framework of the operation (paragraph 4.19).

Special contractual clauses:

Conditions precedent to the first disbursement: Evidence of: (i) creation of the Program Steering Committee (CDP) within SEFAZ (paragraph 3.8); (ii) creation of the project executing unit (PEU), strategically linked to the CDP (paragraph 3.8); (iii) issuance of regulations on the powers of the CDP and designation of the PEU managers (paragraph 3.8); and (iv) submission of the annual work plan (AWP) for the first year of execution of the operation (paragraph 3.14).

As special contractual conditions of execution, SEFAZ must submit the AWP for the successive years of program execution to the Bank no later than sixty days prior to the end of the preceding year of execution (paragraph 3.14).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI) (paragraph 4.15).

Exceptions to Bank policy:

None.

Procurement: Prevailing Bank procedures will be applied. For the contracting of consulting services for amounts exceeding US\$200,000, and for the procurement of goods valued at US\$350,000 or more, notice of international competitive bidding must be given. Selection may be based on quality and price for the contracting of consulting services (paragraph 3.24).

Considering the successful experience of SEFAZ with the execution of an earlier project also financed by the Bank, which utilized ex post evaluation of the procurement of goods and consulting services valued at amounts less than the thresholds indicated above for international competitive bidding, it is recommended that this ex post evaluation system be applied to this program as well (paragraph 3.25).

I. FRAME OF REFERENCE

A. The State of São Paulo and its fiscal accounts

- 1.1 Located in the southeastern region of the country, the State of São Paulo is Brazil's largest in terms of both population and economic activity. It has a population of 37.5 million (23% of the total population of Brazil), living in 3% of the country's total land area. Its share of the economy is even larger than its share of the population, as it contributes 35% of national GDP and over 40% of GDP in some of the largest economic sectors, such as the industrial sector (42%), communications (44%), finance (48%), and real estate (43%).
- 1.2 The State of São Paulo finances the majority of its expenditure with its own resources,¹ and generates the highest level of tax collections of all states in the Union.² Federal revenue sharing accounts for about 10% of the state's total revenue. São Paulo contributes in turn to the support of the municipalities within its geographic territory, and transfers approximately 27% of its total tax collections to them.³ The main taxes administered by the State of São Paulo are: (i) the tax on trade in goods and services (ICMS), which accounts for roughly 90% of collections; (ii) the tax on motor vehicle ownership (IPVA), accounting for 5.5%; and (iii) the inheritance and gift tax (ITCMD), which combined with the collection of fees accounts for the remaining 4.5%.

- 1.3 The State of São Paulo is in a sound fiscal position, and the management of public finances has been prudent in recent years. The state government has been complying with all the goals and principles that characterize sound fiscal administration, as shown in Table 1 summarizing the growth of state GDP and the

Table 1. Evolution of Public Finances of São Paulo

Year	State GDP (in millions of U.S. dollars)**	Revenue/ GDP	Expenditure/ GDP	Fiscal Surplus/ GDP	Primary Surplus/ GDP
1998	113,340	12.00%	11.98%	0.02%	0.38%
1999	118,979	11.92%	11.89%	0.03%	0.40%
2000	129,657	11.68%	11.67%	0.01%	0.43%
2001	170,321	11.78%	11.77%	0.01%	0.64%
2002*	153,981	11.79%	11.65%	0.14%	0.67%
2003*	164,475	11.45%	11.37%	0.08%	0.71%

Source: IBGE and Department of Finance, State of São Paulo.

* Data estimated on the basis of national GDP and São Paulo share in 2001.

** Source: Instituto de Pesquisa em Econômica Aplicada [Applied Economic Research Institute] (IPEA).

¹ Fiscal prerogatives, in terms of the political and administrative autonomy to introduce taxes, fees, and levies for improvements, and the characteristics of the transfers from one level of government to another, are established by the Constitution of 1988, Title VI, Chapter I, Articles 145 to 162 (see <http://www.presidencia.gov.br>).

² Tax collections in the State of São Paulo in 2001 amounted to 37% of the total tax collections of all Brazilian states. It should be stressed that average collections of each state are less than 4% and that the median is in the vicinity of only 1.5%.

³ The proportions transferred are set by Article 158 of the Constitution, and correspond to 25% of ICMS collections and 50% of IPVA collections.

fiscal surpluses achieved since 1998, which have been continuously on the rise (positive growth since 1997).

- 1.4 The sound fiscal management of the State of São Paulo has also been reflected in its meeting the targets established by the Fiscal Accountability Law (LRF) for the period, as shown in Table 2 below. The LRF Expansion Law 101 of 4 May 2000, may be obtained at <http://www.presidencia.gov.br> was conceived as an instrument to support more orderly public finances by establishing a framework of clear rules and indicators to be observed by all levels of government. These rules and indicators contemplate the management of revenue and expenditure, borrowing, and management of public property. Noteworthy among all the standards and principles established by the LRF are: (i) ceilings on payroll expenditures; (ii) ceilings on public borrowing; (iii) setting annual fiscal targets for the following three fiscal years; (iv) the offset mechanism for recurrent expenditures; and (v) the mechanism for controlling public finances in election years.

Table 2. Compliance with Fiscal Accountability Law by the State of São Paulo

COMPONENT	LRF ceilings	2000	2003
Ceilings on payroll expenditures (established as percentage of current spendable revenue)	State Government: 60% Executive Branch: 49% Legislative Branch: 3% Judicial Branch: 6% Public Ministry: 2%	58.09% 49.27% 1.12% 6.38% 2.13%	54.48% 46.68% 1.86% 5.13% 1.59%
Ceilings on public borrowing and granting of guarantees	For 2016, debts may not exceed twice the level of current revenue. The state may extend guarantees in an amount not exceeding 32% of current collections.	2.12 34%	2.24 26%
Setting annual fiscal targets	Each level of government must draw up and submit budget guidelines that indicate annual targets in current and constant value terms in relation to revenue, expenditure, nominal and primary outturn, and the amount of the public debt for the fiscal year in question, as well as projections for the following two years. The guidelines currently in force may be consulted at http://www.planejamento.sp.gov.br .	Complied	Complied
Offset mechanism for recurrent expenditures	The government may not create a continuous expenditure (spanning a period exceeding 2 years) without indicating a revenue source or a reduction in other expenditures.	Complied	Complied
Mechanism for controlling public finances in election years	The LRF prohibits contracting credit operations against uncollected budgetary revenue in the last year of a term, and prohibits any increase in payroll expenditure in the 180 days prior to the end of the term.	Complied	Complied

Source: Department of Finance, State of São Paulo.

B. The fiscal modernization process in the State of São Paulo

- 1.5 Improvements in the state's fiscal management rested on two main pillars: (i) strengthened tax administration; and (ii) modernization of the administration of public expenditure. At the same time, the State Department of Finance (SEFAZ) was carrying out cross-cutting modernization efforts in the human resources and information technology areas. These SEFAZ activities benefited from Bank support through the national fiscal administration program (PNAFE), loan 980/OC-BR in the amount of US\$500 million, of which US\$64 million was devoted to financing the SEFAZ modernization project in the State of São Paulo (PNAFE/SP).

- 1.6 PNAFE/SP contributed to improved collection levels and to integrating the state's financial management systems. When the operation was approved in 1996, the State of São Paulo was registering a budget deficit, tax collections were 8% of GDP, and there was no system for integrating all the financial administration subsystems across all public entities. The actions undertaken under PNAFE/SP contributed to reversing this situation. In 2003 the state registered a fiscal surplus of 0.08% of GDP and a primary surplus of 0.71%, which continued a rising trend that began in 1998; the tax ratio has increased gradually to 9.3% of GDP in 2002, and expenditure management has improved. The achievements in each of the areas mentioned are described below.

1. State tax administration

- 1.7 In the tax administration area, SEFAZ made great strides as regards: (i) taxpayer assistance; (ii) the auditing process; (iii) collection and payment activities; and (iv) support for strategic planning.
- 1.8 The actions intended to improve **taxpayer assistance** were focused on facilitating voluntary compliance with tax obligations through the creation of an electronic fiscal workstation (PFE) and all its support systems. This change reoriented taxpayer service away from assistance in person at a window toward electronic assistance, which covers 80% of the services rendered (63 assistance modules). The PFE represented a revolution in the notion of assistance and helped improve relations between the tax authorities and taxpayers. For example: the electronic listing system introduced made it possible to register 1.2 million vehicles via the Internet and/or ATMs, and also facilitated the licensing of 7.4 million vehicles by means of digital authentication; and the Electronic Information and Compliance Guide (GIA), the electronic cadastral declaration system (DECA), and the electronic ticketing and fines system (AIIM) have simplified the state's entire tax system.
- 1.9 Modernization of the **auditing process** focused on the design and implementation of a new model resting on three pillars: (i) management by objectives; (ii) auditing by sector; and (iii) team-based structuring of work. Management by objectives was possible with the incorporation new information and communications technologies resulting in improved operational efficiency. The introduction of a new team-based model of auditing by sector was based on the identification of major economic sectors, the establishment and training of multidisciplinary teams for fighting evasion, and the introduction of a computerized auditing system (creation of a centralized databank for the tax area and development of software for investigating tax evasion). Some indicators of improved management of auditing at SEFAZ are: (i) the recovery in 2000 of over US\$11.5 million in tax credits improperly obtained by taxpayers in violation; (ii) an over 100% increase in real terms in ITCMD collections from 2001 to 2002; and (iii) the increase in collections from the fuel sector from US\$674 million in 1998 to US\$1.427 billion in 2001.

- 1.10 The actions to improve **collections and payments** included the implementation of electronic collection and payments systems, the electronic allocation of debits, trimming staff at the regional collection units, and the introduction of electronic monitoring, which currently covers 85% of collections.
- 1.11 Finally, support was provided to the **strategic planning** process in the tax administration area by developing a situational strategic plan and developing and applying a methodology for calculating the state's tax GDP, which makes it possible to calculate the state's tax effort (or efficiency gains in tax administration), defined as the change in tax collections over and above potential tax collections in accordance with the growth of the economic sectors of fiscal relevance for the state.⁴
- 1.12 These actions in the tax area, through their impact in the development of voluntary compliance and strengthened efforts in respect of auditing, collections, and payment, had a very positive impact on increasing the state's tax effort (efficiency gains in tax administration), which rose to approximately 2% in the past two fiscal years. This increased tax effort had an impact on the collection of the tax revenue of the State of São Paulo (without measuring changes in rates during the period), as shown in Table 3. The efficiency gains mean that the actions in the tax area have had a direct impact, after controlling for collections attributable to price changes, economic growth, changes in tax rates and regulations, etc., of approximately US\$460 million over two years. This has benefited the municipalities, which have received larger transfers. The state's greater tax collections resulted in a 58% increase in transfers to municipalities from US\$2.451 billion (2.19% of GDP) to US\$3.88 billion (2.49% of the GDP of the State of São Paulo).

Table 3. Tax Collections in São Paulo
(in % of GDP)

Year	Tax Ratio	ICMS	IPVA	ITCMD	Fees	Transfers to municipalities
1998	8.03%	7.04%	0.68%	0.03%	0.28%	2.19%
1999	8.22%	7.30%	0.62%	0.03%	0.27%	2.22%
2000	9.10%	8.14%	0.65%	0.03%	0.28%	2.43%
2001*	9.24%	8.24%	0.71%	0.03%	0.26%	2.47%
2002*	9.33%	8.28%	0.73%	0.05%	0.26%	2.49%

Source: Department of Finance, State of São Paulo.

2. Management of public expenditure

- 1.13 In the area of public expenditure, SEFAZ made significant efforts to enhance the efficiency, quality, and transparency of state activities. To do so, SEFAZ focused its attention on modernizing and strengthening the administration of state resources, through the creation of an integrated management system.⁵ This new system consists of: (i) an integrated budgetary, financial, and property management system

⁴ The project technical files contain information on the mechanism for estimating the tax effort of the State of São Paulo, its tax GDP, and the potential tax collections it would entail.

⁵ The system uses a high speed network to interconnect 13,000 workstations, and contains 56 separate applications which support the administration and monitoring of public resources.

which covers all the budgetary and financial management units of the state (SIAFEM), which permits the control of state cash flow and access to information on budget and financial performance, imparting greater transparency to the management of public expenditure; (ii) the establishment of a consolidated account system for the state treasury; (iii) a SIAFISICO system for managing registries of materials, providers, and prices; and (iv) a public administration databank (SIGEO).

- 1.14 In conjunction with the creation of the integrated system for resource management, in July 2000 SEFAZ introduced an electronic state procurement system (Electronic Procurement Exchange, BEC). This system adheres to the following principles: (i) it prevents any kind of interference in bidding, thereby creating an impersonal and more transparent system; (ii) it reduces payment lags by speeding processes; (iii) it enhances the transparency of decision making and the publication of outcomes and contractual terms; and (iv) it centralizes transactions by reducing price spreads.⁶ Introduction of the BEC made it possible to generate savings of over 25% in state procurement, in terms of the direct costs for the purchase of materials, measured as the difference between the price paid and the benchmark price (market price)⁷ in the direct procurement (dispensation) and short-listing (by invitation) procedures introduced in the system. From the time the BEC system went into operation in 2000 to 2003, it covered transactions valued at over US\$75 million, as shown in Table 4 below.

Table 4. Summary Performance of the BEC/SP

Year	Number of transactions	In thousands of U.S. dollars			Percentage savings
		Benchmark (A)	Amount paid (B)	Difference (A-B)	
2000 (Sep.-Dec.)	168	157	126	31	20%
2001	5,291	5,846	4,592	1,254	21%
2002	10,476	18,708	15,064	3,644	19%
2003	21,037	51,052	37,244	13,808	27%
Total	36,972	75,763	57,026	18,737	25%

3. Human resource management

- 1.15 In the area of human resource management, SEFAZ: (i) made progress with the introduction of a personnel administration system intended to automate salary

⁶ Preliminary studies conducted by SEFAZ in 1999 show, for example, that the prices paid for purchasing gasoline ranged between R\$0.80 and R\$1.50 and were not necessarily explained by the size of the transactions involved.

⁷ The estimated savings from price differences are even greater for some products (for example, it is estimated that the savings on purchasing certain foods exceeds 70%). There are additional savings through the use of this system because of the lower cost of processing purchases (staff hours, stationery, etc.) and less of a need for stocks.

payments to 7,987 personnel, with decentralized data entry, which streamlined the staff compensation process; and (ii) strengthened its human resource training activities, providing training to over 7,500 staff and introducing a new distance learning model that considerably lowers the costs of transportation from its 16 regional units.

4. Technology resource management

- 1.16 In the area of technology resource management, SEFAZ: (i) introduced local area network (LAN) infrastructures for the head office, 15 regional offices, and 200 fiscal workstations; (ii) developed a 190-line wide area network (WAN) infrastructure; and (iii) wrote and adopted standards and procedures for the unified management of information technology (IT) systems. All told, these activities produced the following results: (i) a significant increase in the quality and quantity of the services rendered to taxpayers, with a positive impact on collections; and (ii) improved capacities for financial management and related areas within SEFAZ.
- 1.17 In conclusion, it may be observed that the efforts to strengthen tax administration and the public expenditure process supported by the PNAFE/SP program had a significant impact on the fiscal performance of the state, both by increasing public revenue and by improving the efficiency of expenditure. Altogether, these improvements contributed to keeping the current budget in balance and to holding spending below budgeted levels, which in turn have resulted in a highly reliable public budget.⁸ Table 5 below summarizes the results achieved by the PNAFE/SP program in accordance with the indicators established at the design stage for measuring the impact of the projects financed under the PNAFE program. The program technical files include the Report on the Results of the PNAFE/SP Program.

⁸ These improvements are widely acknowledged and have earned São Paulo special status in the world. Thus, according to the data provided in the World Competitiveness Yearbook for 2003 (Tables 2.1.09 and 2.3.14), São Paulo is in ninth place in “steps to improve the management of public finances,” and in tenth for “transparency of government policies”; in both cases, it ranks ahead of countries like Brazil and Argentina and more developed countries such as the United States, Canada, England, and France.

Table 5
Performance Indicators for the Tax and Financial Area, State of São Paulo (Source: SEFAZ)

Indicator	Calculation formula	1998	1999	2000	2001	2002	Reference value
Tax ratio	Tax collections/State GDP	8.03	8.22	9.10	9.24	9.33	Minimum increase of one percentage point
Collection forecast and execution	Total collections/Forecast collections	0.99	1.10	1.11	1.08	1.01	Close to 1
Expenditure forecast and execution	Total expenditure/Budgeted expenditure	0.99	0.98	1.10	0.97	0.97	Close to but not exceeding 1
Current budget equilibrium	Current Collections/Current Expenditure	1.02	1.17	1.21	1.08	1.08	1 or more
Entities using an integrated financial management system	Entities with an online integrated system/ Total public entities	0.88	0.98	1.0	1.0	1.0	Close to 1
Cost of Fiscal Administration	Expenditure on fiscal administration/ Current tax revenues	2.30	1.71	3.09	2.68	2.78	Less than 3 at end of program

C. Remaining challenges in the process of fiscal modernization of the State

1.18 Despite the achievements in the process of modernizing the fiscal administration of the State of São Paulo, the process is not yet complete. New challenges and mechanisms aimed at sustaining past successes make additional activities necessary.

1. Tax administration

1.19 Even though São Paulo is the state with the highest level of tax collections in Brazil in absolute terms, there is still room for improvement.⁹ The SEFAZ strategic plan identifies the following three challenges for the short term: (i) increasing the level of productivity in tax administration work, which would improve the level of ICMS collections; (ii) raising the user satisfaction level with electronic assistance services, in order to maximize voluntary compliance; and (iii) enhancing the recovery of overdue taxes through joint actions with other government agencies, in particular the State Prosecutor's Office (PGE).

1.20 Higher levels of **tax administration productivity** would be achieved through the structuring of work teams, bolstering the requirements necessary for their proper functioning (working tools, methods, and processes, communication, access to information, training, and support staff), and a higher level of participation,

⁹ The fact that the tax collections of the State of São Paulo are greater in absolute terms does not necessarily imply that the marginal yield on new investments in tax administration would be low for São Paulo than for the other states, because the investments made have modified the technological base and placed São Paulo on a higher potential curve than the others, so that an additional dollar of investment may have a greater impact on collections.

commitment, and accountability for all personnel in the area.¹⁰ Failure to complete this sequential process of modernization, which began with the introduction of new information technologies, could affect the productivity of the state's tax administration.

- 1.21 Enhanced levels of excellence in **electronic customer service** can only be achieved through the creation of adequate support for the PFEs, staff reorganization, and the internal structure for improving the maintenance of systems and services. Were these actions not to be taken, maintaining a modern system like the PFE on SEFAZ's existing structure could affect the sustainability of the progress already made. In addition, it would be possible to achieve even higher levels of taxpayer satisfaction by means of greater and more effective dissemination of tax information, improving its quality and the way it is delivered. These actions would make it possible to maintain and improve the good relations and trust between the taxpayer and tax authorities, and consequently the voluntary payment of taxes.
- 1.22 Increased **recovery of overdue taxes** can only be achieved by improving the information registries, freeing up auditors for debt recovery tasks, but principally through the modernization of the PGE and its integration with SEFAZ. SEFAZ has been handling the administration of overdue taxes because PGE lacks uniform procedures, communications between and integration of units, and computerized systems that might enable it to perform all its functions fully (registration, control, and collection of overdue state taxes). At present, only 10% of the flow of new registrations of tax debts are satisfactorily resolved to the authorities' satisfaction, resulting in monthly collections of R\$23 million (US\$8 million). This illustrates that there is ample margin for improving performance in the area of debt recovery.¹¹ If these actions are not taken, efforts in the areas of auditing and control, which would increase declared balances, could be offset by the fact that the tax payments are not actually made.

2. Financial and budget administration

- 1.23 While there have been efficiency gains in the execution of public expenditure, it is still possible to make improvement in financial and budget administration through: (i) the expansion and updating of the systems supporting public expenditure administration, through the decentralization of financial administration; (ii) expansion of the electronic procurement system; (iii) creation of a system of indicators for evaluating budget administration; and (iv) the re-engineering of pension payment processes.

¹⁰ In the initial stage, the modernization process was managed through a structure parallel to the organization itself, with the creation of a coordinating unit for the tax area (PROMOCAT).

¹¹ Currently the stock of debt includes 300,000 cases in the City of São Paulo, and 730,000 in the State, for a total of \$20 billion.

- 1.24 Greater efficiency in managing **public expenditure administration** would be achieved by decentralizing the execution of payment authorizations, including application and processing mechanisms, to the 37 state financial managers, and the automation of the payment processes of indirect administration (public enterprises and foundations). This process would further enhance the flexibility of paying suppliers, generate time savings, and free up personnel at the State Finance Department (DFE), so that they can work on activities relating to the regulation and supervision of financial performance.¹²
- 1.25 Greater **savings in government procurement** would be achieved by: (i) expanding the number of products purchased through the BEC (including medicines);¹³ and (ii) the introduction of new state procurement methods for amounts exceeding those currently permitted: direct procurement under R\$8,000, and short-listing under R\$80,000.
- 1.26 **Improved utilization of public resources** would be achieved through: (i) the development and institutionalization of indicators for the evaluation of budget administration, which would provide input for the modernization and improvement of the state budget preparation process in subsequent years; (ii) creation of a portal to allow public access to this information, which would increase transparency and citizen control; and (iii) developing new functions for the integrated system for budgetary and financial management (SIGOF), seeking better interconnection with the Department of Economy and Planning (SEP), which is responsible for drawing up and monitoring the annual budget as well as the Multiyear Plan containing all state government programs and actions together with their respective targets and indicators.
- 1.27 Improved pension fund administration would be achieved by **process reengineering of the pension payment systems** operated under the auspices of the Social Security Institute of the State of São Paulo (IPESP), which have been operated under SEFAZ supervision since May 2003. These actions would make it possible to reduce the average time required for payments to be made to state retirees and, in particular, would reduce pension calculation errors.¹⁴

¹² At present, the DFE processes 500,000 final resolutions annually, or nearly 2,300 per day.

¹³ Including the electronic purchase of all medicines would increase the percentage of electronic procurement from the current 10% to 30% by the end of the program (medicines would increase from the current 0% share to 60%).

¹⁴ According to the preliminary findings of a recent audit of a sample from the cadastre of state pensioners (who total 95,000), it has been determined that there is a need to adjust the calculations of about 15 percent of the benefits currently being paid.

3. Human resource management

- 1.28 An additional and decisive factor for success in the process of modernizing the tax administration of the State of São Paulo is the need to improve the use and capabilities of human resources. The revision and adoption of new policies would help improve human capital utilization.
- 1.29 **Improvements in human resource utilization** at SEFAZ would be achieved through a new management model, that is, a package of policies, guidelines, and systems that govern relations between the staff and the organization through the design and implementation of a new SEFAZ strategic planning model and the implementation of a system for evaluating and remunerating productivity in the fiscal area.
- 1.30 **Greater human resource capacities** would be achieved by developing a new training model that will make it possible to adapt the knowledge, skills, and aptitudes of the Department's staff to its new business climate.

4. Technology resource management

- 1.31 As a consequence of the increased dependence of SEFAZ business processes on new information technologies,¹⁵ the management of technology resources has come to be of critical importance for business survival. It is therefore of strategic interest to: (i) **ensure the uninterrupted operation of existing information technology systems**, through actions to make them more secure; (ii) **optimize the resources invested**, for example by using the IT systems in place for intraregional communications, and the standardization of hardware by the use of thin client terminals to replace desktop computers; and (iii) develop a special system for **managing the development and maintenance of future systems**. These actions will be of fundamental importance for sustaining the progress made in the area of state tax and financial administration.
- 1.32 In this context of demonstrated successes in the state's fiscal administration, in which the Bank has played an important role through the PNAFE/SP program, the State of São Paulo, with national government backing, has once again requested the Bank's support in order to meet the challenges identified above and to impart continuity to the process of strengthening its fiscal administration by financing the program described below.

¹⁵ The first stage in the modernization of SEFAZ involved a substantial investment of resources for the design and installation of a complicated network infrastructure of computers, servers, data storage, telecommunications systems, applications, and services to meet the basic objectives of SEFAZ.

D. Strategy and basis for the Bank's participation

1. The Bank's country strategy

- 1.33 The Bank's country strategy with Brazil places priority on supporting government actions aimed at: (i) promoting and deepening the reform and modernization of the state at the federal, state, and municipal levels; (ii) enhancing the competitiveness and market access of Brazilian products; (iii) reducing social inequalities and poverty; and (iv) addressing problems in the area of environmental management and natural resources.
- 1.34 The proposed operation would make it possible to make progress in respect of the first line of action of the Bank's strategy, mentioned in the preceding paragraph, as well as the Bank's strategy in the area of modernization of the state, by contributing to the advancement of efforts to modernize fiscal administration in the Brazilian states with a view to contributing to restoring equilibrium to public finances and improving the efficiency and transparency of public administration. The proposed operation is also consistent with the strategy approved by the Board of Executive Directors for the development of subnational governments (GN-2125), which gives priority to actions that create conditions whereby these levels of government can assume the responsibilities delegated to them in decentralization processes, both in the area of public services and as regards the economic development infrastructure.

2. The Bank's experience

- 1.35 In the area of modernization of the state, the Bank has worked most intensely in the fiscal administration sector, where the focus has largely been on three dimensions: (i) support for the generation of greater public revenue; (ii) support for improved public expenditure management; and (iii) building the institutional capacities for external control. Initially, the Bank's participation was concentrated in the first of these dimensions, tax administration, and later was broadened to the other two. Alongside the tax administration area owing to their budgetary impact, the Bank has also supported administrative modernization of the social security system, and improvement of the National Court of Accounts and its external control systems.
- 1.36 **In the fiscal area**, introduction of the Fiscal Accountability Law (LRF) of 2000 served as a reference point for Bank involvement in the sector. The projects to strengthen fiscal administration were designed around the need for greater tax revenue generating capacity, to address the stricter fiscal discipline measures introduced by the LRF.
- 1.37 The Bank also supported policy reform processes, particularly in the tax area. Specifically, the Bank participated in the analysis of proposed reforms that were subsequently implemented, such as the reform of the income tax, which modified the rates applied to corporate earnings, broadened the taxable base, and introduced

measures for the treatment of transfer prices. Moreover, the Bank participated in the design of proposals for the reform of excise taxes, a topic that has yet to be resolved, by promoting and facilitating the exchange of experiences with other governments (for example, exchanges with Portugal were facilitated with a view to the discussion of alternatives for reform of the state ICMS and the possible introduction of a federal VAT).

1.38 With regard to the financing of specific projects, the Bank has supported the modernization and strengthening of fiscal administration at the three levels of government:

- a. **At the federal level**, the Bank began its support of the fiscal administration modernization process with the program on modernization of the National Revenue Secretariat approved by the Bank in 1995, which was aimed primarily at enhancing the national government's tax revenue generation capacity through a loan in the amount of US\$78 million (loan 888/OC-BR approved in 1995);
- b. **At the state level**, the Bank's participation has been reflected in a loan of US\$500 million to finance a national fiscal administration program for the Brazilian states (PNAFE) (loan 980/OC-BR approved in 1996). Its specific objective was to support the implementation of fiscal modernization projects in the different agencies responsible for the state governments' fiscal management through projects to: (i) improve the legal, operational, technological, and management mechanisms of said agencies; (ii) strengthen and integrate financial management and consolidate audit and internal control; (iii) ensure effective control of tax compliance; and (iv) expedite legal action for the collection of overdue taxes. To date, PNAFE has financed 27 projects (one for each state and the Federal District). Disbursements to date total 83% of the US\$500 million in financing resources. The coverage of the program has been expanded to include financing for the modernization of institutions other than the finance departments (finance prosecutor's offices, administration departments, courts of accounts) using the resources saved by the devaluation of the real against the dollar. Accordingly, the execution period of the operation has been lengthened and its scope broadened, for which reason the amount disbursed fails to reflect the significant project execution level achieved; and
- c. **At the municipal level**, Bank participation takes the form of a loan in the amount of US\$300 million (loan 1194/OC-BR approved in 1999, the first of three phases of total financing of up to US\$1.1 billion) in support of improvements in the administrative management of municipal governments.¹⁶

¹⁶ This program will be carried out in three stages with Bank financing per stage of US\$300 million, US\$450 million, and US\$350 million, respectively. It is estimated that the program will strengthen approximately 3,854 municipalities as follows: first stage, 772 municipalities; second stage, 1,580 municipalities; and third stage, 1,502 municipalities.

The Bank has also extended US\$77 million in financing for a municipal development program in Porto Alegre, which includes fiscal administration improvements in the beneficiary municipalities (loan 1095/OC-BR approved in 1998).

- 1.39 In 2001, the Bank approved US\$57 million as the first stage of financing intended to support the modernization of pension system management (loan 1346/OC-BR). In 2002, it approved an operation in the amount of US\$5 million in support of the modernization of the National Court of Accounts (loan 1423/OC-BR).
- 1.40 The design of the program proposed for São Paulo in the fiscal area will take account of the lessons learned in the programs mentioned above. The principal lessons to be borne in mind include the following: (i) for Bank intervention in a federal country like Brazil to have a significant impact, it must reach all levels of government, especially the states with the greatest economic weight; (ii) the intervention sequence must be gradual and increasing, both by level of government and in terms of the scope of the issues treated; and (iii) the design of operations must adhere to a theoretical policy framework that justifies each action, defines its relevance, and establishes the time sequence for execution of all the interventions. As noted, Bank interventions must not only be consistent with the country's development strategy, but must also meet the guidelines of the Fiscal Accountability Law.

E. Conceptual overview

- 1.41 The proposed program is conceived as an operation aimed at supporting the strengthening of the economic factors necessary for good governance in the State of São Paulo, through the development and implementation of additional improvements in the management of public resources, including areas such as tax collection, budgetary and financial administration, and expenditure control.
- 1.42 The program will build upon the success of a previous Bank operation (see paragraphs 1.6) that contributed to the beginnings of the process of strengthening the state's fiscal administration. Accordingly, the program's components and activities would supplement and expand upon the initial achievements, such that the improvements in fiscal agency performance can be broadened and sustained over time.
- 1.43 In the tax administration area, the proposed operation will make it possible to improve collections through the administration's greater tax effort growing out of further stimulus for voluntary compliance, innovative activities to combat evasion, and increased collections of delinquent taxes.
- 1.44 In the area of budgetary and financial administration, the proposed operation will make it possible to build upon the progress made in support of improved

expenditure management by extending the coverage and use of the state's electronic procurement system, decentralization of the operational functions of financial execution, implementation of a control system and automating the management of pension benefit payments, and the development of methodologies and systems that make it possible to monitor and evaluate the effectiveness of the budget execution of the programs established under the state budget.

- 1.45 Finally, the program will continue modernizing and taking advantage of the investments made in the cross-cutting areas of human resources and information technology. In the human resources area, this entails support for the process of adapting job descriptions and structure to SEFAZ's new management system, as well as the consolidation of a permanent staff training system. In the information technology area, the operation will permit better use of the technology investments made under the first program through the optimization of the information and communications systems already available to SEFAZ, with the corresponding impact on reducing its administration and service costs.
- 1.46 The State of São Paulo authorities have accorded the highest priority to implementation of the proposed operation, because of the importance of consolidating the institutional strengthening process already underway with the PNAFE program to help achieve sustainable fiscal balance in state public accounts and better program-based budgeting and management of state public expenditure.
- 1.47 Bank participation in the initiative is justified not only by the need to maintain a high degree of institutional, financial, and economic viability (see paragraph 4.1 to paragraph 4.13) and to address the strategic priorities defined in the country paper for the sector, but also because it constitutes an initiative in which the Bank should rightly be involved, inasmuch as the experience in São Paulo could serve as a model for other fiscal efforts in other Brazilian states as well as other countries of the region, principally because of its innovations in respect of its "e-procurement" system.

II. THE PROGRAM

A. Objectives

- 2.1 The objective of the program is to contribute to the process of fiscal reform and modernization of the State of São Paulo. Specifically, the program is aimed at enhancing the efficiency, effectiveness, and transparency of public resource administration through the modernization and institutional strengthening of SEFAZ and entities involved in the state's tax, financial, and budget administration.

B. Description

- 2.2 To achieve the objectives of the operation, financing will be provided for the execution of activities grouped within the following components: 1. strengthening of tax administration; 2. strengthening of budgetary and financial administration; 3. human resource management; and 4. information technology management.

1. Strengthening of tax administration (US\$18.3 million)

- 2.3 **Objective.** Enhancing the efficiency of tax collection. This objective would be achieved by adapting the human, technological, and material resources of the Tax Administration Directorate (CAT) to the new administrative model, which calls for better customer assistance to taxpayers (to stimulate voluntary compliance), the structuring of audit teams (to combat evasion), and greater integration with the State Prosecutor's Office (PGE) (to collect overdue taxes).

- 2.4 **Specific activities.** This component will include the following activities:

- (i) **Strengthened tax auditing activities**, including: (a) multidisciplinary audit teams; (b) implementation of a computer laboratory for auditing taxpayers' electronic media; (c) development of a system for disseminating knowledge within the CAT to counteract tax evasion activity; (d) updating the CAT's cadastral information; and (e) integrating the cadastre of state taxpayers with the cadastre of the National Revenue Secretariat;
- (ii) **Strengthened strategic management**, including: (a) the introduction of (decentralized) strategic planning; (b) design and implementation of a system of periodic CAT management reports to assist with management decision making; (c) development of an integrated budget management system for CAT activities; and (d) building of evaluation capacity to measure the impact on administration of possible tax reforms;

- (iii) **Optimization of the integrated system for tax administration (SIAT) and its integration with the PGE and Public Ministry systems for monitoring and collecting overdue taxes**, including:
 - (a) development of a tax credit tracking system by interconnecting the systems of SEFAZ, PGE, the courts, and banks;
 - (b) establishment of teams made up of SEFAZ and PGE personnel to carry out joint actions to combat evasion in the context of the Steering Council for Special Actions to Combat Tax Evasion (CEVAF);
 - (c) extending access to the SEFAZ information system on vehicle violations to the Public Ministry;
 - (d) development of an early warning system to improve tax intelligence (cadastral flags);
 - (e) development of a monitoring and control system for the net worth of large taxpayers;
 - (f) improvement of the control system on the cumulative tax credit declared by payers of the tax on trade in goods and services (ICMS);
 - (g) development of additional SIAT applications for cross-checking information on taxpayer declarations and those of their customers and/or suppliers;
 - (h) development of a control and information security system for SIAT;
 - (i) development of a control and taxpayer assistance system for the inheritance and gift tax (ITCMD) and fees; and
 - (j) development of a support system for PGE management of overdue taxes.
- (iv) **Mechanisms for improving and integrating taxpayer assistance services**, including:
 - (a) broadening the range of information available to taxpayers by accessing the CAT web page;
 - (b) readjusting the PFE support structure, with the reclassification and reallocation of its support personnel and the introduction of a permanent system for assessing user satisfaction with the service; and
 - (c) upgrading taxpayer assistance by introducing a customer relationship management (CRM) system at the call center.

2.5 **Anticipated outcomes:** (i) by the end of the program, a cumulative increase of US\$700 million in ICMS collections above the level of collections adjusted for changes in the São Paulo tax GDP (2003 values at US\$1 = R\$2.86); (ii) increased recovery of overdue taxes from the current 13% to 25% by the third year of the program; (iii) by the end of the program, cumulative increase of US\$525 million in the balance declared by the group under observation over that declared for the prior period adjusted for the benchmark group; (iv) strategic management in the tax area strengthened by the implementation of decentralized planning with an increase in the use of auditor/days for planned activities from the current 60% to 75% by the end of the program; (v) gradual increase in the recovery of the delinquent tax debt, rising to 20% monthly in the third year of the program (equivalent to US\$1.6 million per month or US\$19 million per year); and (vi) improved taxpayer assistance services, with at least a 90% satisfaction level by program end reported by users of the electronic assistance system, which will maximize voluntary compliance.

2. Strengthening of budgetary and financial administration (US\$8 million)

- 2.6 **Objective.** Optimize the efficiency, transparency, and quality of the use of the state's financial resources. The objective would be achieved by enhancing efficiency, competition, and transparency in state procurement and strengthening budgetary and financial administration.
- 2.7 **Specific activities.** This component will include the following activities:
- (i) **Expanding the coverage of the Electronic Procurement Exchange (BEC)**, including: (a) functional and technical adjustment of the roster of materials, services, and suppliers (SIAFISICO); (b) the incorporation of mechanisms for updating benchmarks (market prices), minimizing possible distortions; and (c) the integration of cadastres (materials and suppliers) with the Health Vigilance Center, so as to facilitate the procurement of products for the health sector;
 - (ii) **Broadening the state's electronic contracting systems**, including the various procurement methods (direct procurement, invitation, live auction, and electronic auction);
 - (iii) **Strengthening of budgetary and financial administration**, including: (a) developing and introducing systems of indicators for evaluating the effectiveness of state budgetary administration (SEP); (b) developing mechanisms for public access to budget information that is instructive and user-friendly (SEP); (c) decentralizing the operational functions of financial execution (CAF) and adjusting the functions of the State Finance Department (DFE); and (d) developing new functions for the integrated system for budgetary and financial administration (SIGOF); and
 - (iv) **Re-engineering the processes for managing payments of state pension benefits**, including: (a) evaluation and proposal for the restructuring of the Social Security Institute of the State of São Paulo; and (b) introduction of an automated workflow system for internal processes and procedures.
- 2.8 **Anticipated outcomes:** (i) efficiency in the state's direct administration procurement enhanced by expanding the coverage of the BEC from the present 10% of total goods purchased by this means to 30% by the end of the program (medium-case scenario). The accumulated savings from the BEC by the end of program execution would amount to US\$53 million on a total volume of annual goods procurement estimated at US\$300 million; (ii) 10% of the services contracted by the state's direct administration, out of a total annual volume of service expenditures of US\$726 million, would be carried out through the

integrated electronic procurement environment during the final year of the program, generating savings of US\$18 million; (iii) decentralized execution of disbursement programming by all the financial managers of the state (37 in the direct administration and 54 in indirect administration), including the automated processing of 100% of their financial transactions, reducing the average time for disbursement programming execution from one minute to two seconds; (iv) an instructive and user-friendly system for access to information on state budget management available to the citizenry via the Internet, including annual evaluation reports on budget administration; and (v) elimination of the delay in making the first payment of benefits (currently estimated at 90 days), and accuracy of benefit payments (calculation of the benefit to be received) by the end of the program's second year.

3. Human resource management (US\$3.1 million)

2.9 **Objective.** Develop and maintain a staff of skilled civil servants who are qualified to carry out their new duties under the new management by objectives paradigm of SEFAZ, committed to the mission and strategic objectives of the agency, and motivated by the modernization process. This objective would be achieved by means of: (a) design and implementation of a new SEFAZ strategic planning model; (b) introduction of a new evaluation and productivity compensation system in the fiscal area; and (c) design and introduction of a new ongoing training policy and plan.

2.10 **Specific activities.** This component would include the following activities:

- (i) **Definition of a new job description and career path structure for all areas of SEFAZ**, including: (a) appropriate sizing of the personnel roster, and (b) the definition of profiles and qualifications (skills, knowledge, and attitudes) adapted to the new institutional realities.
- (ii) **Design and introduction of a new ongoing training plan**, including: (a) identification of the qualifications required and development of a monitoring and evaluation system; (b) the design of training policies for the CAT; (c) design and introduction of a sustainability strategy for technical and vocational training at FAZESP; and (d) design of a system for evaluating and implementing improvements in training activities.
- (iii) **Development and implementation of a system for performance evaluation and reassignment and/or reclassification of personnel trained for the new requirements identified in the tax area**, including: (a) a promotion and compensation system based on productivity; and (b) inclusion of the categories supporting the CAT modernization process;

- (iv) **Support for the design of staff welfare policies** that would include the optimization of the resources allocated to SEFAZ's social projects;
- (v) **Preparation and implementation of a Tax Administration Ethics Code**; and
- (vi) **Design and implementation of a strategic planning model** featuring the definition of management goals and commitments for SEFAZ.

2.11 **Anticipated outcomes:** (i) a new job description and career path model defined for SEFAZ for implementation in the framework of the National Program to Support Modernization of Administration and Planning of the States and Federal District (BR-0405); (ii) staffing of SEFAZ with personnel who are competent for performing their new duties; (iii) wage increases for CAT personnel granted on the basis of their productivity beginning in the second year; (iv) 30% reduction in the job absenteeism index beginning in the second year from the 1,200 absentees in 2002 to 840; (v) Tax Administration Ethics Code for São Paulo approved, published, and disseminated in the third year; and (vi) monitoring the performance of SEFAZ units beginning in the second year of the program.

4. Information technology management (US\$7.7 million)

2.12 **Objective.** To refine the comprehensive management of information technology resources and to reduce their respective costs. The objective would be achieved through the standardization of technology solution development processes, strengthened information security mechanisms, and reduction of the operating, administration, and maintenance costs of the network and information systems.

2.13 **Specific activities.** This component will include the following activities:

- (i) **Support for managing the development process for future information and communications systems at SEFAZ**, through the establishment of methodologies for standardizing and controlling the development of new applications;
- (ii) **Automation of security processes**, including: (a) automation of security processes; and (b) the establishment of a plan for ensuring continuity of the services rendered by SEFAZ;
- (iii) **Optimization of communications systems** by making use of IP telephony;
- (iv) **Purchase and introduction of thin client terminals** (low-cost microcomputers) for use by the administrative personnel of SEFAZ; and

- (v) **Development of a cadastre system for the State Administrative Units** in order to integrate their information, through the creation of a State Data Warehouse within SEFAZ that makes it possible to obtain financial and accounting information centralized at the lower levels of public organization.

2.14 **Anticipated outcomes:** (i) processes for developing standardized technological solutions and reducing the cost of and time required for software development; (ii) guaranteed continuous operation of the critical information technology processes that support the conduct of SEFAZ business; (iii) reduction of operating, administrative, and maintenance costs of the network and the information system achieved by a 30% reduction in current outlays for telephony services (which currently cost roughly US\$850,000), with use of the data network for voice communications; (iv) a 40% reduction in the number of calls to the help desk and a 40% reduction in system administration costs by using thin client terminals (which would assume minimum savings in initial investments of US\$3.5 million and savings of US\$50,000 annually); and (v) financial and accounting information available at the smallest administrative units of the state beginning in the second year.

5. Management and administration (US\$1.9 million)

- 2.15 The management and administration costs of the program relate to contracting consulting services and the purchase of the minimum hardware necessary to establish the program executing unit (PEU) within the SEFAZ structure.
- 2.16 Specifically, management and administration outlays would finance the startup team that will make up the PEU, consisting of: a general program coordinator, a deputy coordinator, four area managers (one for each component), and an administrative and financial assistant. The costs of the team making up the PEU will be financed with program resources, chargeable against the local counterpart funds.

6. Associated costs (US\$120,000)

- 2.17 The program's associated costs relate to up to US\$100,000 in resources to hire outside firms to perform the annual audits of the program, as well as US\$20,000 to engage consulting services for the midterm review and final evaluation.

C. Cost and financing

- 2.18 The estimated total cost of the operation will be US\$40 million equivalent. Bank financing would be US\$20 million in Ordinary Capital from the Single Currency Facility, to be disbursed in U.S. dollars. The government of the State of São Paulo would provide the remainder, equivalent to US\$20 million. For the development and execution of the operation, the program calls for financing consulting services

for institutional strengthening, training activities, hardware procurement, and the development of information systems. The financial costs of the program, estimated at US\$850,000, have not been included in the program financing costs table for the program at the request of the executing agency, as they will be paid from another source under the state budget, through the general state administration (AGE). The consolidated budget for the program is set forth below, while the budget itemized by component and by activity is available in the program technical files.

Consolidated Budget by Component
in thousands of U.S. dollars

Budget category	IDB/OC	Local	Total	%
1. Strengthening of tax administration	9,588	8,777	18,365	45.91%
1. Training	0	2,819	2,819	7.05%
2. Consulting services	3,315	5,958	9,273	23.18%
3. Hardware	6,273	0	6,273	15.68%
2. Strengthening of budgetary and financial administration	2,182	5,867	8,049	20.12%
1. Training	0	682	682	1.71%
2. Consulting services	630	5,185	5,815	14.54%
3. Hardware	1,552	0	1,552	3.87%
3. Human resource management	1,295	1,842	3,137	7.84%
1. Training	0	1,202	1,202	3.01%
2. Consulting services	900	640	1,540	3.85%
3. Hardware	395	0	395	0.98%
4. Information technology management	6,367	1,346	7,713	19.28%
1. Training	0	218	218	0.55%
2. Consulting services	2,090	1,128	3,218	8.05%
3. Hardware	4,277	0	4,277	10.68%
5. Management and administration	170	1,850	2,020	5.05%
1. Consulting services	0	1,700	1,700	4.25%
2. Hardware	50	0	50	0.13%
3. Overhead	0	150	150	0.37%
4. Program auditing and evaluation	120	0	120	0.30%
Contingencies	398	318	716	1.80%
SUBTOTAL	20,000	20,000	40,000	100%
3. Inspection and supervision (FIV) ¹⁷	0	0	0	0.00%
GRAND TOTAL	20,000	20,000	40,000	100%
%	50	50	100	

¹⁷ With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

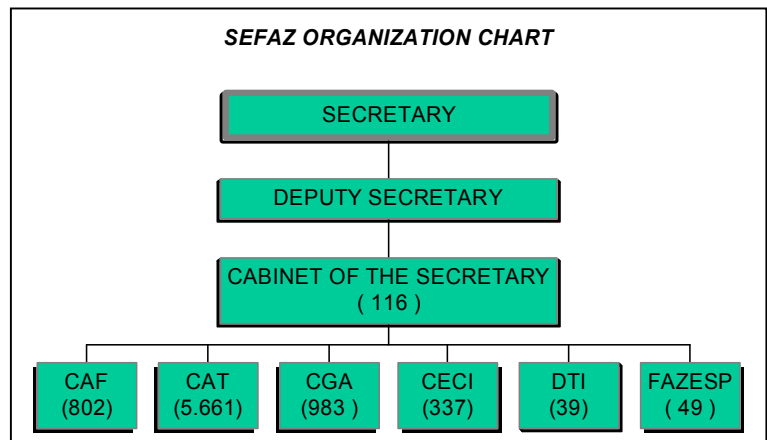
III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

3.1 The **borrower** for the program will be the State of São Paulo, and the **executing agency** will be the Department of Finance of the State of São Paulo (SEFAZ). The Federative Republic of Brazil will act as **Guarantor** for the operation.

3.2 *Executing agency.* The Department of Finance of the State of São Paulo (SEFAZ) was established in 1892. Its functions grew over time, and currently SEFAZ is responsible for the administration of state revenue and expenditure. To this end, it serves as treasurer for state finances, primarily carrying out the following functions: (i) control of state tax collections; and (ii) control of state expenditures. The strategic objectives of SEFAZ are to: (i) provide guidance and more efficient services to taxpayers; (ii) stand as a model of public administration based on principles of transparency, utility, and efficiency; (iii) provide society with monitoring instruments and information on the public accounts; (iv) promote social inclusion through fiscal education and the dissemination of information; and (v) stimulate and promote a conscientious approach to taxation on the part of the citizenry.

3.3 *Institutional Structure of SEFAZ.* In accordance with the current Law on Organization and Powers (Law 3703 of 7 May 1957, as amended by decree), the organizational and functional structure of SEFAZ includes: a Secretary; Deputy Secretary; and the following component units: Cabinet of the Secretary; Financial Administration Directorate



(CAF); Tax Administration Directorate (CAT); Directorate-General of Administration (CGA); State Directorate of Internal Audit (CECI); Information Technology Department (DTI); and the Fiscal Administration School (FAZESP). The SEFAZ organization chart above indicates staffing levels in parentheses.

3.4 *Levels of authority, staffing, and financial resources.* SEFAZ has three levels of authority, namely the Secretary, the Deputy Secretary, and the Area Directors. SEFAZ has a staff of 7,987 distributed as follows: 1.5% in the Cabinet of the Secretary, which includes the Office of the Secretary and Deputy Secretary; 10% in the CAF; 70.9% in the CAT; 12.3% in the CGA; 4.2% in the CECI; 0.5% in the

DTI; and 0.6% in FAZESP. The approved budget for SEFAZ in 2002 was R\$1.333 billion (US\$466 million), while for fiscal 2003 it declined slightly to R\$1.297 billion (US\$453 million). Budget execution levels for 2001 and 2002 slightly exceeded 100%, bearing witness to a high level of performance and the collection preservation measures taken by the state, as exceeding collection targets made it possible to increase the budget in the course of the year while maintaining the fiscal surplus.

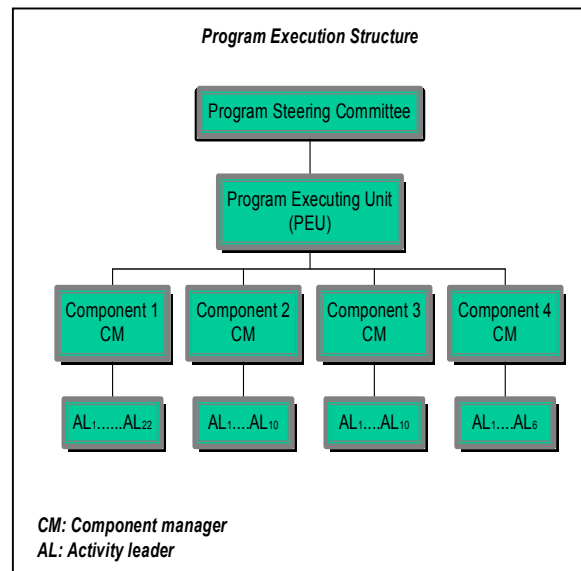
- 3.5 *Powers and responsibilities.* Each operational and support unit making up SEFAZ has its own clearly defined functions and responsibilities. The functions and responsibilities of the various SEFAZ units are available in the program technical files.

B. Program execution and administration arrangements

1. Program Steering Committee (CDP)

- 3.6 Execution of the operation will be the responsibility of a **Program Steering Committee (CDP)** chaired by the Secretary of SEFAZ and with the SEFAZ coordinators as members.

- 3.7 In carrying out its responsibilities, the primary duties of the CDP will be to: (i) plan and direct the program strategy in keeping with the SEFAZ modernization process; (ii) authorize the appointment of SEFAZ staff members to support the efforts of the PEU, at the request of the PEU General Coordinator; (iii) review and approve the annual work plans and the program progress and monitoring reports; (iv) ensure that the program has sufficient counterpart resources to be carried out in a timely manner; (v) take stock of the progress made under the program; and (vi) assess the general risks facing the program, and to anticipate and make changes in the development strategy should this prove necessary. The CDB will meet semiannually for purposes of evaluating program execution.



- 3.8 In order to ensure the proper technical and administrative execution of the program, a program executing unit (PEU) will be established and strategically linked with the CDP. The PEU will support program execution and coordinate execution of the activities to be carried out by the various divisions and units participating in the four program components. In carrying out its functions, the PEU will consist of a

startup team composed of: a program general coordinator, a deputy coordinator, four area managers (one for each component), and an administrative and financial assistant. **Establishment of the Program Steering Committee, and establishment of the PEU and appointment of its officers will be conditions precedent to the first disbursement of resources from the financing.** The terms of reference of the PEU members are available in the program technical files.

- 3.9 Moreover, because the program contemplates the execution of 48 activities in separate functional areas, in order to provide support to the PEU component managers, the SEFAZ units participating in program execution will designate an activity leader who shall be responsible for their technical and operational aspects. The terms of reference of the activity leaders are available in the program technical files.

2. Program executing unit (PEU)

- 3.10 The PEU will be accountable to the Steering Committee and the Bank for program administration, to which end it will carry out the following major functions:
- a. Drawing up the annual work plans (AWPs) for program execution and progress reports;
 - b. Opening and maintaining special, separate bank subaccounts for managing the resources from Bank financing and the local counterpart funding;¹⁸
 - c. Managing the allocation of counterpart resources;
 - d. Process requests for disbursements of financing in accordance with Bank procedures (including setting up the revolving fund and its successive replenishments);
 - e. Maintaining the accounting, financial, and administrative records of the program and supporting documentation for transactions, as stipulated in the loan contract, including the disbursement requests submitted to the Bank. In addition, these records will detail the statements of the roster of program consultants;
 - f. Maintaining a contract administration and supporting documentation archive system for expenditures eligible for Bank financing;
 - g. Drawing up the program's financial statements for their subsequent annual audits by an audit firm. In addition, the PEU will design its internal control system in accordance with the guidelines laid down by the Bank;

¹⁸ The state operates under a consolidated account system.

- h. With assistance from the relevant component manager and activity leader, identify the short list of consultancy candidates, and/or carry out the competitive bidding process for professional service firms, that will be contracted for engaging in the activities called for under the program;
- i. Submit to the Bank for its nonobjection the shortlisted consultancy candidates and/or the proposed shortlisting of consulting firms, including the terms of reference, timetables for carrying out activities, and the projected cost in each case;
- j. Purchase and contract for the goods and services required for program execution;
- k. Make payments for consulting services, the execution of works, and the purchase of goods required by the program;
- l. Coordinate and supervise the technical and operational aspects of program execution;
- m. Coordinate program execution activities with the Bank, providing timely response to such requests as may be received from the Bank, including the submission of documentation in compliance with contractual provisions, as well as such extensions as may be necessary; and
- n. Support information dissemination and campaigns on program outcomes.

C. Operating Procedures

1. Execution of components

- 3.11 The arrangements for the execution of components, contracting for consulting services, and the procurement of goods called for in the program will be based on the terms of reference and/or technical specifications already agreed with the Bank and SEFAZ, which are available in the program technical files.
- 3.12 Execution of the activities listed below will require the participation of other direct administration entities (SEP and PGE) and indirect administration units (IPESP), under technical cooperation agreements. SEFAZ has entered into agreements with each of these entities during the design phase, defining the scope of each entity's participation and appointing, in each case, a corresponding activity leader. This will ensure rapid implementation once the program is declared eligible for disbursements. The program technical files contain the duly signed participation agreements. In all cases, SEFAZ shall contract, through the PEU, for the goods and services called for in the execution of each of these activities:

- a. Dissemination and evaluation of budget administration, Component II (paragraph 2.7(iii)(a) and (b)), with SEP participation;
 - b. Management of the collection of overdue taxes, Component I (paragraph 2.4(iii)(j)), with PGE participation; and
 - c. Re-engineering the processes for administering pension benefit payments, Component II (paragraph 2.7(iv)(a) and (b)), with IPESP participation.
- 3.13 Moreover, the activity relating to definition of a job description and career path model for all areas of SEFAZ will entail the active participation of its staff association, thereby ensuring a successful subsequent implementation.

2. Annual work plans (AWPs)

- 3.14 In order to ensure the proper operational programming of the operation, the PEU will establish and follow annual work plans (AWPs) for the program. The AWPs will consist of a report and plan of activities for the calendar year, including: (i) projection of the number of activities to be carried out, their corresponding execution timetable, and respective costs; (ii) the program objectives and targets for the period; and (iii) the financing requirements for the period, indicating the most important milestones for achieving the objectives pursued. **Submission of the AWPs for the first year of execution of the operation is a condition precedent to the first disbursement of resources from the financing.** The AWPs for subsequent years of program execution are to be submitted to the Bank no later than 60 days prior to the end of the preceding year of program execution. **As a special contractual condition of program execution, the executing agency must submit the AWPs for the subsequent years of program execution to the Bank.**

D. Monitoring and evaluation

- 3.15 Program monitoring and evaluation will take account of the success indicators included in the Logical Framework for the program. Moreover, the meeting of targets established in the AWPs must be evaluated in accordance with the timetable to be established for activities under the four program components. Finally, SEFAZ must continue to provide the performance indicators for the tax and financial area in the State of São Paulo defined in PNAFE and noted in paragraph 1.17. The Logical Framework for the program is attached as Annex III-1.

1. Inspection and supervision

- 3.16 The monitoring of each program component and general program supervision will be performed by the PEU on the basis of the annual plans prepared for each component, to which end periodic monitoring and evaluation meetings will be held.

- 3.17 Semiannual progress reports will be submitted throughout the execution period and must reach the Bank within 60 days after the end of each period. The reports will include a description of the progress made in relation to the AWP, the results obtained in respect of the program performance indicators, an explanation of any slippages from the reference points established, and possible adjustments to the planning for the following half-year period. It must also include information on the status of the revolving fund.
- 3.18 On the Bank side, supervision of program execution will be the responsibility of the Country Office in Brazil. In particular, there will be an annual joint evaluation meeting of SEFAZ, the PEU, and the Bank. This meeting will include discussion of compliance with the program's annual work plan for the prior year, evaluation of compliance with the indicators set forth in the Logical Framework for each component, and definition of the AWP for the following year on the basis of a program plan updated annually by the PEU.

2. Audit and control

- 3.19 Within 120 days after the end of each fiscal year, the borrower must submit to the Bank the financial statements for the program approved by a private auditing firm agreed upon in advance by the Bank. The audit shall be done in accordance with the terms of reference (Document AF-400) and requirements of the Bank (Documents AF-100 and AF-300). Selection and contracting of the audit firm shall be consistent with Bank procedures (Document AF-200). The costs of the audits, with the exception of expenses for taxes, shall be covered by financing resources.

3. Midterm review

- 3.20 Once 50% of the resources for the operation have been disbursed, the Bank and the CDP will conduct a midterm review to measure progress in respect of the progress and impact indicators defined in the program's Logical Framework and, if appropriate, will propose corrective measures for project execution. The midterm review will include: (i) an assessment of progress on program execution in terms of the targets set in the Logical Framework; (ii) the functional and operational capacity of the PEU to move forward with project administration and execution; and (iii) any necessary recommendations in terms of adjustments to portions and components of the operation in order to ensure the best possible fulfillment of program objectives.

4. Final evaluation

- 3.21 Ninety days prior to the end of program execution, a final evaluation will be carried out to assess: (i) the degree to which the specific objectives of the program have been met, and the quantified benefits obtained from program execution are consistent with those anticipated in the program design; (ii) the outcomes for each

component and activity; (iii) the strengths and weaknesses of the program design and execution mechanism; and (iv) lessons learned for future operations.

- 3.22 The final evaluation will cover the execution and impact indicators already set forth in the Logical Framework, as well as the semiannual progress reports and AWP. The PEU will track such information throughout the program execution period, starting from the baseline identified for each indicator. In support of the final evaluation and the midterm review, the program budget includes the resources necessary for contracting the relevant consulting services. Given the innovative nature of this operation, specifically in respect of its activities relating to electronic government procurement, a seminar will be held to disseminate the results of this final evaluation and to highlight the lessons learned for future Bank operations.

5. Ex post evaluation

- 3.23 In accordance with Bank policies, the executing agency will be consulted regarding its interest in conducting an ex post evaluation of the program. The executing agency may decline to do so. Notwithstanding the foregoing, during program execution the executing agency will have a series of reports (AWPs, consultants' reports, spot evaluations, progress reports) plus the results from monitoring the indicators set forth in the Logical Framework, so as to enable the Bank to conduct an ex post evaluation in the event it is deemed appropriate.

E. Procurement

- 3.24 The procurement of goods and consulting services for the program must be carried out in accordance with Bank procedures. For the contracting of consulting services, the program will follow the procedures set forth in document GN-1679-5, which permits price to be used as a selection factor for the contracting of consulting services, as well as the contracting of consultants on a fixed-price basis. This method allows for two options for price and technical merit to be used as evaluation factors, depending on the nature of the services being contracted. Under the first option, the weight of the technical merit factor may not be less than 80%. Under the second option, the weight of the technical merit factor may not be less than 70%. For the contracting of consulting services for amounts exceeding US\$200,000, and for the procurement of goods valued at US\$350,000 or more, notice of international competitive bidding must be given. At the borrower's request and as done on the Bank's first project to support the modernization of SEFAZ (loan 980/OC-BR), the United Nations Development Programme (UNDP) will support execution of the PROFFIS program. Specifically, the UNDP will help manage the procurement of goods and services to be financed using program resources in strict accordance with Bank policies. Local counterpart resources will cover the cost of such services. The program Procurement Plan is attached as Annex III-2.

- 3.25 Considering that SEFAZ has, since 1997, been executing a Bank-financed program (see paragraph 1.5) which utilizes ex post evaluation of the procurement of goods and consulting services valued at amounts less than the thresholds indicated above for international competitive bidding, and that there has been no departure from Bank policies during this period, it is recommended that the same system be applied to this operation. Consequently, the procurement of goods and contracting of consulting services in amounts exceeding the ceilings established for international public bidding, defined in the preceding item, will be reviewed by the Bank on an ex ante basis, while procurement and contracting below those ceilings, both in the case of goods and consulting services, will be reviewed on an ex post basis.

F. Revolving fund

- 3.26 For purposes of program execution, a revolving fund will be established via a special bank subaccount in the name of the program. Following an assessment of the number of simultaneous contracts and payments that must be made in keeping with the timetable for critical phases of the program, it is proposed that a revolving fund in the amount of 5% of the loan be established in order to ensure that adequate resources are available for program execution.

G. Execution period and disbursement timetable

- 3.27 The execution and disbursement periods for the program will span three years from the effective date of the loan contract. The disbursement timetable by source of financing is set forth below.

**Disbursement Timetable by Year of Execution
(US\$000)**

	Year 1	Year 2	Year 3	Total
1. IDB	9,813	6,413	3,774	20,000
2. Counterpart	9,813	6,413	3,774	20,000
Total	19,626	12,826	7,548	40,000
%	49%	32%	19%	100%

IV. VIABILITY AND RISKS

A. Institutional and financial viability

- 4.1 The program was designed around the mission and functional capabilities of the executing agency. Accordingly, all the activities to be performed in the operation are consistent with the tasks assigned to that agency's various units. Moreover, the content and scope of the program activities were developed with the participation and active consultation of the personnel involved in the execution of these components within their respective divisions and units, and their ability to steer and monitor execution of the operation has been verified. That would achieve the necessary sense of ownership in the program to ensure its acceptance and implementation. It also bears noting that, prior to the program proposed here, SEFAZ received Bank resources for executing a similar operation (PNAFE/SP). As a consequence, the SEFAZ structure includes personnel who are familiar with the execution and administration of this kind of operation, as well as a financial administration system (SAF) which makes it possible to keep detailed accounting and financial records, provide information by individual component and activity, and identify the sources and uses of program resources in accordance with Bank requirements, which will facilitate program execution.
- 4.2 The program's financial viability has been evaluated in light of SEFAZ's capacity to access the counterpart resources necessary for carrying out the operation. To do so, it was verified that the 2004 state budget includes the additional resources that will enable SEFAZ to meet the counterpart expenses for the loan during the first year of program execution (US\$9.8 million). In addition, SEP informed the Bank team that SEFAZ budget forecasts for 2005-2006, encompassed in the 2004-2007 multiyear state plan, include the additional resources to cover the counterpart expenses for the loan in the subsequent years, bringing the resources committed in respect of counterpart financing to US\$20 million in keeping with the disbursement timetable.

B. Economic viability

- 4.3 The economic viability of the program was calculated by comparing the cost of the activities financed in the planned components of the operation with the expected returns from the program as a result of its execution. While all of the actions planned under this program will have a specific and potentially significant impact in terms of economic gains, we consider here only those that can be estimated directly without problems identifying them. In addition, the findings below consider only those gains that will be realized before the completion of the program. If it is borne in mind that many of the components will have their greatest impact after the end of the program, the present value of the benefits could be several times greater than the benefits described below.

1. Tax administration component

- 4.4 Increases in tax collections would originate in three ways: (a) reduced tax evasion; (b) increased recovery of tax debts; and (c) increased voluntary compliance.
- 4.5 While all the activities encompassed by this program will have a direct impact on improving collections, as a result of the structuring of multidisciplinary audit teams in SEFAZ, increased staff productivity, improved training, enhanced resource utilization, better relations with taxpayers, and improved integration between CAT and PGE staff for debt collection activities, only some of these are singled out below, together with the yield anticipated from them. By way of example, gains will be realized through reduction in the level of ICMS evasion and the collection of overdue taxes.
- 4.6 *Reduction in the level of ICMS evasion.* Among the various methods used by CAT to identify potential tax evaders, it has been developing a methodology that would make it possible to identify legal entities declaring improper ICMS balances to the tax authorities. This methodology consists of comparing the values declared by an enterprise with the values expected in light of its business activities, in accordance with the performance of other similar enterprises active in the sector.¹⁹ Using this tax intelligence strategy, program actions would make it possible to focus the efforts of the multidisciplinary auditing teams' work on the group of enterprises identified as having a "low observance" level, so as to identify potential evasion activities. In addition to adjustments in declared balances as a direct result of audits, it is anticipated that some percentage of businesses will normalize their situations in light of the increased likelihood of their evasion being detected through the use of tax intelligence methods. The specific actions in support of this tax effort under the program would generate approximately 75% of the total collection gains estimated for 2004, 2005, and 2006, as shown in Table 6 below:

¹⁹ The anticipated value of the ICMS declaration is calculated in accordance with the following formula: Invoice amount (CID-CIC (1-ILB)), where CID is the mean ICMS rate on the business's sales (calculated in accordance with the destination of its sales); CIC is the mean ICMS rate on purchases; and ILB the index of value added by the businesses calculated as [(sales-purchases) /sales].

Table 6. Actions in Support of the Tax Effort

	Expected amount per year (in millions of U.S. dollars)			
	2004	2005	2006	Total ²
Increase in the balance declared by the group under review in comparison with the prior period, adjusted for the change in the benchmark group ¹	131	184	210	525
¹ The calculations for 2005 and 2006 reflect a decrease in deviations in declared balances as a consequence of auditing work. ² Cumulative amount of increased collections in the three years of program execution attributable to a reduction in ICMS evasion.				

- 4.7 *Recovery of overdue taxes.* The establishment of an integrated system for monitoring outstanding tax debts by the PGZ and the SEFAZ with the legal authorities would generate an increase in collections of such debt. In short, this would be achieved by record debts by taxpayer (grouping together various debts in small amounts) and improved identification of such debts, which would ensure better processing on the legal side. Accordingly, planned investments would generate an increase in monthly recoveries of US\$1.6 million, resulting in additional recovery of US\$19 million in the third year of program execution.²⁰
- 4.8 Other anticipated increases in collections would stem from actions to stimulate voluntary compliance, generated by improvement in taxpayer assistance services, improvements in the recovery of debt not recorded by the use of income tax agents in payment (from 13% to 25% by the third year), and reduced tax evasion attributable to the enhanced efficiency of auditing from higher income tax agent productivity (improved incentives) and more time to devote to their specific tasks.
- 4.9 By way of conclusion, it bears noting that if the costs of the activities in Component 1, which total US\$18.6 million, are compared with the expected increases of US\$700 million in three years, each dollar invested has an anticipated return of US\$38. These values would be several times greater if the present value of the benefits were to be calculated over longer time horizons, where the impact of program activities would be even greater. This information is detailed in Table 7 below.

²⁰ The average monthly collections of recovered overdue taxes from January 2000 to July 2003 were R\$22.8 million (US\$7.6 million).

Table 7. Outcomes of Component 1 (in millions of U.S. dollars)

Year	Total	Change in ICMS balance	Change in recovery of outstanding tax debt	Other
2004	175	131		44
2005	245	184		61
2006	280	210	19	51
Total benefits by end of program (B)	700	525	19	156
Program investment (I)	18.6			
Return (B/I)	38			

2. Tax and budget administration component

4.10 The efficiency gains arising from this program relate to reductions in the cost of procurement by the state, the decentralized execution of disbursements, and a system of indicators for evaluating budget execution, among others. While there would be efficiency gains throughout the entire organization, we itemize only the reduction in state procurement costs, which stem directly from the broadened coverage of the BEC and the electronic procurement environments, as they are more readily quantified and allocated. Thus the increase in electronically traded amounts would occur for three reasons:

- a. ***Increase in the number of products transacted.*** At present, some 22,531 out of 121,444 registered products are transacted, and 3,510 suppliers participate. In volume terms, the BEC was used for 5% of total goods and services procurement in 2002 and the current estimate for 2003 is 10%, according to the values reported up to September and a transaction value through the BEC of R\$61.5 million (US\$21.5 million) in 12,163 operations (approximately 150 per day). Forecasts indicate that the number of products transacted could increase to about 70,000 by the end of the program. A high percentage of this increase would be the result of adding medicines to the BEC. Conservative estimates are that within two years some 60% of the medicines purchased by the state could be bought electronically, in an amount of approximately R\$312 million (US\$109 million). The BEC is now capable of handling 500 operations per day, that is, more than three times the current daily volume. Consequently, with the existing BEC structure it would be possible to increase the transaction volume to 33% of the total transactions by the state's direct administration.
- b. ***Introduction of electronic procurement at the municipal and state enterprise levels.*** SEFAZ will be making the procurement system available to the municipalities and state enterprises that wish to use it. In 2002, the execution level for indirect administration came to R\$9.004 billion (US\$3.148 billion), of which R\$426 million (US\$149 million) corresponds to the procurement of goods and materials. There are no consolidated data for the municipalities, but those should be similar to the state overall. For example, the expenditure level of the

municipality of São Paulo (one of the 645 separate municipalities in the state) came to 15% of the state level.

- c. ***Electronic bulletin board.*** The introduction of the electronic bulletin board, which has no ceiling as regards the amount to be transacted, would make it possible to introduce the procurement of services. In 2002, services execution totaled R\$1.894 billion (US\$662 million), rising to an estimated US\$726 million for 2003.
- 4.11 In the middle-case scenario calculated for purposes of evaluating anticipated savings, it is hence anticipated that the efficiency of state procurement will be improved by carrying out the activities planned in the program through the expansion of BEC coverage, which from 10% of total goods procurement at present would expand to 30% by the end of the program. By the end of program execution, there would be additional savings of US\$44 million as a consequence. This is explained by the additional saving in the procurement of goods by the direct administration in the amount of US\$20 million (out of a transacted volume of US\$301 million); services by the direct administration in the amount of US\$6 million (out of a transacted volume of US\$726 million); and US\$18 million in respect of goods procurement by the indirect administration (out of a transacted volume of US\$149 million), as shown in Table 8 below.

**Table 8. BEC Benefits by Program End
(in millions of U.S. dollars)**

		Scenarios		
1. Increase in number of products transacted				
Percentage transacted	Present (10%)	Worst-case (25%)	Middle-case (30%)	Best-case (35%)
Estimated savings in final year of program ^{1,2,3}	11	19	23	34
Total estimated savings from BEC ^{1,2,3}	33	45	53	68
Program gains	0	12	20	35
2. Extension to municipalities and indirect administration (state enterprises)				
Percentage traded	Present (0%)	Worst-case (5%)	Middle-case (10%)	Best-case (15%)
Estimated savings in final year of program ^{1,2,4}	0	2	4	5
Indirect administration ^{1,2,4}	0	3	6	8
Municipalities	No aggregate data are available at the present time.			
3. Electronic auctioning (services)				
Percentage traded	Present (0%)	Worst-case (5%)	Middle-case (10%)	Best-case (15%)
Estimated savings in final year of program ^{1,2,4,5}	0	9	18	27
Total (1+2+3)				
Total estimated savings at end of program	33	57	77	103
Total estimated gains at end of program	0	24	44	70

¹ Assumes a 25% savings rate owing to electronic trading.

² Uses a conservative forecast, assuming no increase in state expenditure on goods and services in subsequent years.

³ Assumes that volumes traded each year are as follows: 15/20/25; 15/25/30; 15/25/35, in accordance with the worst-, middle- and best-case forecasts.

⁴ Assumes that volumes traded each year are as follows: 1/2/5; 1/5/10; 1/5/15, in accordance with the worst-, middle- and best-case forecasts.

⁵ The expansion of the scope of electronic procurement will be finalized in 2006.

3. Technology resources component

4.12 The proper use of technology resources would make it possible to lower the costs of administering SEFAZ. The areas of potential are application to communications and the use of thin client terminals.

a. *Application to communications.* The use of technology services for telephony systems would make it possible to reduce the costs of network operation,

administration, and maintenance and of the information systems covered by bringing about a 50% reduction in the number of telephone lines and a 30% reduction in the telephony account. These savings in the telephony account would amount to about US\$240,000 (out of an account currently totally approximately US\$850,000) by using the data network to carry voice signals.

- b. *Use of thin client terminals.* The use of thin client terminals instead of personal computers would generate minimum savings in initial investments of US\$3.5 million and US\$50,000 annually.

- 4.13 *Conclusion.* In aggregate terms, the estimates of some of the program benefits suggest high returns by the end of the program, as summarized in Table 9 below.

Table 9. Summary Returns at Program End

Component	Investment (I) (in millions of U.S. dollars)	Benefits (B) (in millions of U.S. dollars)	Return on Investment B/I
Component 1	18,3	700	38.25
Component 2	8,0	44	5.5
Component 4	7,7	4	0.52
Total	40	748	19

C. Environmental and social impact

- 4.14 The program was considered by the Committee on Environment and Social Impact (CESI) on 29 August 2003. By improving the collection and use of fiscal resources the program could have a positive impact by guaranteeing the budgets intended for environmental management activities among public services. From the social standpoint, the impact on the restructuring of the roster under the human resources component, would not result in a staffing reduction, but instead in a more efficient utilization of the resources available through reassignment and training in the tax area. Finally, owing to the fact that the program will primarily finance activities in the area of technical assistance, training, and hardware procurement, it will not have any adverse environmental impacts. At the request of CESI, the SEFAZ authorities have been consulted about the possibility of incorporating a market for the procurement of products with a low environmental impact (so-called “green procurement” or “environmentally responsible procurement”) into the component on expanding the coverage of the Electronic Procurement Exchange (BEC). The BEC authorities indicated that they are already in the process of adding some items which are difficult to identify and which simultaneously make it possible to reduce costs, as is the case of the procurement of recycled ink cartridges for printers.

- 4.15 This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI).

D. Benefits

- 4.16 Among the principal benefits that may be anticipated from introduction of the program are:

- a. A sustainable fiscal equilibrium resulting from an increase in tax collections (a US\$700 million cumulative increase by the end of the program in ICMS collections over the collection level adjusted to reflect changes in the taxable GDP of the state of São Paulo) and improved budgetary programming and administration of public expenditure (US\$53 million in cumulative savings by the end of the program through the expansion of BEC coverage in government procurement).
- b. Improved capacity of the state government of São Paulo to introduce economic and social development programs owing to the availability of greater resources for the public budget and of instruments permitting their more effective and efficient management.
- c. Development of a corps of motivated civil services with enhanced qualifications for assuming the various responsibilities befalling them in the performance of their duties, as the result of activities in the training area, together with the implementation of a human resources policy and management system.
- d. The enhanced security of information and communications systems will permit the uninterrupted operation of the services SEFAZ renders to taxpayers.
- e. Improved processes and procedures for the payment of state pension benefits will make it possible to reduce the lag in making the first payment and errors in its calculation.

- 4.17 In addition, improvements in the revenue collections of the State of São Paulo will have a direct impact on the fiscal health of municipalities, inasmuch as they share directly in collections of the tax on trade in goods and services (ICMS) and tax on motor vehicle ownership (IPVA). Thus, for example, by the end of the program the estimated US\$700 increase in ICMS collections would generate additional revenue for the municipalities in excess of US\$175 million.

E. Risks

- 4.18 *Resistance to change.* The Program supports the design of a new job description and career path structure at SEFAZ, to be implemented later under a different Bank project (BR-0405). Possible resistance to change on the part of civil servants could

be a potential risk to its future implementation. To minimize this risk, the design stage will involve active participation by the SEFAZ staff association (see paragraph 3.13).

- 4.19 *Interagency coordination.* The program calls for some activities to be carried out, with SEFAZ execution, in support of other entities associated with the tax, financial, and budgetary administration of the state, such as the Department of Economy and Planning (to improve budget management), the State Prosecutor's Office (for monitoring and collecting the overdue taxes) and the Social Security Institute of the State of São Paulo (to support greater efficiency in the execution of public expenditure). In order to minimize the potential risk which might be generated by shortcomings in interagency coordination and to address execution problems, legal and operating mechanisms have been defined which will allow for effective and flexible participation by such entities within the framework of the operation (see paragraph 3.12).

PROGRAM TO STRENGTHEN THE FISCAL ADMINISTRATION OF THE STATE OF SÃO PAULO (BR-0372)
LOGICAL FRAMEWORK

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
Aim Contribute to the process of reform and modernization of the State of São Paulo.	<ul style="list-style-type: none"> Increased supply and improved quality of public services. 	<ul style="list-style-type: none"> Public opinion survey on the supply and quality of the state's public services. 	<ul style="list-style-type: none"> The macroeconomic stability process continues in the country
Intention Enhance the efficiency, effectiveness, and transparency of public resource administration through the modernization and strengthening of the State Department of Finance (SEFAZ) and the State Department of Economy and Planning (SEP) of São Paulo.	<ul style="list-style-type: none"> Fiscal balance and/or fiscal surplus maintained during the three years of program execution (2004, 2005, and 2006). A 2% annual increase in the efficiency of collection of the tax on trade in goods and services (ICMS), based on the 2002 level of receipts. Savings of US\$33 million on annual procurement of US\$332 million by program end. 	<ul style="list-style-type: none"> Balance Sheet of Public Accounts published in the official gazette of the State of São Paulo. SEFAZ publishes statistics on ICMS collections as a percentage of taxable GDP of the State of São Paulo on the Internet. SEFAZ publishes statistics on Electronic Procurement Exchange (BEC) operations. 	<ul style="list-style-type: none"> The state government remains firmly committed to fiscal equilibrium and compliance with the Fiscal Accountability Law. Changes in tax regulations do not impact the origin of ICMS receipts.
Components 1. Strengthening of tax administration Human, technological, and material resources of the Tax Administration Directorate (CAT) adapted to the new administration model.	<ul style="list-style-type: none"> 100% of enforcement actions are conducted by sector-specific multidisciplinary teams (tax evasion) by program end (40% in year 1, and 70% in year 2). Tax Administration System (SIAT) has been integrated with the State Prosecutor's Office, to support monitoring and recovery of delinquent tax debt (collection of tax debt), by end of year 2. Level of taxpayer satisfaction with CAT services is at least 90% by program end (stimulation of voluntary compliance) Strategic management system for the tax area developed and introduced by end-2005, including decentralized planning, performance indicators, and methodology for evaluating the impact of changes in tax regulations. 	<ul style="list-style-type: none"> Annual CAT management reports on its auditing activities. Updated information on judicial proceedings relating to delinquent tax debt available in the SIAT. Annual SEFAZ surveys to measure taxpayer satisfaction levels. Consultant final report on system implementation and annual strategic planning reports. 	<ul style="list-style-type: none"> The State Prosecutor's Office of São Paulo (PGE) is committed to working with SEFAZ on systems integration.

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
<p>2. Strengthening of budgetary and financial administration</p> <p>Efficiency, transparency, and quality of use of state financial resources are optimized.</p>	<ul style="list-style-type: none"> • Expansion of BEC coverage from 7% to 32% of the state's total goods procurement by program end. • Decentralized execution of disbursement programming by all the financial managers of the state (a total of 35) by the end of year 1, including the automated processing of 100% of their financial transactions, reducing the average time for disbursement programming execution from 1 minute to 2 seconds. • A system for access to information on state budget management with posting delays of no more than 3 months is available to the citizenry via the Internet, beginning in year 2. • A system of indicators for monitoring and evaluation of programs contained in the state budget has been designed by the end of year 1, and implemented by the end of year 2. 	<ul style="list-style-type: none"> • Annual report on BEC operations prepared by the State Directorate of Internal Audit (CECI). • Annual reports on operations of the Financial Administration Directorate (CAF). • Consultation of SEP website. • Consultant final report on system coverage, and annual evaluation and monitoring reports on programs. 	<ul style="list-style-type: none"> • The SEP has the political will to work in conjunction with SEFAZ on the program framework.
<p>3. Human resource management</p> <p>Personnel have the qualifications required to carry out their new duties, are committed to the mission and strategic objectives of the agency, and motivated by the modernization process.</p>	<ul style="list-style-type: none"> • A new human resource management policy is designed in year 1, and implemented in year 2. • 100% of selection processes are conducted in accordance with the new policy by the end of year 2. • 100% of professional staff are evaluated in accordance with the new policy by the end of year 3. • 100% of professional staff are promoted in accordance with the new merit and performance criteria by the end of year 3. • The job description and career path plan is designed by the end of year 1, and implemented in year 2. 	<ul style="list-style-type: none"> • SEFAZ resolution implementing the new HR policy. • Selection and competition rules for jobs. • Performance evaluation reports. • Resolutions on appointments and promotions. • SEFAZ resolution implementing a new job description and career path plan. 	<ul style="list-style-type: none"> • SEFAZ authorities have the political will and commitment to approve the new human resource management model.

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> • 100% percent of training needs for the new job descriptions have been identified by the end of year 1. • Beginning in year 2, each professional staff member receives a minimum of 40 hours of training per year in accordance with the new job descriptions. • 75 of trained staff receive a satisfactory performance evaluation in their job by the end of year 2. • 100% of the resources available to improve physical working conditions are associated with the achievement of group targets for work productivity gains. 	<ul style="list-style-type: none"> • Report of Escola Fazendaria do State of São Paulo (FAZESP). • Annual report on operations of the Directorate-General of Administration (CGA). • Report on performance evaluation of trained personnel. • Annual report on operations of the Directorate-General of Administration (CGA). 	
<p>4. Information technology management</p> <p>Introduction of comprehensive management of information technology resources, including the standardization of technology solution development processes, strengthened information security mechanisms, and reduction of the operating, administration, and maintenance costs of the network and information systems.</p>	<ul style="list-style-type: none"> • Security system for critical IT processes which support management of SEFAZ transactions designed by end of year 1 and introduced during second year. • A 50% reduction in the cost of telephone service, beginning in year 2. • Replacement of 100% of microcomputers used by administrative staff with thin client terminals (3,000). • System to manage the development and maintenance of future information and management systems introduced during second program year. 	<ul style="list-style-type: none"> • Consultant final report and annual report on DTI operations. • SEFAZ financial performance report. • CECI report on the cadastre of SEFAZ property. • Consultant final report and annual report on DTI operations. 	<ul style="list-style-type: none"> • Commitment of administrative personnel to support technological changes.

STRENGTHENING OF THE FISCAL ADMINISTRATION OF THE STATE SÃO PAULO (BR-0372)
PROCUREMENT PLAN

COMPONENTS AND ACTIVITIES	VALUE IN US\$	TYPE OF TENDER	ESTIMATED DATE
1. STRENGTHENING OF TAX ADMINISTRATION			
(i) Strengthening of tax auditing activities			
- 11 training events	1,607	LRFP	2004-2006
- 29 individual consultants	1,703	PEB	2004-2006
- Hardware: servers/micros	1,853	ICB	2004
(ii) Strengthening of strategic management			
- 6 training events	719	LRFP	2004-2006
- 19 individual consultants	1,310	PEB	2004-2006
(iii) Optimization of the integrated tax administration system (SIAT) and its integration with PGE and the Public Ministry for monitoring and recovering delinquent tax debts			
- 9 training events	300	LRFP	2004-2006
- 73 individual consultants	4,863	PEB	2004-2006
- Software	125	LCB	2004
- Hardware: servers/micros	4,333	ICB	2004/2006
(iv) Mechanisms to improve and integrate taxpayer assistance services			
- 4 training events	193	LRFP	2004-2006
- 13 individual consultants	656	PEB	2004-2006
- 2 consulting firms	371	LRFP	2004
- Miscellaneous software	245	LCB	2004
- Hardware: micros	87	LCB	2004
SUBTOTAL FOR COMPONENT 1	18,365		
2. STRENGTHENING OF BUDGET AND FINANCIAL ADMINISTRATION			
(i) Expanded coverage of the electronic procurement exchange (BEC)			
- Training of managers	227	LRFP	2004-2006
- 3 individual consultants	75	PEB	2004-2006
- 1 consulting firm	2,762	LRFP	2004
- Software	122	LCB	2004
- Hardware: micros	437	ICB	2005
(iii) Expansion of state's electronic contracting systems			
- Training of teams	35	LRFP	2005-2006
- 1 consulting firm	612	LRFP	2005-2006
- Hardware: data server	52	LCB	2004
(iv) Indicator systems for evaluating effectiveness of budget program execution and expansion of access to information			
- 3 training events	332	LRFP	2004-2006
- 2 consulting firms	857	LRFP	2004-2006
- Hardware: servers/micros	734	ICB	2005
(v) Decentralization of operational functions of financial execution and adaptation of State Finance Department (DFE) functions			
- Training of managers	70	LRFP	2004-2006
- 5 individual consultants	324	PEB	2004-2006
- 1 consulting firm	40	LRFP	2004
- Software	55	LCB	2004
- Hardware: data servers	35	LCB	2004
(vi) Development of new functions for the integrated system for budgetary and financial administration (SIGOF)			
- 1 consulting firm	690	LRFP	2004
(vii) Re-engineering of management process for payment of state pension benefits (IPESP)			
- User and operator training	17	LRFP	2005
- 2 consulting firms	402	LRFP	2004
- Software	52	LCB	2004
- Hardware: servers/micros	118	LCB	2004
SUBTOTAL FOR COMPONENT 2	8,048		

COMPONENTS AND ACTIVITIES	VALUE IN US\$	TYPE OF TENDER	ESTIMATED DATE
3. HUMAN RESOURCE MANAGEMENT			
(i) Definition of job description and career path model for SEFAZ			
- 6 individual consultants	150	PEB	2004
(ii) Design and implementation of new training plan			
- 2 specialized courses	301	LRFP	2005
- 17 individual consultants	548	PEB	2004-2005
- Hardware: micros/projectors	388	ICB	2005
(iii) Development and implementation of performance evaluation system for tax area			
- 9 training events	583	LRFP	2004-2006
- 5 individual consultants	201	PEB	2004-2006
(iv) Support for design of staff welfare policies			
- 4 training events	66	LRFP	2004
- 7 individual consultants	185	PEB	2004
- Hardware: micros	7	LRFP	2004
(v) Development and introduction of a Tax Ethics Code			
- 1 training event	113	LRFP	2004-2006
(vi) Design and implementation of strategic planning model			
- 1 training event	140	LRFP	2004-2006
- 1 consulting firm	455	IRFP	2004
SUBTOTAL FOR COMPONENT 3	3,137		
4. INFORMATION TECHNOLOGY MANAGEMENT			
(i) Support for management of development processes for future SEFAZ information and communications systems			
- Team training	87	LRFP	2004
- 1 consulting firm	70	LRFP	2004
- Software	1,119	ICB	2004
- Data servers	105	LCB	2004
(ii) Automation of security processes			
- Training for operation and dissemination	89	LRFP	2004
- 1 consulting firm	315	IRFP	2004
- Miscellaneous software	787	ICB	2004
- Data/other servers	1,987	ICB	2004-2005
(iii) Optimization of communications systems			
- Training of technicians	6	LRFP	2004
- Miscellaneous software	123	LCB	2004
- Hardware: telephony equipment	251	LCB	2004
(iv) Purchase and installation of thin client terminals			
- Workstations and software	1,888	ICB	2004
(v) Development of cadastre system for Administrative Units			
- Training	35	LRFP	2004
- 3 consulting firms	674	IRFP	2004
- Hardware: data servers	177	LCB	2004
SUBTOTAL FOR COMPONENT 4	7,713		
PROGRAM TOTAL	37,263		

PEB - Individual consultants.

LRFP - Local request for proposals from consulting firms under US\$200,000.

IRFP - International request for proposals from consulting firms over US\$200,000.

LCB - Local competitive bidding under US\$350,000.

ICB - International competitive bidding over US\$350,000.