

BRAZIL

**PROJECT TO INTEGRATE MODERNIZATION OF FISCAL AND
FINANCIAL MANAGEMENT
IN THE STATE OF RIO GRANDE DO NORTE (PROFISCO/RN)
(BR-L1207)**

**INDIVIDUAL OPERATION UNDER THE
CONDITIONAL CREDIT LINE (CCLIP) IN SUPPORT OF THE
MANAGEMENT AND INTEGRATION OF FINANCE
ADMINISTRATIONS IN BRAZIL (PROFISCO)
(BR-X1005)**

LOAN PROPOSAL

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REQUIRED ANNEXES
Annex I: Development Effectiveness framework (DEM) – (summary)
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REQUIRED TECHNICAL REFERENCES	Link
1. Project plan of action and investment plan (PAI) – 4 years, and Project Work Plan – 18 months	IDBDOCS1674718
2. Monitoring and evaluation system	IDBDOCS1674864
3. Procurement plan	IDBDOCS1674964
ADDITIONAL TECHNICAL REFERENCES	
1. Problems, solutions and results map	IDBDOCS1674786
2. Project financial analysis	IDBDOCS1674884
3. Institutional Agreement and project execution mechanisms	IDBDOCS1674919
4. Project status report structure	IDBDOCS1675025
5. State Law 9010/2007 authorizing the credit operation	IDBDOCS1675662
6. Decree 060/08 creating the PROFISCO/RN Coordination Unit (PCU/RN), designating the project team and establishing its terms of reference, and Decree 077/08 establishing the Strategic Committee to monitor and evaluate the PROFISCO/RN.	IDBDOCS1675044
7. Objectives for SET/RN 2008	IDBDOCS1675057
8. Project Indicators Table	IDBDOCS1674727
9. Operating Regulations for the PROFISCO-CCLIP Annex I: PROFISCO- CCLIP frame of reference	IDBDOCS1675149
10. Environmental classification and safeguards	DOCNUM=1992845
11. PMAE/BNDES consultation letter	IDBDOCS1675064

ABBREVIATIONS

BANDERN	Banco do Estado do Rio Grande do Norte [Bank of the State of Rio Grande do Norte]
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [Brazilian Development Bank]
CADSINC	Cadastro Sincronizado Nacional [National Synchronized Registry]
CCLIP	Conditional Credit Line for Investment Projects
COGEF	Comissão de Gestão Fazendária do CONFAZ [CONFAZ Financial Management Commission]
CONFAZ	Conselho Nacional de Política Fazendária [National Financial Policy Council]
CONTROL	Controladoria Geral do Estado do Rio Grande do Norte [Office of the Comptroller General of the State of Rio Grande do Norte]
COTEPE	Comissão Técnica Permanente do ICMS – CONFAZ [ICMS – CONFAZ Permanent Technical Committee]
CPI	Consumer price index
ECD	Escrituração Contábil Digital [Digital accounting registry]
EFD	Escrituração Fiscal Digital [Digital tax registry]
ENAT	Encontro Nacional de Administradores Tributários [National Meeting of Tax Administrators]
ENCAT	Encontro Nacional de Coordenadores e Administradores Tributários Estaduais [National Meeting of State Tax Coordinators and Administrators]
ESAF	Escola de Administração Fazendária [School of Public Finance Administration]
FUNDAC	Fundação Estadual da Criança e do Adolescente [State Foundation for Children and Adolescents]
GDFAZ	Grupo de Desenvolvimento do Servidor Fazendário [Finance Officials Development Group]
GDP	Gross domestic product
GEF	Grupo de Educação Fiscal [Tax Education Group]
GEFIN	Grupo de Gestores de Finanças Públicas [Group of Government Finance Administrators]
HDI	Human Development Index
ICMS	Imposto sobre a Circulação de Mercadorias e Prestação de Serviços [Goods and Services Sales Tax]
IDEC	Instituto de Desenvolvimento Econômico e Meio Ambiente do Rio Grande do Norte [Economic Development and Environment Institute of Rio Grande do Norte]
IEL	Instituto Euvaldo Lodi
IPVA	Imposto sobre a Propriedade de Veículos Automotores [Motor Vehicle Ownership Tax]
ITCD	Imposto sobre Transmissão Causa Mortis e Doação [Estate and Gifts Tax]

LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
NCR	Net Current Revenue
NF-e	Nota Fiscal Eletrônica [Electronic Fiscal Billing]
NRR	Net Real Revenue
PAF	Programa de Reestruturação e Ajuste Fiscal [Fiscal Restructuring and Adjustment Program]
PCU	PROFISCO Coordination Unit
PGE	Procuradoria Geral do Estado [Office of the State Attorney General]
PMAE	Programa de Modernização da Administração das Receitas e da Gestão Fiscal, Financeira e Patrimonial das Administrações Estaduais [Program for the Modernization of Revenue Administration and Fiscal, Financial and Asset Management in State Revenue Services]
PNAFE	National Fiscal Administration Program for Brazilian States
PROFISCO	Programa de Gestão e Integração dos Fiscos no Brasil [Program of Support for the Management and Integration of Tax Administrations in Brazil]
RN	State of Rio Grande do Norte
SEPLAN	Secretaria de Estado do Planejamento e das Finanças [State Planning and Finance Department]
SET	Secretaria de Estado da Tributação [State Taxation Department]
SIGAT	Sistema Integrado de Gestão da Administração Tributária [Integrated Tax Administration Management System]
SPED	Sistema Público de Escrituração Digital [digital public accounting system]
STN	Secretaria do Tesouro Nacional [National Treasury Department]
UNDP	United Nations Development Programme
URT	Unidade Regional de Tributação [Regional Tax Unit]
UVT	Unidade Virtual de Tributação [Virtual Tax Unit]

PROJECT SUMMARY

BRAZIL

PROJECT TO INTEGRATE MODERNIZATION OF FISCAL AND FINANCIAL MANAGEMENT IN THE STATE OF RIO GRANDE DO NORTE (PROFISCO/RN) (BR-L1207)

INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE (PROFISCO CCLIP BR-X1005)

Financial Terms and Conditions			
Borrower: The State of Rio Grande do Norte (RN)		Amortization period:	20 years
Guarantor: Federative Republic of Brazil		Grace period:	4 years
Executing agency: State of Rio Grande do Norte acting through the State Taxation Department (SET/RN)		Disbursement period:	4 years
Source	Amount	Inspection and supervision fee:	*
IDB (Ordinary Capital)	US\$7.00 million	Interest rate:	LIBOR-based
Local	US\$1.35 million	Credit fee:	*
Total	US\$8.35 million	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance			
Objectives and description: Objective. The general objective is to improve the efficiency and transparency of fiscal management in the State of Rio Grande do Norte, with a view to: (i) increasing the State's own revenue; (ii) enhancing efficiency and effectiveness and tightening control of public expenditure; and (iii) delivering better services to citizens. Description. This project is part of the Conditional Credit Line (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 in Resolution DE-132/08 of 5 November 2008, and is divided into four components, with their respective subcomponents: <ol style="list-style-type: none"> Component I – Integrated strategic management: (i) improve organization and strategic management; and (ii) increase domestic and international interagency cooperation. Component II – Tax administration and tax-related dispute resolution procedures: (i) improve tax administration efficiency and effectiveness; and (ii) improve efficiency and effectiveness in administering tax-related dispute resolution procedures. Component III – Financial and asset management, and internal control: (i) improve financial management efficiency and effectiveness; and (ii) improve and correct internal control mechanisms. Component IV – Strategic resources management: (i) enhance mechanisms for transparency and communication with society; (ii) modernize and update the information and communication technology services; and (iii) improve human resources management. 			
Special contractual conditions: Prior to the first disbursement of the financing resources, the borrower must submit, to the Bank's satisfaction, evidence that the PROFISCO CCLIP Operating Regulations that will apply to the program are in effect (see paragraph 3.4).			
Exceptions to Bank policies: The borrower requests the use of national legislation for procurement as specified in paragraph 2.5, and the use of direct contracting in accordance with paragraphs 2.6 and 2.7.			
Project qualifies as: NOT APPLICABLE SEQ [] PTI [] Sector [] Geographic [] Headcount []			

* 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. In no case will the credit fee exceed 0.75% or the inspection and supervision fee 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.

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 This project is part of the conditional credit line (CCLIP) for the Program of Support for the Management and Integration of Tax Administrations in Brazil – PROFISCO (BR-X1005), approved by the Bank’s Board of Executive Directors in its Resolution DE-132/08 of 5 November 2008. One of PROFISCO’s objectives is to complement actions implemented under the National Fiscal Administration Program for Brazilian States (PNAFE), financed by the Bank, which is seen as a major pillar of support for the Fiscal Restructuring and Adjustment Program (PAF) of the Brazilian States, currently being implemented by the federal government.
- 1.2 **Socioeconomic considerations.** Situated in the northeast of the country, the state of Rio Grande do Norte occupies an area of 53,077.3 km². It has a population of approximately 3 million inhabitants, 70% of whom live in urban areas and 30% in rural areas. In 2005, the state contributed 0.8% (R\$17.86 billion) to the nation’s gross domestic product (GDP) and 6% to the regional GDP. This year, the state’s GDP grew by 4.3%, consistent with regional growth of 4.6%, and outpacing the national rate of 3.2%. The state economy is based on the following sectors: service (55%), industry (26%), commerce (12%), and agriculture (5%).
- 1.3 Rio Grande do Norte registered a per capita income of R\$5,948 in 2005, well below the national average (R\$11,658), ranking twentieth in the country as a whole. Moreover, the state’s Human Development Index (HDI) changed significantly during the 1991-2000 period, moving from 0.618 to 0.702, thus ranking eighteenth nationwide, placing the state in the midrange of development.
- 1.4 **Fiscal considerations.** In the 1997-2006 period, real revenue from the *Imposto sobre a Circulação de Mercadorias e Prestação de Serviços* [Goods and Services Sales Tax] (ICMS), adjusted on the basis of the December 2006 Consumer Price Index (CPI), increased every year. Thus, ICMS revenues increased 127.65% compared to 1997, adding R\$1,086,800,000 to total 1996 revenues. Between 2006 and 2007, State taxes showed the following trend: ICMS – 5%; Motor Vehicle Ownership Tax (IPVA) – 20%; and Estate and Gifts Tax (ITCD) – 50%.
- 1.5 With respect to the fiscal commitments under the Budget Guidelines Act, the state produced at the following results:

Table 1.1: Fiscal Targets (Art. 4 of the Fiscal Responsibility Law - LRF)
Assessment of fulfillment of targets (see additional reference 7)

Specification	Projected targets for 2006	Targets achieved in 2007	Change	
			Amount	%
Total revenue	5,046,435	5,654,649	608,214	12.05
Total expenditure	4,612,632	5,118,367	505,735	10.96
Primary balance	80,206	135,307	55,101	68.70
Nominal balance	105,718	(99,798)	(205,516)	(194.44)
Consolidated public debt	1,372,469	1,316,588	(55,881)	(4.07)
Net consolidated debt	970,171	870,373	(99,798)	(10.29)

- 1.6 With respect to the targets agreed to with the federal government under the PAF, the State is meeting its chief commitments agreed upon, as shown in the table below:

Table 1.2: Fiscal Targets agreed to with the Federal Government – PAF Agreement

Fiscal targets – PAF Agreement	2006		2007	
	Committed	Achieved	Committed	Achieved
Total debt / Net Real Revenue (NRR)	52%	40%	42%	36%
Primary balance	45,000	37,000	25,000	41,000
Payroll / Net Current Revenue (NCR)	58.67%	56.17%	59.42%	60.06%
Own revenue	2,044,000	2,274,000	2,281,000	2,315,000
Other current expenses	31.44%	31.61%	31.61%	45.66%

- 1.7 The State's fiscal situation is sound, reflecting prudent public finance management over the last few years, as reflected in the fulfillment of the credit operation targets set by the LRF.
- 1.8 The world financial crisis has been affecting economic development in the state, reflected in reductions in own income levels, federal transfers, exports, and, therefore, investment. On the other hand, the economic slowdown caused by the world financial crisis has been attenuated in the case of Brazil, where active measures are being taken to stimulate the economy, thereby enhancing the macroeconomic scenario. This operation contributes significantly to improving collection and the quality of spending, mitigating the effects of the crisis on the State's finances.
- 1.9 **Institutional considerations.** In 1995, an administrative reform process was carried out in Rio Grande do Norte, including a broad-based reorganization resulting, on the one hand, in the elimination of several *administração indireta* institutions [government departments and decentralized agencies, public and

semipublic enterprises, and public foundations] and the reduction of 2,500 positions held by direct appointment and, on the other hand, in the splitting of the Treasury and Planning Department into two entities: the State Planning and Finance Department (SEPLAN), and the State Taxation Department (SET).

- 1.10 The SET's institutional competence encompasses tax administration, and its functions include: (i) institutional planning and development, and fiscal activity planning and control; (ii) control of the transit of goods; (iii) inspection of establishments, taxation, taxpayer assistance and guidance; and (iv) resolution of administrative-tax disputes. The SET discharges these duties through the following decentralized units: one central administration, seven regional tax units, 18 SET windows at Citizen-Service Taxpayer Centers, seven SET service locations, 15 border tax stations, and three intermediate tax stations.
- 1.11 The SET has a regular staff of 962 officials, of which 477 are assigned to specific tax administration categories and 475 to other administrative categories. Many SET officials are former employees of the Banco do Estado do Rio Grande do Norte (BANDERN, in the process of being liquidated), assigned, for the most part, to the border stations. The SET workforce also includes 52 positions filled by direct appointment, 54 officials transferred from other entities, and a group of interns from the Euvaldo Lodi Institute (IEL/RN) (40 college students) and the State Foundation for Children and Adolescents (FUNDAC) (70 upper secondary students aged 16 to 18, selected through the state network), essentially assigned to protocolary activities, data processing, and customer care. The specific tax administration categories are comprised of the positions of State Treasury Tax Auditor (senior level), and Finance and Accounts Specialist (middle level, position soon to be eliminated).
- 1.12 SEPLAN/RN discharges institutional functions inherent to financial management through the following units: Budget Coordination, Planning Coordination, and Financial Coordination (public debt). SEPLAN is staffed by 138 specialists formerly employed by the Instituto de Desenvolvimento Econômico e Meio Ambiente do Rio Grande do Norte [Economic Development and Environment Institute] (IDEC) and BANDERN. SEPLAN also has 15 positions filled by consultants [*cargos comissionados*].
- 1.13 The Procuradoria Geral do Estado [Office of the State Attorney General] (PGE) and the Controladoria Geral do Estado do Rio Grande do Norte [Office of the Comptroller General] (CONTROL), participate, respectively, in the overall taxation macroprocess relating to tax dispute resolution procedures and to audit and internal controls. The PGE has four regional units in the state, plus a special unit in Brasília. It employs 17 attorneys and 15 specialists. The workforce also includes 25 positions filled by consultants, and 41 officials from other state agencies. The Office of the Comptroller is staffed by 47 specialists and 12 positions filled by consultants.
- 1.14 **Progress and pending work.** In the past ten years, the SET/RN undertook an extensive institutional strengthening process under the PNAFE, financed in part

with IDB resources. The chief outcomes of this process, carried out in the 1997-2006 period, were in the following domains:

- 1.15 ***Tax administration:*** (i) establishment of an annual plan of fiscal targets and objectives, and weekly meetings with coordinators and subcoordinators to assess the performance of the planning process; (ii) implementation of the Integrated Tax Administration Management System (SIGAT); (iii) deployment of e-government solutions to assist taxpayers, thus reducing the need for appearing in person; (iv) daily availability of revenue data, broken down by taxpayer categories, evaluating fulfillment of targets and growth compared to previous months and years; (v) establishment of a tax collections system with online data validation; (vi) implementation of an automatic bank service system to collect state revenues; (vii) establishment of a system to monitor enforcement of judgments and precautionary measures on public assets, and a system to monitor court-ordered collection of tax debt; (viii) online availability of information concerning assistance provided to taxpayers and debtors; and (ix) establishment of productivity controls to program, monitor, and quantify results in the area of information and communication technologies (ICT).
- 1.16 ***Financial management:*** (i) implementation of a financial administration management model based on a systemic vision of the process (budget, accounting, and financial management), geared to rationalizing and controlling public spending; (ii) online availability of financial services and access for taxpayers, public institutions, and clients; (iii) automated assistance for the public at tax and financial units; (iv) overall monitoring of the financial flow, from the request for budgeted resources to the accounting record and payment; (v) regular analysis of revenue collected by the ICMS, and the distribution criteria for the constitutionally-mandated allocations of taxes [Fundos Constitucionais]; and (vi) full automation of the flow of payments, making it possible to plan all state payments.
- 1.17 ***Future challenges.*** Despite the positive results already achieved, there are still major challenges to overcome to further strengthen the state's fiscal management, especially in the following areas:
 - a. ***Integrated strategic management.*** Insufficient management capacity in support of the strategic objectives and targets, mainly owing to: (i) insufficient information for decision-making, results tracking, and guidance of fiscal activity; (ii) problems managing border station activities; and (iii) failure to participate regularly at national and international events.
 - b. ***Tax administration and tax dispute resolution procedures.*** Unsatisfactory performance resulting from the obsolescence of tax administration methods, instruments, and support systems due to: (i) lack of structured data to support the decision-making process; (ii) inefficiencies of the transit inspection systems and processes caused by the growing demand from the cargo vehicles transiting the State; (iii) excessively long waits for most cargo vehicles at state border posts; (iv) inefficiencies of the business establishment inspection

systems and processes to control state taxpayers; (v) inadequate control of entry, storage, and shipment operations at establishments; and (vi) inefficient recovery by the administrative and judicial bodies of taxes owed.

- c. ***Financial and asset management, and internal controls.*** Problems in managing public funds, arising from: (i) insufficient capacity to develop the Multiyear Plan, prepare the budget, and execute the financial resources; (ii) obstacles in compiling data on physical targets and outcomes of the Multiyear Plan; (iii) shortcomings in controlling public debt with the help of spreadsheets; and (iv) ineffective internal control actions, limited to compliance audits.
- d. ***Strategic resources management.*** In this area, there is insufficient capacity to administer institutional resources in terms of communication with society, information technologies and human resources, mainly because of: (i) insufficient guidance for citizens concerning the SET services available online and at citizen service centers; (ii) slowness in executing the Tax Education Program; (iii) lack of certification and contingency policies in managing information and communications technologies; (iv) insufficient and obsolete technological base; (v) problems with voice and data communications, and access to business data; (vi) growing number of queries by taxpayers and citizens, causing work overload at the user help desks; (vii) data inconsistencies, overlaps, and delays, because systems are not integrated (outstanding debt, IPVA and ICMS); (viii) sluggishness of online services due to growing traffic; (ix) lack of a functions and skills matrix to plan development and training policies; and (x) institutional culture shortcomings affecting development of results-based management and performance appraisals.

B. Project objective, components, and cost

- 1.18 The project's general objective is to improve the efficiency and transparency of fiscal governance, aiming to: (i) increase the State's own revenue; (ii) enhancing efficiency and effectiveness and tightening control of public expenditure; and (iii) provide better services to citizens. The project is structured in four components with subcomponents, as detailed below.
- 1.19 **Component I – Integrated strategic management (US\$3.15 million).** This component seeks to improve the methods and instruments to support strategic management and generate information for the decision-making process, and will include the following subcomponents and respective outputs:
 - a. ***Improve organization and strategic management.*** This subcomponent will finance: (i) development and implementation of a Strategic Planning system for the SET; (ii) consolidation and enhancement of the management support systems, and development of a results-driven management culture; (iii) evaluation of the organizational structure, and development and implementation of a proposal to modernize the SET; (iv) preparation of a

system to gather, store, and publish State economic and financial data, and correlate them with tax data to monitor tax collection with respect to economic performance; and (v) physical and technological renovation (equipment and systems) at SET headquarters, regional units, and border tax offices.

- b. ***Enhance national and international interagency cooperation.*** This subcomponent will finance SET-organized meetings and seminars on national and international integration for its agents and specialists.

1.20 **Component II – Tax administration and tax dispute resolution procedures (US\$1.98 million).** This component seeks to improve the performance of tax administration and collection. It will include the following subcomponents and respective outputs:

- a. ***Improve tax administration efficiency and effectiveness.*** This subcomponent will finance the following: (i) consolidation and expansion of the management information system's knowledge base; (ii) fine-tuning of transit and border controls by developing an inspection model and modernizing the equipment; and (iii) standardization of inspection protocols, integrating and correlating the many taxpayer databases.
- b. ***Improve efficiency and effectiveness in the management of tax dispute resolution procedures.*** This subcomponent will finance improvements to the outstanding debt control systems and collections by legal process.

1.21 **Component III – Financial and asset management, and internal control (US\$667,000).** This component aims to improve the performance of financial management and to tighten public expenditure controls, implementing the following subcomponents and respective products for this purpose:

- a. ***Improve financial management efficiency and effectiveness.*** This subcomponent will finance: (i) the planning process; (ii) budget preparation; (iii) programming; and (iv) financial execution and public debt control.
- b. ***Improve and correct internal control mechanisms.*** This subcomponent will finance the strengthening of the Office of the State Comptroller General through operational audits and corrective measures.

1.22 **Component IV – Strategic resources management (US\$2.3 million).** This component aims to improve the operating and administrative methods, tools and support systems to enhance institutional performance and interaction with society. It will include the following subcomponents and respective outputs:

- a. ***Improve transparency mechanisms and communication with society.*** This subcomponent will finance: (i) improvements to the procedures and systems to serve citizen-taxpayers; and (ii) improvement and expansion of the municipal education networks program to educate citizens in tax matters.

- b. ***Modernize and update the information and communications technology services.*** This subcomponent will finance: (i) strengthening of management systems and updating of the instruments and tools to operate information technologies; (ii) expansion of the SET communications network, including voice, data, and image transmissions and business mobility; (iii) unification, expansion, and certification of the quality of the customer service center (contact center service); (iv) integration of computerized systems (outstanding debt, IPVA, ICMS, ITCD); and (v) restructuring of the SET contacts portal on the internet.
 - c. ***Improve human resources management.*** This subcomponent will finance the development and implementation of (i) the SET competencies organizational chart; and (ii) performance evaluation systems in line with the new grade and pay scale policy and the organizational chart by function.
- 1.23 To implement these components and subcomponents, the borrower will procure services and goods, as follows: (i) **training** (contracting of courses, seminars, or other forms of training, as well as domestic and international technical visits); (ii) **consulting** (hiring of individuals or legal entities, whether domestic or international, and computerized systems to support or carry out project activities); (iii) **information and communication technology systems and equipment** (procurement and installation of hardware, computer networks, basic processing programs, and applications); (iv) **equipment, materials, and operational support services** (procurement of permanent material for communication and instructional resources, and the hiring of technical, administrative, and operational support services); and (v) **physical premises** (remodeling and physical adaptation of operational and citizen-taxpayer services units).
- 1.24 **Overall budget.** The total estimated cost of the project is US\$8.35 million equivalent, of which the Bank will finance up to the equivalent of US\$7 million with resources from the Single Currency Facility of the Ordinary Capital. The US\$1.35 million in local counterpart funds will be contributed by the State of Rio Grande do Norte. Table 1.3 below presents the project financing structure.

Table 1.3: Overall budget for Project BR-L1207 – By source of financing
(in thousands of U.S. dollars)

CATEGORIES	IDB	Local	TOTAL	%
1. Project Administration	54	0	54	1.16
1.1 Project management	48	0	48	
1.2 Monitoring and evaluation	6	0	6	
2. Direct costs	6,780	1,311	8,091	94.22
2.1 Integrated strategic management	1,895	1,257	3,152	
2.2 Tax administration and tax dispute resolution procedures	1,975	0	1,975	
2.3 Financial and asset management, and internal controls	667	0	667	
2.4 Strategic resource management	2,243	54	2,297	
3. Not specifically assigned	166	39	205	4.62
3.1 Contingencies	166	39	205	
TOTAL	7,000	1,350	8,350	
PERCENTAGE	84%	16%	100%	100%

- 1.25 **Disbursement schedule.** Disbursements will be made over a four-year period counted from the date of entry into effect of the loan contract, according to the disbursement schedule shown in Table 1.4:

Table 1.4: Disbursement schedule
(in thousands of U.S. dollars)

SOURCE	Year 1	Year 2	Year 3	Year 4	TOTAL	%
IDB	1,330	2,085	2,088	1,331	6,834	84%
LOCAL	298	298	450	266	1,312	16%
TOTAL	1,628	2,383	2,538	1,597	8,146	
Percentage	20%	29%	31%	20%	100%	100%

- 1.26 **Interest.** Interest will be paid on preestablished dates, 15 February and 15 August each year. The first interest payment will take place on the first of these dates after entry into force of the loan contract that occurs within less than six months from such entry into force.
- 1.27 **Financial analysis.** In view of the amount of the operation, the Project Team made a comparison of the incremental financial costs and benefits resulting from implementation of some of the project's products. The following items were considered in the financial analysis: (i) reduction of costs for the SET as a result of use of the voice over internet telephone technology; (ii) 1% annual real increase in internal tax revenue (ICMS, IPVA and ITCD) by reducing noncompliance, and enhancing controls; and (iii) increase of revenues obtained through the recovery of outstanding debt. In addition, the analysis used the following benchmarks: (i) 10-

year horizon; (ii) annual discount rate of 12.5%; and (iii) annual growth rate of 4%¹.

- 1.28 According to Table I in the Project Financial Analysis (included in the technical references), in the fourth year of financing disbursements (2012), the project is estimated to have already generated a cumulative net financial return of US\$39.1 million, and six years after the end of execution (2018), an estimated cumulative net financial return of US\$118.6 million will have been generated, both figures expressed in present value terms. Thus, the project is financially justified even when only considering the estimated benefits generated by some of the products financed by the operation.

C. Key indicators of the project results matrix

- 1.29 By the end of project execution, the most important expected results are as follows:
- a. **General objective:** (i) total debt/net real income (NRI) (maximum value) = 29%; (ii) primary balance (minimum value) = R\$60 million; (iii) payroll expenses/net current income (NCI) (maximum value) = 59.99%; (iv) internal revenue (minimum value) = R\$3.589 billion; and (v) other current expenses/NCI (maximum value) = 33.27%.
 - b. **Component I:** (i) eight SET Coordination Units with specified objectives and targets (these units will be monitored electronically); and (ii) systematic participation of agents and specialists in eight national integration working groups and eight international events.
 - c. **Component II:** (i) inspection of 150 vehicles per month on average, consistent with the border transit and traffic inspection model; (ii) reduction in average time to execute fiscal measures to within the 120-day legal term; (iii) 100% control of outstanding debt payments; (iv) increase in ICMS revenues to R\$3.146 billion, maintaining the current tax burden; and (v) recovery of R\$1.4 million through small debtor collections.
 - d. **Component III:** (i) a total of 300 training opportunities in budget issues, planning, public finance, contracts, and agreements; (ii) electronic control of all public debt contracts; (iii) two annual operational audits conducted through internal control; and (iv) average time to analyze state expenditures reduced to 7 to 10 days.
 - e. **Component IV:** (i) establishment of 15 automated service stations; (ii) the Regional Customer Service Unit and payments by automatic debit through four bank networks are in operation, thus reducing payments made at the tax stations; (iii) incorporation of the fiscal education program in 60 municipal public education networks; (iv) capacity at the service center increased to 3,000 users per month; (v) consolidation of negative certification of state taxes in a single document; (vi) creation of 30 new services at the Virtual Tax Unit;

¹ GDP growth rate for the State of Rio Grande do Norte projected in the 2008-2011 multiyear plan.

(vii) 150,000 individual hits per month; and (viii) 90 agents trained in use of the performance evaluation methodology and tools.

II. PROJECT FINANCING STRUCTURE AND MAIN RISKS

A. Financing, procurement, and contractual conditions

- 2.1 **Procurement.** With the exception of the provisions in paragraph 2.5 below, the procurement of goods and the contracting of works, technical services, and consulting services, wholly or partially financed out of the loan proceeds within the project framework, will be undertaken in accordance with the *Policies for the Procurement of Works and Goods Financed by the IDB* (document GN-2349-7), and the *Policies for the Selection and Contracting of Consulting Services Financed by the IDB* (document GN-2350-7), respectively.
- 2.2 **Sharing and technical cooperation.** The borrower may participate in domestic and international integration and cooperation activities in the fiscal area, particularly in sharing technical solutions, exchanging information, knowledge transfer, formation of thematic networks, and interagency cooperation.
- 2.3 **Recognition of expenses chargeable to the local counterpart.** The Bank may recognize up to US\$300,000 against the local counterpart for expenses incurred by the borrower in the preparation of the program, in a period of up to 18 months prior to the approval of the operation by the Board of Executive Directors, but after the operation was included in the Bank's pipeline. The procurement carried out by the borrower that could be subject to such recognition appears in the Procurement Plan and the Operational Plan for the first 18 months of the project, which are included in the technical references.
- 2.4 **Bank review.** The Bank will review *ex ante* all contracts for the procurement of goods and services or the execution of works resulting from the program's first three selection processes, regardless of their amounts or of the application of the Bank's procurement policies or of national legislation. Thereafter, the Bank will review *ex ante* only those processes that involve direct contracting, contracting involving fees that exceed US\$250,000 in the case of consulting firms, and US\$200,000 in the case of individual consultants, or contracts for goods and services other than consulting services that exceed US\$5 million and contracts for works that exceed US\$25 million.
- 2.5 **National legislation.** The borrower may use national legislation for the procurement of works under US\$25 million per contract and the procurement of goods and services other than consulting services under US\$5 million per contract, provided that the requirements set forth in the Bank's procurement policies are upheld, especially those relating to: (i) the origin of the goods; (ii) the nationality of the vendors; (iii) the modification of purchasing orders; (iv) the prohibition of price bands; and (v) the publication of calls for bids in newspapers with wide national

- 2.6 **Direct contracting.** The borrower may hire the School of Finance Administration (ESAF) of the Ministry of Finance of the Federative Republic of Brazil to provide training for state civil servants. The borrower may also directly hire public administration or finance training centers in the state to provide training subject to the Bank determining that the center has the necessary installed capacity to deliver the services. If loan proceeds are transferred to ESAF and the state public administration or finance training centers that have separate legal status and are part of the borrower's indirect administration, the borrower must submit to the Bank, before such transfer of resources, a legal instrument signed with such a center whereby the latter assumes the following obligations: (i) to carry out all procurement of goods or subcontracting of consultants for the provision of such services in accordance with the Procurement Policies set out in the loan contract between the State and the Bank; and (ii) to allow the Bank and the project auditors access to the supporting documentation for the procurement of goods and services.
- 2.7 **Specialized agency.** The borrower may use its own resources to directly contract technical support services from a specialized agency exclusively to provide technical support for the procurement of goods and the selection of consulting firms or individual consultants to work on activities relating to project execution, subject to the following conditions: (i) the Bank's prior approval of the contract to be signed with the specialized agency would be required; (ii) the specialized agency will undertake to comply with the Bank's procurement policies and procedures; (iii) the hiring of consultants to perform routine activities relating to project execution will not be authorized; and (iv) if the United Nations Development Programme (UNDP) is the selected specialized agency, the contract will comply with the provisions in the Letter of Agreement signed between the Bank and the UNDP on 20 June 2003.

B. Environmental risks and social safeguard

- 2.8 On environmental issues, the project was classified as a category "C" operation based on the guidelines specified in the sustainable financing instruments. This classification is consistent with the evaluation made by the Project Team, since the operation involves institutional modernization in a treasury, finance, or tax department. It is therefore not considered necessary to prepare an environmental strategy for the project. Risk analysis was performed by a team of specialists from the Bank's Country Office in Brazil, which rated the project as low-to-moderate risk and made no additional recommendations (see technical references).

C. Fiduciary risk

- 2.9 **The main risks are as follows:** (i) the executing agency may have insufficient experience in applying the Bank's procurement policies. To mitigate this risk, Bank officials specializing in these policies are presently training the SET and PGE team; and (ii) the possibility of changes in the composition of the executing agency team

or in the project's priorities as a result of changes in the government of the State of Rio Grande do Norte given that the next state elections are scheduled for 2010. To mitigate this risk, the Project Coordination Unit (PCU) team was drawn exclusively from SET staff. Full details of the results of the analysis and risk matrixes are available in the project's technical references.

- 2.10 **Project eligibility.** The State of Rio Grande do Norte is using its own resources to conduct the national integration activities [National Synchronized Registry (CadSinc) and digital public accounting system (SPED) and related projects: Electronic Fiscal Billing (NF-e), Digital Accounting (ECD) and Digital Tax Accounting (EFD). Each specific project will receive support as part of the PMAE/BNDES agreement. The borrower will include information in the semiannual progress reports on the status of implementation of the CadSinc, ECD, EFD, SPED, and NF-e.

D. Other critical risks and issues

- 2.11 The macroeconomic scenario in Brazil presents a medium level of risk because the international financial crisis is affecting world markets. Since Brazil has international monetary reserves of about US\$200 billion and has been adopting active measures to stimulate the economy, economic analysts believe that transmission of the crisis is being attenuated, providing a cautiously favorable view of the next few years. The quality of monetary and fiscal policy over the last few years and the relatively low level of public debt contributed to this assessment.
- 2.12 The crisis caused a world slowdown in the large countries that produce and consume industrialized products. Initially, industries drastically reduced their production to seek equilibrium with demand. Consequently, there was a reduction in the consumption of raw materials. This scenario cut into State tax collection and federal transfers, making it difficult to maintain fiscal balance and public investment.
- 2.13 Mitigation measures: In terms of efforts to mitigate the effects of the world economic crisis, it should be noted that: (i) this operation contributes significantly to improving tax collection and the quality of spending in order to mitigate the effects of the crisis on State finances; and (ii) the State has been contributing to the macroeconomic context by complying with the limits established in the LRF, and has achieved positive results, in addition to the likelihood of reducing the size of the debt.

III. PROJECT IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of the institutional execution agreement

- 3.1 The borrower will be the State of Rio Grande do Norte, and the guarantor of the loan's financial obligations will be the Federative Republic of Brazil. The project executing agency will be the State of Rio Grande do Norte, which will carry out the project through its State Tax Department, within which the borrower has

established the Project Coordination Unit (PCU) under the unit responsible for the Project to Coordinate the Restructuring and Modernization of the Tax Administration, reporting directly to the Secretary.

- 3.2 The basic structure of the PCU comprises regular employees of the State of Rio Grande do Norte, including: (i) a General Coordinator, (ii) a Technical Coordinator; (iii) an Administration and Finance Coordinator; and (iv) a Technical Assistant in charge of monitoring and evaluation. The latter three will report to the General Coordinator. In addition to this basic structure, a Strategic Commission consisting of SET officials was established to monitor and evaluate the project activities. The managers of the areas in which the project will be executed will be responsible for development of the related components. The purpose is to avoid creating structures in parallel to the official SET structure, and to engage the various managers and their technical staff in the development and implementation of solutions during the entire project execution period.
- 3.3 The PCU's main responsibilities will be to: (i) submit disbursement requests to the Bank with the appropriate support documentation; (ii) supervise the bidding processes for the procurement of goods and the contracting of works, and the selection and hiring of services for the project in accordance with the Procurement Plan and the Bank's procurement policies; (iii) maintain an appropriate financial accounting system for the project, according to the Bank's policies; (iv) submit project execution reports; (v) submit work plans and update the Procurement Plan; (vi) file invoices, contracts, and purchase orders, and submit them to the Bank and to the project auditors upon request; and (vii) ensure that goods and works financed with project resources comply with the technical guidelines of general application.
- 3.4 **Operating Regulations (OR).** The project will be executed in accordance with the PROFISCO-CCLIP Operating Regulations previously approved by the Bank. The Operating Regulations specify the eligibility criteria regarding the borrower, the project, and the products that may be financed.

B. Summary of arrangements for monitoring results

- 3.5 Project monitoring will be based on the programming of activities, on the physical and financial data of the products contained in the work plan, and on the descriptions of procurement and contracting processes contained in the procurement plan.
- 3.6 The borrower will submit semiannual progress reports to the Bank, with copies to the Executive Secretariat of the Ministry of Finance. Such reports will include information regarding the current status of the national integration activities mentioned in paragraph 2.10.
- 3.7 **Work plan for the first 18 months.** The borrower has submitted a preliminary version of the work plan for the first 18 months of project execution, which the Bank has validated.

- 3.8 **Procurement plan for the first 18 months.** The borrower has submitted a preliminary version of the procurement plan for the first 18 months of project execution, which the Bank has validated.
- 3.9 **Audited financial statements.** The project financial statements will be audited annually by an independent firm of public accountants acceptable to the Bank; or by the Audit Office of the State of Rio Grande do Norte if the latter has been accredited by the Bank to conduct audits for IDB-financed projects.

Annex I

This annex is confidential.

BRAZIL

PROJECT TO INTEGRATE MODERNIZATION OF FISCAL AND FINANCIAL MANAGEMENT IN THE STATE OF RIO GRANDE DO NORTE (PROFISCO/RN) (BR-L1207)

RESULTS FRAMEWORK

Project objective	To improve the efficiency and transparency of fiscal management with a view to: (i) increasing the State's own revenue; (ii) improving government spending efficiency and effectiveness and tightening control; and (iii) delivering better services to citizens.						
Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
Total debt / NRR (%) (maximum value) Excluding operations to be contracted.	36%	32%	29%	29%	29%	Maintain in the third and fourth years the value agreed upon with the STN for the second year of project execution.	Fiscal targets agreed upon with the federal government under the PAF on 06/23/08, based on the 2008-2010 three-year period. 2011 and 2012 own revenue estimated by the SET. 2011 and 2012 targets for other items will be negotiated with the STN in 2009; negotiated targets will remain in effect in 2010.
Primary balance (millions) (minimum value)	41 million	41 million	60 million	60 million	60 million	Maintain in the third and fourth years the value agreed upon with the STN for the second year of project execution.	
Payroll / NCR (%) (maximum value)	60.06%	59.89%	59.99%	59.99%	59.99%	Keep the payroll expenses to NCR ratio below the prudential limit set by the Fiscal Responsibility Law (LRF) (57%).	
Own revenue (minimum value)	2.315 billion	2.515 billion	2.763 billion	3.286 billion	3.589 billion	Attain an internal revenue level of R\$3.589 billion.	
Other current expenses (maximum value)	1.566 billion	1.907 billion	2.054 billion	2.054 billion	2.054 billion	Maintain in the third and fourth years the percentage agreed upon with the STN for the second year of project execution.	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
COMPONENT I: INTEGRATED STRATEGIC MANAGEMENT							
Subcomponent 1: IMPROVE ORGANIZATION AND STRATEGIC MANAGEMENT							
Products							
1.1 Develop and implement the SET Strategic Planning system, consolidation of the management support systems, and development of a results-driven management culture.	One Coordination Unit with specified target and electronic monitoring (revenue) 2007.	Strategic planning developed. Two Units / Coordination Units with specified target and electronic monitoring (Process Evaluation Coordination Unit (COJUP).	Two Units / Coordination Units with specified target and electronic monitoring (Tax Administration Coordination Unit – CAT; Tax Education Coordination Unit – COEF).	Four Units / Coordination Units with specified target and electronic monitoring (Inspection Coordination Unit – COFIS; Data Processing Coordination Unit – CODIN; Inter-Agency Integration Coordination Unit – COFIC; first URT).		Eight SET Units / Coordination Units with specified targets and objectives and electronic monitoring.	
1.2 Prepare a system to gather, store, and publish state economic and financial data, and correlate them with tax data to monitor tax collection in relation to economic performance.	Inexistence of a system to gather and correlate economic and financial data with tax data.	Contracting of studies, data compilation, and selection of sectors to be monitored.	Development of systems to gather and correlate data.	Adaptation of the tax potential to the state's economic growth.		Sector adaptation of the tax potential to the state's economic growth (fuel, communications and electrical power).	The first year's study will serve to determine which sectors to include in the study.
1.3 Renovate headquarters regional units, and border tax offices.	15 tax offices, seven of which have deficient facilities. Seven regional units (URT), three of which have deficient facilities. Headquarters inadequate.	Renovation of one tax office, one URT, and headquarters (Fifth URT, the Caraú tax office, and headquarters).	Renovation of two tax offices and one URT (Sixth URT, Jardim de Piranhas and Equador tax offices).	Renovation of three tax offices (Mossoró, Baraúnas and Gessi Moreno tax offices).	Renovation of one tax office and one URT (Fourth URT, Lagoa das Pedras tax office).	Seven border offices and three URTs renovated and equipped, headquarters upgraded (physical facilities – electric and hydraulic network, data network, furniture and computer hardware).	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
Outcomes							
Achieve the collection growth targets without increasing the ICMS effective tax burden.	ICMS revenues of R\$2.009 billion (2007), average tax burden 6.7%.	ICMS revenue of R\$2.413 billion, no change to tax burden.	ICMS revenue of R\$2.636 billion, no change to tax burden.	ICMS revenue of R\$2.880 billion, no change to tax burden.	ICMS revenue of R\$3.146 billion, no change to tax burden.	ICMS revenue of R\$3.146 billion, no change to tax burden.	The aim is to maintain the current tax burden, which will require revising tax incentives.
Subcomponent 2: NATIONAL AND INTERNATIONAL INTERAGENCY COOPERATION							
Products							
2.1 Host and attend national and international meetings and seminars on integration.	Limited participation at seven established working groups (COTEPE, ENCAT, GDFAZ, ENAT, GEFIN, ENIF, GEF). Irregular and infrequent attendance at international events (2007).	Participation at seven established working groups. Participation at four COGEF-CONFAZ meetings. Attendance at two international events.	Participation at seven established working groups. Participation at four COGEF-CONFAZ meetings. Attendance at two international events.	Participation at seven established working groups. Participation at four COGEF-CONFAZ meetings. Attendance at two international events.	Participation at seven established working groups. Participation at four COGEF-CONFAZ meetings. Attendance at two international events.	Participation at eight working groups (COTEPE, ENCAT, GDFAZ, ENAT, GEFIN, ENIF, GEF, COGEF-CONFAZ). Attendance at eight international events.	
Outcomes							
Incorporate new management tools, technologies, and procedures used by other administrations, thus streamlining actions and reducing time and cost.	Incorporation of management tools (Tax Pass, Fast-track border) and technologies (Idea, Tax Pass, Tax Portal) (2003-2007).	Incorporation of one new management tool.	Incorporation of one new management tool and one new technology.	Incorporation of one new management tool and one new technology.	Incorporation of one new management tool and one new technology.	Incorporation of four new management tools and three new technologies.	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
COMPONENT II: TAX ADMINISTRATION AND TAX DISPUTE RESOLUTION PROCEDURES¹							
Subcomponent 3: IMPROVE TAX ADMINISTRATION EFFICIENCY AND EFFECTIVENESS							
Products							
3.1 Improve border transit and traffic inspection.	Cargo inspections solely based on tip-offs, random controls, or transit monitoring (on average, 1,500 cargo trucks in transit in the state daily).	Transit inspection model designed and approved.	Implementation of the model allows for inspection of 50 vehicles a month, on average.	Implementation of the model allows for inspection of 100 vehicles a month, on average.	Implementation of the model allows for inspection of 150 vehicles a month, on average.	Implementation of the model allows for inspection of 150 vehicles a month, on average.	
3.2 Standardize inspection protocols, correlating the taxpayer databases containing taxpayer information.	Average time to execute fiscal measures = 180 days (2007).		Average time to execute tax-related proceeding within the legal term of 160 days.	Average time to execute tax-related proceeding within the legal term of 140 days.	Average time to execute tax-related proceeding within the legal term of 120 days.	Average time to execute tax-related proceeding within the legal term of 120 days.	
Outcomes							
Increased ICMS revenue collection	ICMS revenue collection R\$2 billion (2007).	ICMS revenue collection R\$2.4 billion.	ICMS revenue collection R\$2.6 billion.	ICMS revenue collection R\$2.9 billion.	ICMS revenue collection R\$3.2 billion.	ICMS revenue collection R\$3.2 billion.	Using the 2008 historical curve for the 2009-2012 projections: inflation 4%; 3.5% GDP growth in 2009, and 4% for 2010 to 2012, 1% tax effort.

¹ The State of Rio Grande do Norte is part of the National Synchronized Registry (CADSINC) and the Tax Pass pilot national project plan, and received equipment for these projects pursuant to agreements with the Federal Government. The State is using own resources for the follow-on phases to these actions and for the SPED, relating to the Electronic Tax Bill. The PMAE/BNDES project resources will substitute state investments to expand, update, and enhance these initiatives, as well as to establish the Digital Tax Registry (EFD) and Digital Accounting (ECD) Registry.

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
Subcomponent 4: IMPROVE EFFICIENCY AND EFFECTIVENESS IN THE MANAGEMENT OF TAX DISPUTE RESOLUTION PROCEDURES							
Products							
4.1 Improve the outstanding debt control and collections by legal process systems.	The system fails to control noncompliance in the case of partial payments.	Management system established.	System integration.	Debt balance assessed and evaluated (debt and amount confirmed).	The outstanding debt collection service is structured.	Control over 100% of partial payments.	
Outcomes							
Recover R\$1.4 million through administrative collections.	Total value of small collections processes – R\$47 million.			Recovery of R\$700,000.	Recovery of R\$700,000.	Recovery of R\$1.4 million through small debtor collections.	
COMPONENT III: FINANCIAL AND ASSET MANAGEMENT, AND INTERNAL CONTROLS							
Subcomponent 5: IMPROVE FINANCIAL MANAGEMENT EFFICIENCY AND EFFECTIVENESS							
Products							
5.1 Improve the planning process, budget preparation, financial programming and execution, and public debt control.	Training opportunities in planning = 100 (2007).	150 training opportunities in budget preparation, planning, public finance, contracts and agreements.	150 training opportunities in budget preparation, planning, public finance, contracts and agreements.			300 training opportunities in budget preparation, planning, public finance, contracts and agreements.	
Outcomes							
Automate the public debt control.	300 public debt contracts controlled with electronic spreadsheets (July 2008).	Improved public debt control module.	300 public debt contracts controlled by the system.			100% of the public debt contracts are controlled by the information technology system.	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
Subcomponent 6: IMPROVE AND CORRECT INTERNAL CONTROL MECHANISMS							
Products							
6.1 Strengthen the Office of the Comptroller General through operational audits (external).	Operational audits (external) conducted = 0	One operational audit (external) conducted.	Two operational audits (external) conducted.	Two operational audits (external) conducted.	Two operational audits (external) conducted.	Two operational audits (external) conducted each year.	
Outcomes							
Tighter control and monitoring of state spending.	Average time to analyze processes: 8 to 15 days.	Average analysis time reduced to 8 to 14 days.	Average analysis time reduced to 8 to 12 days.	Average analysis time reduced to 7 to 10 days.		Average analysis time reduced to 7 to 10 days.	
COMPONENT IV: STRATEGIC RESOURCES MANAGEMENT							
Subcomponent 7: IMPROVE TRANSPARENCY MECHANISMS AND COMMUNICATION WITH SOCIETY							
Products							
7.1 Improve the procedures and systems to serve taxpaying citizens.	Assistance online and at 25 service points: seven at the URTs, and 18 located at other state agencies. Payments accepted at the tax offices and bank network.		Seven automated service stations established (at shopping centers in the capital and in cities with URT main offices).	Tax payments by automatic debit implemented by two bank networks with broad coverage. Eight automated service stations established (at shopping centers in the capital and in cities with URT main offices).	Tax payments by automatic debit implemented by two bank networks with broad coverage. URT is operational.	15 automated service stations established, URT is operational, automatic payment available through four bank networks, reducing the volume of payments made at the tax offices.	Automatic debit is tied to entering into agreements with the bank networks.
7.2 Improve and expand the municipal education network's program to educate citizens in tax matters.	Tax education program shown over 0 (of 167) municipal public education networks.			Tax education program shown over 30 municipal public education networks.	Tax education program shown over 30 municipal public education networks.	Tax education program shown over 60 municipal public education networks.	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
Outcomes							
Monitor citizen-taxpayer satisfaction with the SET in-person and online customer services.	No monitoring of citizen-taxpayer satisfaction.		Design a model to monitor citizen-taxpayer satisfaction.	Collection of preliminary data on citizen-taxpayer satisfaction.	Monitoring of citizen-taxpayer satisfaction.	Systematic monitoring of citizen-taxpayer satisfaction with SET in-person and online customer services.	
Subcomponent 8: MODERNIZE AND UPDATE THE INFORMATION AND COMMUNICATIONS TECHNOLOGY SERVICES							
Products							
8.1 Unify, expand, and certify the quality of the customer service center (contact center service).	1,600 users a month assisted at the contact center.		Design and approval of the customer care model.	2,000 users a month assisted at the contact center.	3,000 users a month assisted at the contact center.	Customer care capacity at the service center increased to 3,000 users per month.	
8.2 Integrate computerized systems (outstanding debt, IPVA, ICMS, ITCD).	Separate negative state certifications issued by each agency.		Outstanding debt integration is operational.	IPVS integration is operational.	ITCD integration is operational.	Unified negative certification of state taxes.	
8.3 Restructure the SET contacts portal on the internet.	50 services established – Virtual Tax Unit (UVT) in 2008.		15 new services created for the UVT.	15 new services created for the UVT.		30 new services created for the UVT.	
Outcomes							
Increased online services for citizen-taxpayers.	96,000 individual hits per month.		114,000 individual hits per month.	132,000 individual hits per month.	150,000 individual hits per month.	Increase to 150,000 individual hits per month.	
Subcomponent 9: IMPROVE HUMAN RESOURCES MANAGEMENT							
Products							
9.1 Develop the SET's competencies organizational chart.	No functions and competencies matrix. The training plan is based on identifying needs.		Draft chart of competencies for each function.			Approval of the SET competencies matrix.	

Outcomes	Base 2007	Year 2009	Year 2010	Year 2011	Year 2012	Target	Comments
9.2 Establish performance evaluation systems in line with the new grade and pay scale policy.	No performance evaluation systems.			Design and development of a performance evaluation tool.	Implementation of the performance evaluation tool.	Implementation of performance evaluation systems.	Create a committee to develop a grade and pay scale for technical staff.
Outcomes							
Integrate the performance evaluation process with the evaluation matrix.				45 training opportunities in use of the performance evaluation methodology and tools.	45 training opportunities in use of the performance evaluation methodology and tools.	90 administrators trained in use of the performance evaluation methodology and tools.	

Notes:

1. The reference values, anticipated annual values, and the targets for each indicator will be specified in the Indicators Matrix.
2. The Products and Outcomes are presented jointly to facilitate monitoring component performance.
3. The right-hand column may be used to describe the products/outcomes, explain the choice of indicator, or provide other explanations.
4. In the Annex/Outcomes Section, this Matrix will be complemented by a detailed description of the agreements (institutional nature, responsibilities, rules of operation, terms of reference, contracting of consultants, budget), explaining how the data will be compiled, verified, analyzed, and submitted to the Bank. A description of the sources of data and the justification of benchmarks and specified targets will also be provided.

BRAZIL
PROJECT TO INTEGRATE MODERNIZATION OF FISCAL AND FINANCIAL MANAGEMENT
IN THE STATE OF RIO GRANDE DO NORTE (PROFISCO/RN)
(BR-L1207)

PROCUREMENT PLAN – 18 MONTHS (SUMMARY TABLE)

No.	Contract description	Product linked to the Procurement Plan / Work Plan	Estimated cost (US\$1 = R\$1.67)	Procurement method (1)	Review (2)	Source (%)		Tentative dates		Comments
						IDB	Local	Publication of notice	Completion of contract	
CONSULTING SERVICES										
1	System consolidation: geofiscal data, management data – data storage and SET strategic performance indicators	1.1	161,677	QCBS	Ex ante	100%	0%	Feb. 09	Aug. 10	
2	Organizational processes and structures	1.2	22,635	IC	Ex post	100%	0%	Jul. 09	Feb. 10	
3	Fuel sector study	1.3	51,737	IC	Ex post	100%	0%	Apr. 09	Jan. 10	
4	Group 1 –Civil engineering and architecture Group 2 –Electrical engineering and logical network	1.4	138,922	LCS	Ex ante	100%	0%	Oct. 08	Dec. 09	
5	Systems development and training Group 1 –Monitoring of the <i>Super Simples</i> system Group 2 – Monitoring of establishment inspections	3.1	105,629	CQS	Ex post	100%	0%	Mar. 09	Dec. 09	
6	Management and integration of the outstanding debt systems and training	4.1	84,073	CQS	Ex post	100%	0%	Apr. 09	Mar. 11	
7	Outstanding debt analysis and evaluation	4.1	53,892	FBS	Ex post	100%	0%	Aug. 09	Apr. 10	
8	Improvement of the Integrated Financial Management System (IFMS)	5.1	161,677	QCBS	Ex ante	100%	0%	Oct. 08	Jun. 09	
9	Methodology to collect and manage data for the Multiyear Plan	5.1	38,802	FBS	Ex post	100%	0%	Feb. 10	Oct. 10	
10	Group 1 – Operational audit and training Group 2 – Intelligence, correction, and training	6.1	97,006	FBS	Ex post	100%	0%	Nov. 10	Jul. 11	
11	Group 1 – Information technology management and training Group 2 – Integration of the SET systems and training	8.1 8.4	137,965	QCBS	Ex post	100%	0%	Apr. 09	Dec. 10	
12	Group 1 – Mobile business communication models and training Group 2 – Internet contacts and training	8.2 8.3	118,204	QCBS	Ex post	100%	0%	Feb. 10	Dec. 10	
	TOTAL CONSULTING SERVICES		1,172,219			100%	0%			

No.	Contract description	Product linked to the Procurement Plan / Work Plan	Estimated cost (US\$1 = R\$1.67)	Procurement method (1)	Review (2)	Source (%)		Tentative dates		Comments
						IDB	Local	Publication of notice	Completion of contract	
TECHNICAL SERVICES (consulting services excluded)										
1	Training in: Strategic management, management and leadership, information technology, managing for results. Seminar: The new management and operations model	1.1	177,485	Shopping or Pregão	Ex ante	100%	0%	Oct. 09	Dec. 11	
2	Training in: planning, budget, public finance, contracts, and agreements	5.1	129,340	Shopping or Pregão	Ex ante	100%	0%	Mar. 09	Jun. 10	
3	Purchase of airline tickets	2.1	205.814	NCB or Pregão	Ex ante	100%	0%	Oct. 08	Dec. 12	
4	Project audit	ADM	47,904	QCBS	Ex ante	100%	0%	Jan. 10	Dec. 12	Per IDB procedures
TOTAL TECHNICAL SERVICES			560,543			100%	0%			
GOODS										
1	Project-specific software	8.1	90,000	PRE ELE	Ex post	100%	0%	Nov. 09	May 10	
2	Web page designer software	8.1	8,982	PRE ELE	Ex post	100%	0%	Nov. 08	May 09	
3	Administrative management and controls software	8.1	32,335	PRE ELE	Ex post	100%	0%	Nov. 08	May 09	
4	Audit software (adopted by the inspection unit)	3.2	53,892	DC	Ex ante	100%	0%	Nov. 08	May 09	
5	Infrastructure and server software	8.1	321,704	PRE ELE	Ex ante	30%	70%	Nov. 08	May 09	
6	Oracle database software (adopted by SIGAT)	8.1	200,000	DC	Ex ante	100%	0%	Nov. 08	May 09	
7	Planning and strategic management software	8.1	21,557	PRE ELE	Ex post	100%	0%	Nov. 08	May 09	
TOTAL GOODS			728,470			69%	31%			
WORKS										
1	Renovation of the Caraú tax office	1.4	113,772	Law 8666	Ex post	0%	100%	Apr. 09	Mar. 10	
2	Renovation of the Equador and Baraúnas tax offices	1.4	80,838	Law 8666	Ex post	0%	100%	Jan. 10	Jul. 11	
TOTAL WORKS			194,610			0%	100%			
GRAND TOTAL			2,655,842							
%			32%			84%	16%			

1. Bidding/selection methods: (a) **IDB**: International competitive bidding; **NCB**: National competitive bidding; **PC**: Price comparison; **DC**: Direct contracting; **QCBS**: Quality- and cost-based selection; **CQS**: Selection based on the consultants' qualifications; **LCS**: Least-cost selection; **FBS**: Fixed budget selection; **SSS**: Single-source selection; **IC**: Individual consultant. (b) **Law 8666**: INV: Invitation PC: Price comparison; C: Competition (competitive bidding); **PRE ELE**: Pregão Eletrônico [e-procurement]; **REG PR**: Price list.

2. Ex post or ex ante.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/09

Brazil. Loan ___/OC-BR to the State of Rio Grande do Norte (RN)
Project to Integrate Modernization of Fiscal and Financial
Management in the State of Rio Grande do Norte
(PROFISCO/RN)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Rio Grande do Norte, as Borrower, and the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of a project to integrate modernization of fiscal and financial management in the State of Rio Grande do Norte, which constitutes an individual operation under the CCLIP-PROFISCO Credit Line approved by this Board on November 5, 2008 through Resolution DE-132/08. Such financing will be in the amount of up to US\$7,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.