

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROFISCO – RORAIMA
FISCAL ADMINISTRATION MODERNIZATION PROGRAM OF THE
STATE OF RORAIMA (PROFISCO/RR)**

(BR- L1253)

**INDIVIDUAL LOAN UNDER THE CCLIP TO SUPPORT THE
MANAGEMENT AND INTEGRATION OF FINANCE
ADMINISTRATIONS IN BRAZIL (PROFISCO/BR-X1005)**

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1. Annual work plan (AWP) – 18 months	IDBDocs35218784
2. Monitoring and evaluation system	IDBDocs35214818
3. Procurement plan – 18 months (itemized table)	IDBDocs35218792
OPTIONAL	
1. Matrix of problems – Summary diagnostic assessment of fiscal management	IDBDocs35214776
2. Program financial analysis	IDBDocs35214781
3. Institutional arrangement and execution mechanism	IDBDocs35214782
4. State law authorizing the credit operation	IDBDocs35214785
5. Decree creating the Program Coordination Unit (PCU)	IDBDocs35214795
6. Report on fiscal management in the State of Roraima	IDBDocs35214803
7. Frame of reference for the PROFISCO CCLIP approved by the Brazilian government	IDBDocs35214807
8. Program Operating Regulations of the PROFISCO CCLIP and annexes	IDBDocs35214765
9. Table of indicators	IDBDocs35214770
10. Environmental and social safeguard classification	IDBDocs35256297

ABBREVIATIONS

AWP	Annual work plan
CCLIP	Conditional credit line for investment projects
CGE/RR	Controladoria Geral do Estado de Roraima [State of Roraima Comptroller General's Office]
ECD	Escrituração contábil digital [digital accounting record]
EFD	Escrituração fiscal digital [digital tax record]
ESAF	Escola de Administração Fazendária [School of Public Finance Administration of the Ministry of Finance of the Federative Republic of Brazil]
FUNSEFAZ	Fundo de Modernização e Desenvolvimento Fazendário [Treasury Modernization and Development Fund]
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [goods and services sales tax]
ICB	International competitive bidding
IPVA	Imposto sobre a propriedade de veículos automotores [motor vehicle ownership tax]
NCB	National competitive bidding
NCD	Net consolidated debt
NCI	Net current income
NF-e	Nota fiscal eletrônica [electronic tax invoice]
OC	Ordinary Capital
PAF	Programa de Reestruturação e Ajuste Fiscal [Fiscal Adjustment and Restructuring Program for the Brazilian States]
PAI	Plano de Ação e de Investimento [Plan of Action and Investment]
PCU	Program Coordination Unit
PGE/RR	Procuradoria Geral do Estado [State of Roraima Attorney General's Office]
PROFISCO	Program to Support the Management and Integration of Finance Administrations in Brazil
SEFAZ/RR	Secretaria de Estado de Fazenda do Roraima [State of Roraima Finance Department]
SEINF	Secretaria de Estado de Infraestrutura do Roraima [State of Roraima Infrastructure Department]
SIAT-E	Sistema Integrado de Administração Tributária Estadual [State Integrated Tax Administration System]
SINTEGRA	Sistema Integrado de informações sobre Operações Interestaduais com Mercadorias e Serviços [Integrated Information System on Interstate Movements Operations with Goods and Services]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]

STN
UNDP

Secretaria do Tesouro Nacional [National Treasury Department]
United Nations Development Programme

PROGRAM SUMMARY

BRAZIL PROFISCO – RORAIMA FISCAL ADMINISTRATION MODERNIZATION PROGRAM OF THE STATE OF RORAIMA (PROFISCO/RR) (BR-L1253)

Financial Terms and Conditions				
Borrower: State of Roraima			Flexible Financing Facility (FFF)*	
Guarantor: Federative Republic of Brazil			Amortization period:	20 years
Executing agency: State of Roraima, acting through the State of Roraima Finance Department (SEFAZ/RR) in coordination with the State of Roraima Infrastructure Department (SEINF)			Grace period:	4 years
			Disbursement period:	4 years
Source	Amount	%	Inspection and supervision fee:	**
IDB: Ordinary Capital (OC)	US\$5,788,000	75%	Interest rate:	LIBOR
Local:	US\$1,912,000	25%	Credit fee:	**
Total:	US\$7,700,000	100%	Currency:	U.S. dollars from the FFF* of the OC
Program at a Glance				
<p>Objective: The general objective of the program is to help strengthen fiscal management in the State of Roraima by upgrading strategic planning and decision-making tools, increasing internally-generated revenue, enhancing the effectiveness and quality of budget execution, and providing better services to citizens.</p> <p>Description: This project forms part of the conditional credit line for investment projects (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO) (BR-X1005), approved by the Bank's Board of Executive Directors under Resolution DE-132/08 of 5 November 2008, as amended by Resolution DE-75/13 on 18 July 2013. It has four components with their respective subcomponents:</p> <ol style="list-style-type: none"> 1. Integrated financial management: (i) better organization and integration of financial management; (ii) national and international interagency cooperation. 2. Tax administration and tax dispute settlement procedures: (i) more efficient and effective tax administration; (ii) better management of the taxpayer registry and implementation of the Digital Public Accounting System (SPED); (iii) more efficient and effective tax dispute settlement procedures. 3. Financial and asset management, and internal oversight of fiscal management: (i) more efficient and effective financial management; (ii) better audit and internal oversight mechanisms in fiscal management. 4. Corporate resource management: (i) better mechanisms for transparency and communication with society; (ii) modernization of management and improved information and communication technology (ICT) services in the finance area; and (iii) strengthening of human resource management in the finance area. <p>Special conditions precedent to the first disbursement of the loan proceeds: the borrower will provide evidence that the Operating Regulations for the PROFISCO CCLIP have entered into effect (see paragraph 3.9).</p> <p>Exception to Bank policies. As explicitly provided in the PROFISCO framework document (BR-X1005), the borrower has requested authorization to use national legislation on procurement and contracting of nonconsulting services (see paragraph 2.3), as has been the case in all other individual loans under this CCLIP.</p>				
Project consistent with the country strategy:			Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Project qualifies as:			SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>	

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

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 This program forms part of the conditional credit line for investment projects (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO) (BR-X1005), approved by the Bank's Board of Executive Directors under Resolution DE-132/08 of 5 November 2008, as amended by Resolution DE-75/13 on 18 July 2013. PROFISCO's main objectives are to: (i) raise levels of tax revenue intake; (ii) reduce tax evasion and fraud; (iii) harmonize fiscal concepts and procedures; (iv) strengthen intergovernmental cooperation; (v) enhance the effectiveness of finance administration; and (vi) strengthen systems to support public expenditure management and the decentralization of financial management. The PROFISCO program also builds upon actions taken under the Bank-financed National Fiscal Administration Program for the Brazilian States (PNAFE) (loan 980/OC-BR), which is regarded as a major source of support for the federal government's Fiscal Adjustment and Restructuring Program for the Brazilian States (PAF).
- 1.2 **Rationale of the PROFISCO CCLIP.** Although Brazil is one of the world's ten largest economies, socioeconomic conditions vary widely within the country. Brazil has a human development index (HDI) of 0.718, ranking eighty-fourth out of 187 countries in 2011,¹ and it has one of the world's worst income distributions (GINI = 50.1 in 2011).² Consequently, there are major shortcomings in nearly all sectors with degrees of severity varying across the 27 states. The state governments face the major challenge of making up for these shortcomings largely out of their own revenue, since they are autonomous entities mandated to provide most core services and maintain their infrastructure.³ The main difficulties in meeting those obligations stem from the challenge of increasing tax revenue intake and maintaining public spending at responsible levels, so that adequate services can be provided and the necessary investments made in a sustainable fiscal context. It is against this backdrop that the PROFISCO CCLIP provides resources and technical assistance to Brazil's states to help strengthen fiscal management in the areas of tax administration, financial management, debt management, and the management of programs and projects.
- 1.3 **Socioeconomic context.** The State of Roraima is located in the northern region of Brazil and occupies an area of 224,299 square kilometers, with 15 municípios and a population of 450,479,⁴ 77.6% of whom live in urban areas. It is the smallest

¹ Source: <http://hdr.undp.org/en/statistics/>.

² Source: <http://data.worldbank.org/indicator/SI.POV.GINI>.

³ Under the Brazilian Constitution, the states, among others, are responsible for providing health, education, security, basic sanitation, and justice services.

⁴ Source: Brazilian Institute of Geography and Statistics (IBGE), 2010 Demographic Census.

Brazilian state in population terms, with 65% of its inhabitants living in the state capital. It has an indigenous population of approximately 46,000.

- 1.4 The State of Roraima's GDP in 2012 represented an estimated 0.2% of the national total,⁵ the smallest share of all 27 federative units, equivalent to a per capita income of R\$15,770,⁶ 14th among the 27 Brazilian States. The state economy is led by the services sector (82%), followed by manufacturing (13%) and agriculture (5%). As Roraima is a new federative unit, almost 50% of its economy is linked to the public sector, which explains the large share of services.⁷
- 1.5 The State of Roraima has many needs and a deficit of public services.⁸ It also receives the tenth largest amount of assistance through the Bolsa Família family subsidies program,⁹ with nearly 46,000 families benefiting.¹⁰ According to the 2010 Demographic Census taken by the Brazilian Institute of Geography and Statistics (IBGE), nearly 17% of the state's population is living in extreme poverty. Roraima is the only state where the absolute number of inhabitants living in extreme poverty rose during the last decade.¹¹ The state's municipal human development index (HDI-M) is 0.707, thirteenth among Brazil's 27 states.¹² As the state is responsible for providing core services such as health, secondary education and part of basic and higher education, police, justice, the prison system, and other services, a fiscal management strengthening program will benefit all of its citizens, directly or indirectly.¹³
- 1.6 **Fiscal management in Roraima: progress and outstanding tasks.** The State of Roraima has been meeting the conditions set by the Fiscal Responsibility Law (LRF), as well as its PAF commitments to the Federal Government. The targets reviewed by the National Treasury Department (STN) currently show the following results:

⁵ In 2012, the state's GDP was estimated at R\$7.4 billion, according to IBGE data.

⁶ Equivalent to approximately US\$6,856.

⁷ National Accounts No. 38, 2010 (IBGE).

⁸ State of Roraima Planning and Development Department, Roraima: "Indicadores gerais 2012" [General indicators 2012], in the optional electronic links.

⁹ Benefit paid by the federal government to poor families with incomes below R\$140 per month (roughly US\$80), <http://www.mds.gov.br/bolsafamilia>; 30.8% of Roraima families receive Bolsa Família benefits.

¹⁰ Considering the national average of 3.3 persons per family, about 34% of the population is poor under this criterion.

¹¹ Technical study 20/2012. "Evolução da pobreza e da extrema pobreza – Comparação entre os censos de 2000 e 2010" [Trend of poverty and extreme poverty – Comparison between the 2000 and 2010 censuses], <http://www.mds.gov.br/sagi>.

¹² Atlas of Human Development in Brazil 2013. <http://www.pnud.org.br>.

¹³ "Bahia en números" [Bahia by the numbers], Superintendency of Economic and Social Studies of Bahia (SEI), http://www.sei.ba.gov.br/index.php?option=com_content&view=article&id=148&Itemid=235.

Table 1.1: Targets Set and Met, 2012

Specifications	Targets set for 2012	Targets met in 2012 ¹⁴
Debt/Real net income	≤ 1	0.81
Primary balance	-10	-260 ¹⁵
Payroll expenditure/Net current income	60%	53.81%
Internally generated revenue	544	566

- 1.7 The State of Roraima relies heavily on federal government funding. Its total revenue in 2012 was R\$2.874 billion, of which R\$1.96 billion came in the form of federal government transfers (68%), and R\$576 million (20%) was raised in taxes. The largest source of internally generated revenue is the goods and services sales tax (ICMS),¹⁶ which generated R\$456 million in 2012 (79% of tax revenue). Table 1.2 summarizes some of the main fiscal indicators:

Table 1.2: Fiscal Indicators of the State of Roraima (at current prices)

Description	Actual 2009 (R\$ million)	Actual 2010 (R\$ million)	Actual 2012 (R\$ million)	Variation 2009-2012 (%)
Nonfinancial income	1,656	1,905	2,555	54.29
Nonfinancial expenditure	1,845	1,904	2,384	29.21
Net current income (NCI)	1,626	1,788	2,380	46.37
Payroll expenditure	725	851	1,280	76.55
Payroll/NCI	44.59	47.59	53.78	13.00
Net consolidated debt (NCD)	506	73	466	(8.58)
NCD/NCI	31.13	4.12	19.60	(58.82)

Source STN budgetary management and execution reports ([see electronic link](#)).

- 1.8 **Institutional context.** The State of Roraima's fiscal management is conducted by three institutions: (i) the State of Roraima Finance Department (SEFAZ/RR), which: (a) ensures that tax revenue is collected and participates in the formulation and implementation and economic/taxation policy; (b) manages tax administration; (c) directs, guides, and coordinates collection, inspection, and control activities relating to taxes and other state revenue; and (d) conducts the state's financial management; (ii) the State of Roraima Comptroller General's Office (CGE/RR), which is responsible for internal audit and control processes; and (iii) the State of Roraima Attorney General's Office (PGE/RR), which is responsible for the settlement of tax disputes (litigation in the courts).

¹⁴ STN report on PAF targets met by the State of Roraima.

¹⁵ The STN considered the target met, as no delays or shortfalls occurred.

¹⁶ The ICMS is a state-level value-added tax, with multiple rates, both on transactions occurring within each state and on interstate trade.

- 1.9 **Human resources.** SEFAZ/RR has a permanent staff of 191, distributed as follows: (i) 73 state tax inspectors; (ii) 29 state taxation technical staff; and (iii) 89 civil servants responsible for administrative activities. SEFAZ/RR also has a temporary staff of 169 civil servants supporting all of its activities.
- 1.10 **Progress.** In recent years, the State of Roraima has pursued a number of actions to modernize fiscal management, including:
- a. **Integrated strategic management:** (i) Improvement of the physical infrastructure of SEFAZ/RR offices; (ii) training for professional staff in the fiscal and financial areas; and (iii) improvement of online taxpayer services at the Boa Vista Revenue Office.
 - b. **Tax administration and tax dispute settlement procedures:** (i) Rationalization of internal work processes with a consequent reduction in the time for the consolidation and recording of expenditure and income and bank consolidation; (ii) automation of the revenue collection network with a consequent reduction in the volume of documents handled between tax collection agents and SEFAZ/RR; and (iii) improvement of actions to collect tax claims.
 - c. **Financial and asset management and internal oversight:** (i) Centralization of budgetary and financial execution processing with the implementation of the SIAFEM integrated financial management system at all government departments and decentralized agencies, public foundations, autonomous entities, court system, and the State of Roraima Audit Office (TCE/RR); and (ii) implementation of audits at 100% of state departments.
 - d. **Strategic resource management:** (i) Training for directors, department chiefs, and staff in quality-based management, and for roughly 230 civil servants per year in various courses; (ii) installation of 132 workstations and 45 notebooks for SEFAZ/RR civil servants; (iii) implementation of the SEFAZ/RR communications network, connecting the capital to the rest of the country; and (iv) implementation of the system for monitoring all vehicles passing through the Jundiá and Pacaraima tax inspection posts.
- 1.11 **Challenges ahead.**¹⁷ Roraima's main problem lies in the difficulty of maintaining fiscal balance, aimed firstly at achieving a surplus and then sustainably expanding its investment to address the socioeconomic problems that affect all of the state's population.¹⁸ The direct and indirect causes contributing to worsen the problem are:

¹⁷ The electronic link, "[Matrix of problems/causes/solutions/outcomes](#)," describes each of the problems relating to the four areas identified in the challenges.

¹⁸ According to the PAF, the State of Roraima undertook to limit the primary deficits to R\$248 million in 2013 and achieve a surplus of R\$79 million in 2014.

- a. **Integrated strategic management.** Inefficient and ineffective management of tax collection, owing mainly to: (i) poor integration of information obtained from inspection, collection, and taxation processes; (ii) tax actions undertaken without defined objectives, targets, and indicators; and (iii) the fact that SEFAZ/RR staff have not kept pace with existing innovations and updates or those implemented at other government agencies.
- b. **Tax administration and tax dispute settlement procedures.** Unsatisfactory levels of tax collection, owing mainly to the high rate of tax evasion. This involves the following problems: (i) no fiscal policies for collecting and assessing the motor vehicle ownership tax (IPVA); (ii) no direct channels of communication with citizens; (iii) inefficient inspection of goods in transit and commercial establishments; (iv) few online services available for taxpayers; (v) limited information management capacity for financial administration; (vi) no information on economic/fiscal discrepancies; (vii) the time taken to start and register new businesses; (viii) the difficulty of obtaining strategic information to support future fiscal and taxpayer monitoring actions; (ix) the time taken to perform accounting and tax audits; and (x) low rate of recovery of taxes owed.
- c. **Financial and asset management and internal oversight.** Inefficient and ineffective management of public expenditure, owing to: (i) no cost accounting culture or accounting framework capable of capturing such costs; (ii) shortcomings in instruments to support the correction of administrative acts (disciplinary tribunal); and (iii) no code of ethics to guide the conduct of SEFAZ/RR civil servants.
- d. **Strategic resource management.** Staff management shortcomings in the areas of technology and communication with society. The main factors contributing to worsen this problem are: (i) not enough trained outreach personnel for tax education activities; (ii) no strategic planning and information and communication technology (ICT) actions; (iii) insufficient and/or outdated technological resources to meet SEFAZ/RR's demand for services; (iv) limited capacity for solving technical, managerial, and administrative problems; and (v) SEFAZ/RR staff duties and responsibilities not reflected in the organizational structure.

B. The Bank's country and sector strategy

- 1.12 The Government of Brazil and the Bank have recognized the importance of strengthening subnational fiscal management for the success of social policies and economic development. Thus, one of the six priority sectors in the Bank's country strategy with Brazil 2012-2014 (document GN-2662-1) is to improve the institutional capacity of public entities through action in the areas of public management and fiscal management. The strategy's main targets in fiscal management are: (i) sustainable fiscal balance at the subnational level; (ii) efficiency and quality of public expenditure; and (iii) greater transparency and

dialogue with society. The program contributes to attaining the targets of the Ninth General Capital Increase (GCI-9) (document AB-2764) by supporting capacity building of public institutions for growth. The program is also aligned with the 2011 Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in relation to: (i) income generation; and (ii) strengthening of fiscal sustainability.

C. Objective, components, and costs

- 1.13 The general objective of the program is to help strengthen fiscal management in the State of Roraima by upgrading strategic planning and decision-making tools, increasing internally-generated revenue, enhancing the effectiveness and quality of budget execution, and providing better services to citizens. The program has four components with their respective subcomponents, as foreseen in the PROFISCO CCLIP. The details of each of the project activities are specified in the Plan of Action and Investment (PAI) in the required electronic links.
- 1.14 **Component I. Integrated financial management (US\$591,000).** This component aims to increase the efficiency and effectiveness of treasury management, and will include the following subcomponents and their respective outputs:
- a. **Better organization and integration of financial management.** This subcomponent will finance the introduction of a new strategic planning and management model, developed and implemented on the basis of the mapping of inspection, collection, and taxation processes.
 - b. **National and international interagency cooperation.** This subcomponent will finance a program to share successful experiences and innovative management tools with other government agencies.
- 1.15 **Component II. Tax administration and tax dispute settlement procedures (US\$5,795,000).** This component will support the state government in improving tax revenue collection, and will include the following subcomponents and their respective outputs:
- a. **More efficient and effective tax administration.** This subcomponent will finance implementation of the following: (i) a model to manage the IPVA system, including development of an information technology model in the SIAT-e integrated tax administration system, integrating its information with the database of the State of Roraima Transit Department (DETRAN/RR); (ii) improvement of the model for providing services to taxpayers/citizens; (iii) a new goods-in-transit inspection model; (iv) a new commercial establishment inspection model; and (v) a new tax intelligence model with information exchange and risk analysis functionalities.
 - b. **Better management of the taxpayer registry and implementation of the Digital Public Accounting System (SPED).** This subcomponent will finance the implementation of the National Synchronized Registry (CadSinc) and the

SPED, together with the electronic tax invoice (NF-e), digital tax record (EFD), and digital accounting record (ECD).

- c. **More efficient and effective tax dispute settlement procedures.** This subcomponent will finance implementation of the management model for the recovery of tax claims, integrated with the procedures of the fiscal prosecution office.

1.16 **Component III. Financial and asset management, and internal oversight of fiscal management (US\$167,000).** This component aims to make the transparency of public expenditure management more efficient and effective, and will include the following subcomponents and their respective outputs:

- a. **More efficient and effective financial management.** This subcomponent will finance the implementation of a cost accounting model, including a mapping of costs in the state's education sector.
- b. **Better audit and internal oversight mechanisms in fiscal management.** This subcomponent will finance improvements to the model for correcting SEFAZ/RR administrative acts (disciplinary tribunal).

1.17 **Component IV. Corporate resource management (US\$558,000).** This component aims to strengthen the management of human resources, technology, and communication with society, and will include the following subcomponents and their respective outputs.

- a. **Improvement of mechanisms for transparency and communication with society.** This subcomponent will finance an expansion of the state tax education program.
- b. **Modernization of management and upgrading of ICT services in the fiscal area.** This subcomponent will finance implementation of: (i) a SEFAZ/RR information technology management model; and (ii) a portal providing online services for SEFAZ/RR staff.
- c. **Strengthening of human resource management in the fiscal area.** This subcomponent will finance the implementation of a skills-based human resource management and training model.

1.18 **Overall budget.** The total value of the program is US\$7,700,000, of which US\$5,788,000 (75%) will be the loan proceeds, and US\$1,912,000 (25%) will be local counterpart funding, as shown in Table 1.3.¹⁹

¹⁹ No budget item has been set aside to cover interest expenses in relation to the inspection and supervision fee or the credit fee, since these will be paid from state funds, outside the program.

Table 1.3: Program Overall Budget (US\$)

Categories	IDB	Local	Total	%
1 Program management	372,000	0	372,000	4.83
1.1 Monitoring/Audits	372,000		372,000	4.83
2 Direct costs	5,204,000	1,907,000	7,111,000	92.35
2.1 Integrated financial management	591,000	0	591,000	7.68
2.2 Tax administration and tax dispute settlement procedures	3,888,000	1,907,000	5,795,000	75.26
2.3 Financial and asset management and internal oversight	167,000	0	167,000	2.17
2.4 Corporate resource management	558,000	0	558,000	7.25
3 Unallocated	212,000	5,000	217,000	2.82
Total	5,788,000	1,912,000	7,700,000	100.00
Percentage (%)	75.17	24.83	100	

- 1.19 **Disbursement schedule.** Disbursements will be made over four years, running from the effective date of the loan contract, as shown in Table 1.4.

**Table 1.4: Disbursement Schedule
(US\$000s)**

Source	Year 1	Year 2	Year 3	Year 4	Total	%
IDB	694.56	1,041.84	1,736.40	2,315.20	5,788	75.17
Local	229.44	344.16	573.60	764.80	1,912	24.83
Total	924.00	1,386.00	2,310.00	3,080.00	7,700	100
Percentage (%)	12	18	30	40	100	

- 1.20 **Financial planning and disbursements.** To ensure efficient implementation, the Bank will disburse the loan proceeds according to the program's actual cash flow needs. The executing agency will periodically update its financial plan, estimating the funding needed to execute the program in accordance with its budget, work plan, and commitments undertaken.
- 1.21 **Financial analysis.** Given the small amount of the operation, the project team opted to perform only a comparative analysis between the project's investments and the benefits associated with its improvement activities. The financial analysis assumed the implementation of the IPVA management system, which will contribute an annual increase in revenue of approximately US\$1.515 million from 2014 onward; and the implementation of ICMS inspection systems for goods in transit and the inspection of commercial establishments, which will contribute savings of US\$1.86 million from 2014 onward.
- 1.22 The analysis used the following parameters: (i) a 10-year horizon; (ii) an annual discount rate of 12.5%; and (iii) an annual GDP growth rate of 2.5%.
- 1.23 According to the project's economic assessment document ([see optional electronic link 2](#)) it is estimated that, by 2016, the project will already show a cumulative net benefit in present value terms of around US\$332,000, and by 2022 this benefit will

be on the order of US\$9.3 million, fully justifying the program's implementation. An ex post financial analysis will be performed at the end of program implementation, to review the values projected in this analysis. Any differences will be analyzed and recommendations will be made as necessary.

D. Key results indicators

- 1.24 The main expected outcomes at the end of the four years of program execution (2017) are as follows: (i) a 36.77% increase in IPVA revenue intake (from R\$32.9 million to R\$45 million); (ii) a 20% increase (from R\$99.7 million to R\$119.6 million) in the registered value of tax substitution at entry and rate differential, as a result of the inspection of goods in transit; (iii) a 50% increase (from 84 to 126) in the number of establishment inspection audits performed; (iv) a 40% increase (from 12 to 15) in the number of court proceedings processed per year; (v) a reduction from 35 to 8 days in the average time taken to process the registration of a new business; and (vi) an increase (from 80 to 160) in the number of civil servants trained per year.
- 1.25 In terms of state-level impacts, the program will contribute to: (i) a sustainable fiscal balance with repercussions on the state economy; (ii) increased state investment capacity; and (iii) greater taxpayer/citizen satisfaction. At the national level, the program will make it possible to: (i) facilitate interstate commerce; (ii) reduce tax evasion and fraud; (iii) improve the national tax system; and (iv) integrate national and state fiscal administration.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing, procurement, and contractual conditions

- 2.1 **Fiduciary context of the country.** Brazil has a sound and transparent institutional and policy framework with robust country fiduciary systems that allow for good governance of administrative, financial, oversight, and procurement processes, in line with the principles of transparency, economy, and efficiency. The Bank's fiduciary strategy for Brazil in this regard is geared toward progressive and sustainable use of the country's fiduciary systems (see Annex III).
- 2.2 **Procurement.** The procurement of goods, works, and nonconsulting services and the contracting of consulting services for the program will be conducted in accordance with Bank policies (documents GN-2349-9 and GN-2350-9), approved in July 2006. International competitive bidding (ICB) will be used for procurements of goods and nonconsulting services with an estimated cost of US\$5 million or more, and for works of US\$25 million or more. National competitive bidding (NCB) will be used for procurements of goods and nonconsulting services with an estimated cost of US\$100,000 or more, but less than US\$5 million. The shopping method may be used for procurements under US\$100,000. In the case of works, NCB will be used for amounts between US\$500,000 and US\$25 million; the

shopping method will be used for processes below this amount. International publicity will be required for the selection of consulting services of US\$200,000 or more. The shortlists of consulting firms for activities with an estimated cost below US\$1 million may consist entirely of national consultants.

- 2.3 **Brazilian national legislation.** For the reasons described above, and as has been the case in all other PROFISCO operations as provided in the framework operation (BR-X1005), authorization is requested, as an exception to Bank policies, for the borrower to utilize Brazilian national legislation for procurement of works in amounts less than US\$25 million per contract, and for procurement of goods and nonconsulting services in amounts less than US\$5 million per contract, provided that they adhere to the principles of competition, economy, transparency, equality, publicity, and due process, as specified in the Bank's procurement policies (document GN-2349-9), particularly as they relate to the origin of the goods, the nationality of the vendors, changes in purchase orders, prohibition of price bands, and publication in major newspapers. The borrower will indicate in the corresponding procurement plan whether it has opted for Brazilian national legislation. Works, goods, and nonconsulting services for amounts greater than or equal to those indicated this paragraph will be procured in accordance with the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9).
- 2.4 The Bank may also recognize against the loan proceeds purchases of off-the-shelf goods and services made using the procurement modalities provided in Brazilian national legislation, provided that the corresponding standard bidding document is used, in: (i) electronic purchase (in systems previously accepted by the Bank); and (ii) price list for procurements, when the Bank has previously given its no objection to the price list. The Bank may, at any time during the execution period, review the use of one or more of the modalities described in this paragraph.
- 2.5 **Direct contracting.** Within the state program, the borrower is authorized to directly contract the School of Public Finance Administration (ESAF)²⁰ of the Ministry of Finance to provide training services to state public administration personnel. The direct contracting of ESAF is justified by the specific features and nature of the services it provides (training and knowledge management), contributing to project sustainability, sharing of knowledge and experiences, and, especially, sustaining the supply of such products and services once the project has ended.
- 2.6 **Exchange rate.** The exchange rate will be the rate prevailing on the date of conversion of the resources disbursed in dollars into the borrower's local currency.
- 2.7 **Specialized agency.** The borrower may directly contract a specialized agency to provide technical support services, exclusively for goods procurement and the

²⁰ The Bank consented to the direct contracting of the ESAF when it approved the PROFISCO CCLIP, benefiting all projects that use it.

selection of consulting firms or individual consultants for program execution activities, subject to the following conditions: (i) the contract to be signed with the specialized agency shall be subject to the Bank's prior approval, in accordance with its procurement and contracting policies; (ii) the specialized agency shall assume the commitment to follow the Bank's procurement policies and procedures; (iii) consulting services shall not be contracted for routine project execution activities; and (iv) in the event that the specialized agency is the United Nations Development Programme (UNDP), the contract shall meet the requirements of the Letter of Agreement signed between the Bank and the UNDP on 20 June 2003.

- 2.8 **Review by the Bank.** All ICB and direct contracting will be subject to ex ante review; and, in view of the special features of the project and the operational capacity of the Program Coordination Unit (PCU), an annual post review will also be performed. Moreover, the Bank may modify the type of review indicated in the procurement plan, based on the annual audit reviews.
- 2.9 The first three procurement processes for goods and nonconsulting services and the first three selection and contracting processes for consulting services (firms) financed in whole or part with the Bank loan proceeds, regardless of amount, will be subject to ex ante review by the Bank. Following this phase, the ex post review method will be used. The ex ante review method will be used for ICB and direct contracting.
- 2.10 **Advance procurement and retroactive financing.** The Bank does not anticipate recognizing reimbursable expenditures against the loan proceeds or local counterpart funds.
- 2.11 **Technical exchange and cooperation.** The borrower may engage in fiscal integration and cooperation activities at the national and international level, particularly in terms of sharing technical solutions and information, knowledge transfer, formation of thematic networks, and interagency cooperation.

B. Environmental and social safeguard risks

- 2.12 Under the criteria of the Bank's Environment and Safeguards Compliance Policy (directive B.13, Operational Policy OP-703), the project does not require classification, since it is part of a CCLIP. This is consistent with the project team's assessment, as the operation involves the institutional modernization of SEFAZ/RR. Consequently, it is considered unnecessary to prepare an environmental strategy for the program. Risk was assessed by a specialized team at the Bank's Country Office in Brazil, resulting in a rating of low to moderate risk and no additional recommendations.

C. Fiduciary risk

- 2.13 The risk analysis was undertaken by the project team at a meeting with representatives of all agencies directly or indirectly involved in executing the

project. Several risks were identified and are shown in the risk matrix together with the mitigation measures.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Execution mechanism

- 3.1 The borrower will be the State of Roraima, with the Federative Republic of Brazil as guarantor of the financial obligations of the loan. The executing agency will be the State of Roraima, acting through the State of Roraima Finance Department (SEFAZ/RR) through its Program Coordination Unit (PCU), in coordination with the State Infrastructure Department (SEINF).²¹ The PCU will be responsible for ensuring compliance with program requirements and ensuring that the program activities are compatible with those described in the multiyear plan and in the SEFAZ/RR work plans.
- 3.2 The PCU will use the structure of the Treasury Modernization and Development Fund (FUNSEFAZ), created by State Law 496 of 13 June 2005, and governed by State Decree 6647-E of 2 September 2005, which finances: (i) the modernization, development, and improvement of treasury administration, including the education and training of SEFAZ/RR technical staff and civil servants in specific programs targeting these objectives; and (ii) the procurement of vehicles and equipment, and the remodeling of buildings and physical facilities to be used in SEFAZ/RR activities.
- 3.3 The basic structure of the PCU will comprise career civil servants of the government of the State of Roraima and/or seconded by the federal government, including: a general coordinator, technical coordinator, administrative/financial coordinator, and a program monitoring and evaluation assistant.
- 3.4 The PCU will have the following responsibilities: (i) submit disbursement requests to the Bank with the relevant supporting documentation; (ii) supervise bidding and procurement processes for program goods, works, and services, in accordance with the procurement plan and applicable Bank policies; (iii) maintain the program financial accounting system appropriately, in accordance with applicable Bank policies; (iv) deliver program status reports; (v) deliver work plans and update the procurement plan; (vi) retain the respective invoices, contracts, and payment orders and provide them to the Bank and program auditors upon request; and (vii) ensure that the works and goods purchased with program funds are maintained in accordance with generally applicable technical standards.

²¹ Agency responsible for works supervision and maintenance of the state's real property, as well as for works projects under the program.

- 3.5 SEFAZ/RR will be responsible for program procurements. The operational activities related to all bidding processes conducted under PROFISCO/RR will preferably be executed by the FUNSEFAZ Special Bidding Committee or, failing that, by the SEINF, and monitored by the State of Roraima Comptroller General's Office (CGE/RR) and Attorney General's Office (PGE/RR).

B. Summary of arrangements for monitoring results

- 3.6 The program will be monitored by a PCU staff member, based on the schedule of activities and the physical and financial data for outputs contained in the work plan, and on the descriptions of procurement and contracting processes included in the procurement plan. To support the monitoring of project execution, the PCU will use a computerized tool capable of generating the basic reports required by the Bank.
- 3.7 The borrower will deliver to the Bank the six-monthly reports described in Clause 7.03(a)(i) of the General Conditions, with a copy to the Office of the Executive Secretary of the Ministry of Finance of the Federative Republic of Brazil. These reports will provide information on the progress of national integration activities, regardless of the source of financing, namely the National Synchronized Registry (CadSinc) and the Digital Public Accounting System (SPED), including the electronic tax invoice (NF-e), the digital accounting record (ECD), and the digital tax record (EFD).
- 3.8 The evaluation of outcomes achieved in the individual subcomponents will require aggregate analysis of progress on the outputs and the outcomes linked to each subcomponent, as shown in the Results Matrix. These verifications will take place during preparation of the loan review report and the project completion report.
- 3.9 **Operating Regulations.** This instrument establishes the general rules for program execution, including coordination of activities among the various areas involved. **As a special contractual condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence that the Operating Regulations for the PROFISCO CCLIP have entered into effect.**
- 3.10 **Annual work plan (AWP) for the first 18 months.** The borrower has delivered, and the Bank has validated, a preliminary version of the AWP for the first 18 months, running from the loan contract signature date.
- 3.11 **Procurement plan for the first 18 months.** This instrument provides the Bank with a proposed annual plan, and releases data to the public on all procurement and contracting processes to be conducted during a given period of program execution, in accordance with the policies established in documents GN-2349-9 and GN-2350-9.
- 3.12 **Six-monthly status reports.** These reports update the Bank on results achieved in execution of the AWP and procurement plan, relative to the monitoring of execution and disbursement request and release processes.

- 3.13 **Audited financial statements.** The executing agency will deliver six-monthly and annual program financial statements to the Bank. Annual financial statements, audited by an independent firm of certified public accountants acceptable to the Bank, will be delivered within 120 days after the close of each fiscal year.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals	i) Ratio of actual to potential tax revenues, and ii) Public expenditure managed at the decentralized level as % of total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Municipal and other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	i) Reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government. ii) Promote sustainable fiscal balance at the subnational level.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.9		10
3. Evidence-based Assessment & Solution	7.8	33.33%	10
4. Ex ante Economic Analysis	8.5	33.33%	10
5. Monitoring and Evaluation	7.5	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and reporting, and iv) External Control. Procurement: i) National public bidding (use of some national sub-system, and advanced use of national system).	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

Roraima is the northernmost and least populated state in Brazil. Although its Income Per Capita is on the Brazilian median, Roraima has many needs and close to 17% of its population is extremely poor.

Roraima has been complying with the requirements under the Federal Fiscal Responsibility Law, although it presents a high dependence on federal transfers and significant challenges in its fiscal management related to its strategic management of local taxes, its relatively high tax evasion rates and inefficiencies in expenditure management.

The proposed solution is connected to the above mentioned challenges. This program is part of a CCLIP (PROFISCO – BR-X1005) and proposes four components: Fiscal management integration, tax management and processes for the resolution of tax disputes, Financial and asset management and internal control and corporate resource management.

The Results Matrix has good vertical logic. It is expected that by the end of the execution period the Project would have contributed to the improvement of the fiscal primary balance, to the improvement in the results of the values of registered goods in transit, to management audits and increased the productivity of intelligence actions, better Finance personnel performance as well as better assistance for tax payer compliance.

The economic analysis is a financial analysis from the State Government fiscal stance.

RESULTS MATRIX

Program objective: The general objective of the program is to help strengthen fiscal management in the State of Roraima by upgrading strategic planning and decision-making tools, increasing internally-generated revenue, enhancing the effectiveness and quality of budget execution, and providing better services to citizens.

EXPECTED IMPACTS					
Impact indicator	Unit of measure	Baseline 2012	Final target 2017	Source/Mean of verification	Observations
Expected impact: Increase in the primary surplus					
Primary balance	R\$ million	R\$163	RS\$200	Evaluation report on the State of Roraima Fiscal Restructuring and Adjustment Program (PAF) issued by the National Treasury Department (STN)	It was agreed that, throughout execution of PROFISCO projects, the fiscal targets set with the STN under the Fiscal Adjustment and Restructuring Program for the Brazilian States (PAF) would be met, within the limits of the Fiscal Responsibility Law (LRF). The State of Roraima committed to meet the targets indicated here, and those to be set with the STN in the future. These targets are revised by the STN annually with a three-year projection.

EXPECTED OUTCOMES					
Outcome indicator	Unit of measure	Baseline 2012	Intermediate target	Final target 2017	Source/Mean of verification/ Observations
Expected outcome 1: Increase in revenue intake from the motor vehicle ownership tax (IPVA)					
IPVA revenue intake	R\$ million	R\$16.5		R\$24.5	Revenue operations report of the State of Roraima Finance Department (SEFAZ/RR)
Expected outcome 2: Improved performance of registered values in the management of goods in transit					
Registered value of tax substitution at entry and rate differential, as a result of the inspection of goods in transit.	R\$ million	R\$99.7		R\$119.6	Operations report of the goods in transit inspection area
Expected outcome 3: Improved performance of audits of establishment operations					
Number of establishment inspection audits performed	Number of audits	84	100	126	Operations report of the area for inspection of commercial establishments

EXPECTED OUTCOMES					
Outcome indicator	Unit of measure	Baseline 2012	Intermediate target	Final target 2017	Source/Mean of verification/ Observations
Expected outcome 4: Improved productivity in intelligence actions					
Number of proactive tax intelligence actions	Number of proactive actions	12		15	Operations report of the tax intelligence coordination area
Expected outcome 5: Assistance to the taxpayer in meeting tax obligations					
Time taken to complete taxpayer registration	Number of days	35	20	8	SIAF-e operations report. Observations: Registrations: capital, provisional, final, and other events, except closure of the taxpayer record
Expected outcome 6: Improved performance of SEFAZ civil servants					
Number of civil servants trained per year	Number of civil servants	80	100	160	Operations report of the human resources area

OUTPUTS							
Output indicator	Unit of measure	Baseline	2012	2013	2014	Final target 2015	Source/Mean of verification/ Observations
Component I: Integrated fiscal management							
SEFAZ/RR with monitored objectives and target plans	Number of SEFAZ/RR units	1	1	3	2	7	Operations report of the management units planning system
Attendance at treasury administration events	Number of attendees per year	4	4	4	4	16	Report on staff attendance at events
Component II: Tax administration and tax dispute settlement procedures							
Taxpayers in arrears with IPVA registered in adjudicated tax claims	Number of taxpayers registered	0		24,000		24,000	Operations report of the coordination area for revenue collection
Citizen/taxpayer service center with automated operations report	Report on authorizations to print fiscal documents (AIDFs)	0		1			Operations report of the taxpayer service area

OUTPUTS							
Output indicator	Unit of measure	Baseline	2012	2013	2014	Final target 2015	Source/Mean of verification/ Observations
Coordination area for inspection of goods in transit with automated inspection planning report	Inspection planning report	0		1 (SIAT-E generating inspection planning report for goods in transit)			Operations report of the coordination area for inspection of goods in transit
Coordination area for inspection of commercial establishments with automated inspection selection report	Indicators management report	0		1 (SIAT-E generating the inspection indicators management report)			Operations report of the coordination area for inspection of commercial establishments
Coordination area for tax intelligence with automated cross-referencing report	Cross-referencing report for data from the SINTE-GRA and SPED/NF-e systems	0		1 (SIAT-E generating the data cross-referencing report)			Operations report of the tax intelligence coordination area
Digitization of taxpayer data on with paper-based records	Number of digitized records	0	2,000	5,000	10,000	17,000	SIAT-E operations report
Taxpayers registered in the Digital Public Accounting System (SPED). Electronic tax invoice (NF-e), electronic bill of lading (CT-e) and electronic cargo manifest (MC-e).	Number of taxpayers	350	2,000	5,000	8,000	15,350	SIAT-E operations report
Taxpayers registered in the SPED. Digital accounting and tax record	Number of taxpayers	0	100	200	260	560	SIAT-E operations report

OUTPUTS							
Output indicator	Unit of measure	Baseline	2012	2013	2014	Final target 2015	Source/Mean of verification/ Observations
Attorney General's Office with automated report on the recovery of adjudicated tax claims	Operations report on recovery of adjudicated tax claims	0	1 (SIAT-E generating report on recovery of adjudicated tax claims)				Operations report of the Attorney General's Office
Component III: Financial and asset management and internal oversight							
Cost units incorporated into the chart of accounts	Chart of accounts with cost units	0	1 (new chart of accounts with cost units)				Operations report of the accounting area
Tax compliance tools implemented	Code of ethics	0	1 (SEFAZ/RR code of ethics approved and published)				State of Roraima Official Gazette
Component IV: Corporate resource management							
Training of outreach workers for the tax education program	Number of outreach workers	86	150	150	150	536	Operations report of the tax education area
ICT management model certified	Level of maturity	A	C	E	Certification of MPS.br maturity level "F"	F	Operations report of the information technology coordination area Observations: A - Optimizing B - Quantitatively managed C - Defined D - Largely defined E - Partially defined F - Managed G - Partially managed

OUTPUTS							
Output indicator	Unit of measure	Baseline	2012	2013	2014	Final target 2015	Source/Mean of verification/ Observations
Services offered on the civil servant portal	Services offered	0	1	2	2	5	Operations report of the information technology coordination area Observations: 1. General inquiries 2. Electronic tax invoice (NF-e) 3. Electronic bill of lading (CT-e), 4. Electronic cargo manifest (MC-e) 5. Digital accounting and tax record
Careers tracks with updated skills profile	Number of careers tracks with new skills	0	1	2		3	Operations report of the human resources coordination area Observations: Careers tracks: administrative, inspectors, and tax technical staff.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil
Project Number: BR-L1253
Name: Fiscal Administration Modernization Program of the State of Roraima (PROFISCO/RR)
Executing agency: State of Roraima Finance Department (SEFAZ/RR)
Prepared by: Fernando Glasman and Carlos Lago Bouza

I. EXECUTIVE SUMMARY

- 1.1 Fiduciary management was evaluated on the basis of an institutional analysis of the executing agency, a risk workshop involving staff from all participating entities, and several meetings with the project team and key SEFAZ/RR staff. The Bank's experience of working with the PROFISCO umbrella project was also taken into account, since six projects with similar objectives and processes have now been designed and negotiated.
- 1.2 Based on the assessment of the executing agency, the fiduciary agreements applicable for project execution have been prepared for both procurement and financial management.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Brazil has robust country fiduciary systems that allow for good governance of administrative, financial, oversight, and procurement processes, in line with the principles of transparency, economy, and efficiency. The Bank recognizes that the use of country systems is generally subject to some initial risks until the systems are fully aligned with international standards. The Bank also continues to support the performance of these systems, to ensure that they continue to improve and achieve greater levels of efficiency and economy commensurate with the country's needs.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The executing agency will be established within SEFAZ/RR using its permanent staff. At the time of this evaluation, the executing agency is fully integrated, with a project general coordinator and three full-time direct staff, in addition to support from the other SEFAZ/RR units. The executing agency's fiduciary systems have the control features necessary for effective management of the project. As this is a state-level project, it is governed by the national laws on public administration, including the Fiscal Responsibility Law. SEFAZ/RR has an accounting and financial records system capable of identifying transactions under the project by source of financing and investment category. However, it lacks the structure to create the reports required by the Bank during project execution. Internal control

- of SEFAZ/RR is performed by the Corregedoria Geral de Justiça do Estado de Roraima [State of Roraima Human Resource Ethics and Oversight Office] through periodic reviews. Although the financial management staff and general coordinator do not have experience in administration and execution of Bank projects, they have worked with the Bank under the PNAF fiscal administration program at the federal level.
- 3.2 The staff assigned to procurement processes form part of the state's Procurement Committee, reporting directly to SEFAZ/RR. This committee has a chairperson and four other members (two of whom joined recently). SEFAZ/RR has limited experience working with the Bank, the only previous project being the National Fiscal Administration Program for the Brazilian States (PNAFE), coordinated by the federal government.

IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 4.1 The risk evaluation performed during the design stage identified high risks in procurement: (a) lack of experience of working with the Bank; (b) more than 10 election processes for consulting services (small amounts, but essential to meeting the project objectives).
- 4.2 In the financial area, medium risks were identified in relation to the quality of internal control and lack of experience with Bank projects. To mitigate those risks, it was proposed to set up a unit within the State of Roraima Comptroller General's Office (CGE/RR) to provide support throughout the life of the project and training in accountability with the Bank.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 5.1 Publication of the program Operating Regulations, on the terms established by the Bank for the PROFISCO CCLIP, is a condition precedent to the first disbursement of the loan proceeds.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 The fiduciary agreements and requirements for procurement establish the rules to be followed for the execution of all project procurements.

VII. PROCUREMENT EXECUTION

- 7.1 Procurements will be conducted through the project executing agency. Works, goods, and nonconsulting services will be procured using the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9). Consultants will be selected and contracted using the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9), both of March 2011. Procurement processes will be reviewed by the Bank as indicated in the procurement plan (see link, "Procurement plan").

- 7.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ generated under the project and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank (or satisfactory to the Bank, if not yet agreed). The project's sector specialist will be responsible for reviewing the technical specifications for procurements during the preparation of procurement processes.
- 7.3 **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed using the standard request for proposals issued by the Bank. The project's sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.
- 7.4 **Selection of individual consultants.** Individual consultants will be selected according to their qualifications to perform the work, based on comparison of qualifications of at least three candidates. When the situation so requires, notices may be published in the local or international press, to invite qualified consultants to submit their résumés.
- 7.5 **Recognition of expenditures and reimbursement from the loan proceeds.** Not applicable.
- 7.6 **Direct contracting.** The borrower may directly contract the School of Public Finance Administration (ESAF) of the Ministry of Finance to provide training services to state public administration personnel.

Table of Threshold Amounts (US\$000)

Works			Goods ²			Consulting	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity Consulting	Short list, 100% national
> 25,000,000	< 25,000,000 and > 500,000	< 500,000	> 5,000,000	< 5,000,000 and > 100,000	< 100,000	> 200,000	< 1,000,000

- 7.7 The thresholds for prior review are based on the type of procurement risk presented by the project, and are specified in the following table.

¹ Under IDB procurement policies, nonconsulting services are treated as goods.

² Includes nonconsulting services.

Prior Review Threshold ³		
Works	Goods ⁴	Consulting services
Processes exceeding US\$10,000,000, the first process under each method, regardless of amount, and all direct contracting.	Processes exceeding US\$500,000, whenever electronic bidding is not used for goods, and all direct contracting.	Processes exceeding US\$1,000,000, the first process under each selection method, regardless of amount (except CQS, which will always be ex post), and all direct contracting.

- 7.8 **Thresholds for procurement processes.** The ICB threshold will be made known to the borrower or the executing agency, as the case may be, on the website www.iadb.org/procurement. For amounts below this threshold, the selection method will be determined according to the complexity and characteristics of the procurement or contracting process, as indicated in the procurement plan approved by the Bank.
- 7.9 **Recurrent expenditures.** Recurrent expenditures consist of the operating and maintenance expenses required to run the project during its useful life, including: communication, translations, office supplies, photocopies, mail, and other necessary expenditures for proper administration of the project, incurred at the PCU. Such expenditures will be financed with loan proceeds within the annual budget approved by the Bank, and will be processed according to the PCU's administrative procedures. They will be reviewed and accepted by the Bank, provided that they do not violate the key principles of economy, efficiency, competition, and transparency. However, operating costs do not include the remuneration of civil servants.
- 7.10 **Domestic preference.** No margins of domestic preference will apply.
- 7.11 **Initial procurement plan.** The initial procurement plan as currently proposed is attached. The version agreed upon may be updated during project execution, according to circumstances (see link, "Procurement plan").
- 7.12 **Procurement supervision.** Considering the amounts given in the prior review thresholds table, as well as the special features of the project and the executing agency's operational capacity, an annual post review will be performed.
- 7.13 **Records and files.** The files will be stored at the executing agency's offices under the corresponding security conditions.

³ The Bank may routinely modify the prior review thresholds during project execution, if it deems that the fiduciary context of the executing agency and/or the country has changed. In such case, the Bank will notify the executing agency of such decision, and the latter will adjust the procurement plan to reflect the new execution conditions.

⁴ Includes nonconsulting services.

VIII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Programming and budget

- 8.1 The Planning Department prepares the annual programming and budget for external and counterpart financing. The budget is operated under the FIPLAN integrated planning, accounting, and finance system. The budget allocated to the program will be approved by the state's Planning Department and recorded in FIPLAN for the activities committed under the project. The Bank will reimburse eligible project expenditures in accordance with the budget line items defined and executed by the program.

2. Accounting and information systems

- 8.2 The project will use the FIPLAN projects module, which offers transparency and specific controls in budgetary execution. This module has the capability to incorporate the project components into the state's accounting. For such purposes, a source will be created in the state budget to identify the Bank loan, and actions will be added to identify the project components, targets to identify the subcomponents, and tasks for the outputs. Although the FIPLAN system is capable of recording project accounting, it cannot issue financial reports, including disbursement requests, exchange rate control, project financial statements, and others, according to the Bank's requirements.
- 8.3 Accounting records will be kept on a cash basis, pursuant to international accounting standards.
- 8.4 Audited financial statements will be required for project supervision, delivered within 120 days after the end of each year.

3. Disbursements and cash flow

- 8.5 The project will use the state's treasury system. Expenditures will be subject to the budgetary and financial execution process; and the data required under the laws applicable to each stage of the expenditure process (commitment, obligation, warrant, and disbursement) must be recorded in the SIAFEM integrated financial management system for the states and municípios. The State of Roraima treasury system uses the general treasury account system to manage its financial obligations.
- 8.6 Disbursements will be made in the form of advances of funds to meet the project's actual liquidity needs (expenditure program). The executing agency will submit the disbursement request to the Bank, together with an expenditure program covering the activities of the annual work plan (AWP) for the following 180 days. The next request must provide justification for at least 80% of the disbursements.
- 8.7 The Department will open an account in Brazilian reais, to manage the funds advanced by the Bank.

- 8.8 Supporting documentation for expenditures will be subject to ex post review by Bank staff and/or consultants and by the external auditors. Reports will be issued for each ex post review visit.
- 8.9 Expenditures incurred in local currency will be converted into U.S. dollars at the exchange rate in effect on the date of conversion from the currency of the operation into local currency in the case of advances of funds, and at the exchange rate in effect on the date of submission of the disbursement request, in the case of reimbursement and local contribution requests.

4. Internal control and internal audit

- 8.10 The internal audit function at SEFAZ/RR is performed by the State of Roraima Comptroller General's Office (CGE/RR), which has departmental rank and a staff of 52, and reports to the state governor.
- 8.11 The executing agency will be required to include the main internal control processes in the Operating Manual, to ensure that controls are functioning effectively.

5. External control and reports

- 8.12 Since the State of Roraima Audit Office (TCE/RR) is not accredited by the Bank to exercise external control of projects financed with borrowed resources, SEFAZ/RR will engage Bank-eligible independent audit firms to perform external audits of the projects. The audit work will adhere to international standards and Bank requirements. The audited annual financial statements, with a cutoff date of 31 December of each year, will be delivered to the Bank within 120 days after the close of each calendar year, starting in the year in which disbursements of the loan proceeds commence.
- 8.13 The cost of the external audits will be covered with the loan proceeds.

6. Financial supervision plan

- 8.14 The supervision plan as established is oriented toward a medium-risk operation. This plan may be altered during project execution, according to the observed risk circumstances or additional control needs determined by the Bank.