

TC DOCUMENT

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Evaluation of Program for the Modernization of Fiscal Management in Brazil (PROFISCO))
▪ TC Number:	BR-T1635
▪ Team Leader/Members:	Motta Cafe, Renata (IFD/FMM) Team Leader; Mac Dowell, Maria Cristina (IFD/FMM) Alternate Team Leader; Builes Giraldo Liza Francina (IFD/FMM); Yarygina Udovenko, Anastasiya (IFD/FMM); Avila, Krysia A (LEG/SGO); Astudillo, Karen (IFD/FMM); Estorani De Faria, Monise (IFD/FMM)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	BR-X1039 , BR-O0016
▪ Date of TC Abstract authorization:	30 Aug 2024
▪ Beneficiary:	Federative Republic of Brazil and subnational entities (state level and the federal district)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$375,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months. During this period the operation will be executed.
▪ Required start date:	January 2025
▪ Types of consultants:	Individual consultants and firms
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CSC/CBR-Country Office Brazil
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the IDB Group's Institutional Strategy: Transformation for Scale and Impact:	Institutional capacity and rule of law

II. Description of the Associated Loan.

2.1 The Program for the Modernization of Fiscal Management in Brazil (PROFISCO) has been implemented since 2009 through two Conditional Credit Line for Investment Projects (CCLIP), PROFISCO I ([BR-X1005](#), approved in 2008, US\$500.000.000) and PROFISCO II ([BR-X1039](#), approved in 2017, US\$900.000.000). The Program has been implemented in 24 out of 27 Brazilian subnational entities (States and Federal District). PROFISCO III ([BR-O0016](#)) is currently being prepared. This Technical Cooperation (TC) will support PROFISCO II and III which contribute to strengthening capacity in the areas of Fiscal Management and Transparency, Tax Administration and Litigation, and Public Expenditure Management, with the main objective of contributing to the fiscal sustainability of the Brazilian States.

III. Objectives and Justification of the TC

3.1 The objective of this TC is to strengthen the capacity of Brazilian subnational secretaries of finance in data analysis and use of evidence for policy making. The

specific objectives are providing technical assistance for the design and implementation of the impact evaluations of to the CCLIP PROFISCO II ([BR-X1039](#)) and PROFISCO III ([BR-O0016](#))¹; and contributing to strengthen the body of knowledge through rigorous evidence of the effectiveness and impact of the products financed by PROFISCO. It is anticipated that the results obtained will also be a key input for the Project Completion Report of the CCLIP PROFISCO II.

3.2 Justification. In order to generate rigorous evidence of the impact of PROFISCO's innovative products, in 2018 the project team initiated the PROFISCO evaluation strategy. This strategy supported impact evaluations of the main products implemented with funding from the program. The implementation of the strategy has resulted in publications of evaluation results in the states of Piauí (Bando et al., 2021), Bahia (Café et al., 2024), Pará (Yarygina et al., forthcoming) and Rio Grande do Sul (Martinez-Carrasco et al., 2023). When analyzing the results of the first generation of the CCLIP (PROFISCO I), Martinez et al. (2022) found that the implementation of PROFISCO I is associated with an increase in revenue by 11.7%, number of formal companies by 1.7%, and wages by 3.4%. However, there is still lack of rigorous evidence for understanding the mechanisms through which PROFISCO led to the results documented in the Martinez et al. (2022) study. There is also need for better understanding of PROFISCO impact on the outcomes other than tax compliance and revenue, for instance, informality and equality. In effect, the lack of a rigorous evaluation strategy to examine both tax compliance and the impact of informality, equity, and other effects on the local economy remains a significant gap in existing evaluations and literature. We anticipate that certain products of PROFISCO II and III, such as the interventions focused on reducing the cost of compliance for small firms, could yield relevant results in this regard. Analyzing the impacts of PROFISCO interventions on these dimensions requires increasing the scope and coverage of evaluations, including questionnaires and field visits, as well as knowledge transfer activities, workshops, and dissemination activities to ensure the counterpart engagement and buy-in, which is considered in the scope of this TC. This TC will also support technical assistance focused on strengthening data analysis capacities and generating evidence on “what works” through the implementation of rigorous evaluations products financed by PROFISCO projects. Thus, this TC will allow continuing and expanding the scope of work initiated under the PROFISCO Evaluation Strategy, in terms of outcomes, evaluation tools, capacity building and engagement.

3.3 Beneficiaries. The direct beneficiaries of this TC are the Federative Republic of Brazil and subnational entities (states and the federal district) through their secretaries of finance, strengthening their knowledge and capacities on fiscal management modernization programs expanding solutions with effective impact. The civil servants involved in the evaluations, are also beneficiaries, increasing their knowledge and further strengthening institutional capacity.

3.4 Contribution to the Bank's operational program. This TC is an opportunity for the Inter-American Development Bank (IDB) to support the federal government of Brazil strengthening the financial capacities of states and municipalities and, thus, contributing to inclusive fiscal sustainability. This TC aims to complement the work that

¹ Brazil has twenty-seven federal units, PROFISCO II covers 19 approved projects for 19 federal units, and PROFISCO III is in design stage, with the potential to cover the 27 federal units.

the Bank has developed in the area of public finance with Brazil over the past 25 years. At the federal level, the Bank has supported the Fiscal Modernization Project of the Federal Revenue in Brazil (SRF, 1996, [888/OC-BR](#), approved in 1995, US\$78 million). In addition, the Bank has contributed to the modernization of fiscal management with several states: National Program in Fiscal Administration for Brazil States (PNAFE [980/OC-BR](#), approved in 1996, US\$500 million); CCLIP PROFISCO I ([BR-X1005](#)) and II ([BR-X1005](#)); Fiscal Management Modernization Project for the State of São Paulo – PROFISCO II SP ([BR-L1516](#), approved in 2018, US\$87 million); Project for the Modernization and Transparency of Fiscal Management of the State of Bahia ([1727/OC-BR](#), approved in 2006, US\$12 million); and the projects for the Consolidation of Fiscal Balance in the states of [Amazonas](#) (approved in 2013, US\$184 million), [Alagoas](#) (approved in 2013, US\$250 million), [Bahia](#) (approved in 2008, US\$500 million), [Pernambuco](#) (approved in 2013, US\$400 million), and [Rio Grande do Sul](#) (approved in 2012, US\$200 millions). Finally, with the municipalities, the Bank supported their Administrative and Fiscal Management Modernization Program (PNAFM I, [BR-0286](#), approved in 1999, US\$300 million; PNAFM II [BR-L1252](#), approved in 2009, US\$150 million; and PNAFM III [3391/OCBR](#), approved in 2014, US\$150 million). In the design and execution of these projects, the main lesson learned is the importance of evaluating results to guarantee effective investments making sure efforts are being made towards the most impactful opportunities.

3.5 Strategic Alignment. This TC is consistent with the IDB Group's Institutional Strategy: Transformation for Scale and Impact (GN-3159-12) and aligns with the objectives of: (i) reducing poverty and inequality, by enabling higher tax revenues to expand the provision of public goods and services and improve the quality of public spending; and (ii) bolstering sustainable regional growth, by reducing the cost of tax compliance and strengthening tax citizenship. It is also aligned with the operational focus area of institutional capacity, rule of law and citizen security. The TC is aligned with the priorities of the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), supporting public revenue generation. It is also consistent with the Subnational Governments Sector Framework (GN-2813-13) by increasing own revenue mobilization, promoting greater efficiency and quality of spending, and improving transparency and accountability. This TC also aligns with the objectives of Priority Area 3: Effective, Efficient and Transparent Institutions of the Strategic Program for Development Financed with Ordinary Capital (GN-2819-14) through data analysis and use of evidence for strengthening the capacity of Brazilian subnational secretaries of finance across Brazil. It is also consistent with the Fiscal Management Sector Framework (GN-2831-13) by increasing the contribution of fiscal policy and management to economic growth; and supporting fiscal consolidation processes and strengthening fiscal institutions for the sustainability of public finances.

3.6 Country strategy. The TC aligns with the IDB Group Country Strategy with Brazil 2024-2027 (GN-3243-3), through the strategic objective of strengthening the public sector sustainability and government efficiency.

IV. Description of activities/components and budget

4.1 **Component I: Design and Implementation of PROFISCO impact evaluations (US\$ 295,000.00).**

The objective of this component is to strengthen the capacity of the beneficiaries to design and implement rigorous impact evaluations of PROFISCO's flagship products in Brazilian states, to reach the results of current projects, promoting a culture of effectiveness in the Brazilian public sector. To this end, the following activities will be financed: (i) technical assistance to support data extraction, collection, cleaning and analysis; (ii) field surveys for collecting the information on such dimensions as business climate, firm growth, access to credit, equity and inclusion, and informality (specific characteristics not registered in the administrative data of the secretaries of finance); and (iii) technical assistance to the participant states, by consultants hired through the TC, to support evaluation activities, knowledge transfer and capacity building in impact evaluations.

4.2 This component includes three innovative evaluations²: (i) compliance by design programs: conducting an experimental evaluation (Randomized Control Trial, RCT)³, for which three economic sectors subject to tax collection under the normal tax regime (food, packaging, and chemicals) were preselected. The companies within these sectors would be stratified according to pre-existing compliance levels and then randomized to create a treatment group and a control group; (ii) small public procurement, which consists of two stages. In the first stage, the Reference Price Portal implemented with the support of PROFISCO is evaluated, following the strategy by Martinez-Carrasco et al. (2023). The second stage includes an experimental evaluation of the expansion of the Portal to a larger number of purchasing agencies, through a randomized promotion technique, with the objective to evaluate the systematized impact of the use of the new pricing information on sector's purchasing performance, including unitary price paid, length of purchasing transaction, time needed to research the reference price; and (iii) self-regularizations platforms, conducting an experimental evaluation (RCT), for a sample of companies with outstanding ICMS tax debt, selected and stratified according to the amount of tax due. The evaluation contemplates the random assignment to treatment and control groups to test the different hypotheses about the effectiveness of the self-regularization portal on tax payment and firm-specific variables.

4.3 **Component II: Promotion and dissemination of impact evaluation in Brazilian subnational fiscal management (US\$80,000.00).**

The objective of this component is to promote the use and dissemination of impact evaluations to improve subnational fiscal management in Brazil. To this end, the following activities will be financed: (i) carry out workshops with Brazilian states to provide training on impact evaluation methodologies, share best practices, and facilitate the exchange of knowledge and experiences; and (ii) prepare and disseminate reports and publications detailing the results of impact evaluations, highlighting successful interventions, and providing lessons learned and best practices. The target audience for workshops is comprised of technical staff and managers working on secretaries of finance involved in the TC,

² These three proposals have already been identified by the counterpart, but other evaluations can be included.

³ The evaluation design was developed at the Impact Evaluation Design Week conducted by the IDB in Panama in June 3-7 of 2024 in collaboration with SPD.

and also policymakers, academia and civil society , , who will benefit from the knowledge and reports prepared during TC execution.

4.4 Expected results. This TC will contribute to strengthening capacity of Brazilian subnational secretaries of finance in data analysis and use of evidence for policy making by supporting the design, implementation, promotion, and dissemination of rigorous impact evaluations of PROFISCO's main products. These evaluations will contribute to the body of knowledge on the effectiveness of state capacity strengthening interventions and informing the design of new fiscal sector projects, including the PROFISCO III CCLIP. PROFISCO III will focus on states with limited institutional capacity, making the evaluations essential to provide concrete evidence on effectiveness in challenging contexts where proven investments are critical. It will also spread a culture of evaluation among Brazilian secretaries of finance, with spillover effects for good public management.

4.5 Sustainability. The TC products will directly contribute to a better implementation of PROFISCO III projects in Brazil and will contribute to the sustainability of these investments through two factors: (i) rationalizing investments by learning "what works" from the experiences of early adopters; and (ii) engaging and building the capacity of institutional actors that are part of Brazil's subnational fiscal management.

4.6 Indicative budget. The total cost of the TC is US\$375,000, to be fully financed by the Bank through Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C), of the Strategic Program for Development Financed with Ordinary Capital (OC-SDP). The project does not contemplate a local counterpart.

Table 1. Indicative Budget (US\$)

Component	Description	IDB/W2C	Total Funding
Component I	Design and Implementation of PROFISCO impact evaluations	295,000	295,000
Component II	Promotion and dissemination of impact evaluation in Brazilian subnational fiscal management	80,000	80,000
Total		375,000	375,000

4.7 Monitoring and evaluation. The Team Leader (IFD/FMM) of the project, located in the Brazil Country Office, will be responsible for and will supervise the activities developed under this TC. No additional costs are expected to be generated in the transaction budget of the Country Office for supervision. Annual monitoring reports will be prepared as part of the Bank's technical cooperation monitoring cycle. The final implementation report assessing the results will be prepared as part of the Bank's technical cooperation evaluation cycle.

4.8 Lessons learned. Lessons learned and good practices derived from the proposed interventions will be identified and systematized in the monitoring and evaluation of the TC. These lessons learned will serve as input for future operations.

V. Executing agency and execution structure

- 5.1 **Executing Agency.** The implementation of the TC will be carried out by the Bank, through the Fiscal Management Division (IFD/FMM), at the request of the Government in accordance with the Annex II of the OP-619-4 *"Procedures for the Processing of Technical Cooperation Operations and Related Matters"*, due to its impartiality and the Bank's highly specialized technical, methodological and conceptual knowledge to address the topics of the required studies; its knowledge on international best practices in the matters addressed by the TC, to the extent that the Bank has the technical expertise, networks of experts and knowledge of international experiences that justify such a request; and the Bank's expedite process for contracting consulting services.
- 5.2 **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (a) Hiring of individual consultants, as established in the AM-650 standards; (b) Hiring of consulting firms for services of an intellectual nature according to the Institutional Procurement Policy (GN-2303- 33) and its associated Guidelines.
- 5.3 **Intellectual Property.** The knowledge products generated within the framework of this TC will be the property of the Bank and may be made available to the public under a creative commons license. However, at the request of the beneficiary, the intellectual property of said products may also be licensed to the beneficiary through specific contractual commitments that will be prepared with the advice of the Bank's Legal area.

VI. Major Issues

- 6.1 The main risks of the TC are: (i) potential loss of interest by states in implementing impact evaluations or effectively using the findings to guide PROFISCO III's strategic decisions; (ii) poor-quality studies that misinform policymaking; and (iii) challenges in inter-institutional coordination due to the participation of multiple public institutions, mainly state government entities.
- 6.2 These risks will be mitigated by: (i) building capacity within Brazilian secretaries of finance to foster a culture of evidence-based policy; (ii) hiring professionals with extensive experience to guide and support the development of solutions, diagnoses, and methodologies, ensuring they reflect national priorities and capitalize opportunities aligned with fiscal modernization efforts; and (iii) involving representatives from state fiscal management networks during TC execution to facilitate coordination.

VII. Exceptions to Bank policy

- 7.1 No exceptions to the Bank's policies have been identified.

VIII. Environmental and Social Aspects

- 8.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated

with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix_41895.pdf](#)

[Terms of Reference_71369.pdf](#)

[Procurement Plan_27352.pdf](#)