TC Document

I.   Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Strengthening the Government's judicial representation in tax matters
▪ TC Number:	BR-T1650
▪ Team Leader/Members:	Maria Cristina Mac Dowell (IFD/FMM) Team Leader; Goncalves, Carlos Eduardo (IFD/FMM) Alternate Team Leader; Builes Giraldo Liza Francina (IFD/FMM); Avila, Krysia A (LEG/SGO); Roman Sanchez, Susana (IFD/FMM); Motta Cafe, Renata (IFD/FMM); Blanco Urbina Luz Inmaculada (IFD/FMM); Rivera Urias Maria De Los Angeles (IFD/FMM); Tavares Sousa, Maria Elisa (CSC/CBR); Martinez Fritscher, Andre Carlos (IFD/FMM) Café, Renata (IFD/FMM); Blanco Urbina Luz Inmaculada (IFD/FMM); Tavares Sousa, Maria Elisa (CSC/CBR); Martinez Fritscher, Andre Carlos (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	13 Feb 2025.
▪ Beneficiary:	Federative Republic of Brazil, through the Attorney General's Office of the National Treasury (PGFN)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US$350,000.00
▪ Local counterpart funding, if any:	US$0
▪ Disbursement period (which includes Execution period):	36 months including the disbursement period
▪ Required start date:	01 May 2025
▪ Types of consultants:	Consulting 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):	Yes
▪ Alignment with the IDB Group's Institutional Strategy Transformation for Greater Scale and Impact:	Productivity and innovation; Institutional capacity and rule of law; Productive development and innovation through the private sector; Institutional capacity, rule of law, and citizen security; Fiscal policy and management

II.   Objectives and Justification of the TC

2.1   **Objective.** This Technical Cooperation (TC) supports the Brazilian government, particularly the Attorney General's Office of the National Treasury (PGFN), in enhancing its capacity to manage the federal government's active debt[1] and collecting tax credits efficiently.

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1   Active debt refers to a database that records outstanding debts with the government. These are debts that were not paid within the legal deadline, such as taxes, fines, fees, and others.

2.2   This TC, requested by PGFN, will contribute to improving the country's fiscal conditions through enhancing active debt management, developing more effective tax dispute resolution strategies, and supporting coordinated action among the various institutions responsible for active debt management at the national level.

2.3   **Justification.** The PGFN plays a fundamental role in managing and collecting the federal government's active debt, in addition to representing the federal government in judicial proceedings of a fiscal nature. Currently, it oversees an active debt portfolio exceeding R$2.8 trillion, affecting more than five million debtors. Additionally, PGFN defends the Federal Government in judicial cases, with over 132,000 new lawsuits filed in 2023 alone.

2.4   These figures highlight the magnitude of the challenges faced by the PGFN which operates in an environment marked by high tax litigation and regulatory complexity. The substantial volume of cases and the continuous growth of outstanding active debts demand more effective mechanisms for dispute resolution and improvements in fiscal governance. However, PGFN's ability to act is often constrained by institutional and legal barriers that hinder both the efficient recovery of active debt and the reduction of tax-related litigation.

2.5   The management of active debt in Brazil is even more challenging due to the country's federative model. Each of the 5,593 political entities—including the Federal Government, the Federal District, 26 States, and 5,565 Municipalities—as well as various federal agencies and public foundations, is responsible for managing its own portfolio of overdue credits.

2.6   Each entity handles the collection of its tax and non-tax credits independently, with little room for cooperative and standardized action. This results in varying levels of maturity in active debt management and collection strategies. The lack of coordination among federative entities leads to disparities, weakening both extrajudicial and judicial efforts to protect public resources and undermining fiscal transparency. Furthermore, this fragmentation limits taxpayers' access to information and compromises society's ability to oversee public actions.

2.7   Given this scenario, it is essential to strengthen the identification and characterization of structural challenges affecting active debt management and tax litigation. At the same time, it is necessary to promote stronger national coordination by aligning strategies among federative entities and encouraging the exchange of best practices in active debt management and collection. This will help raise the overall maturity level of the various responsible institutions.

2.8   A deeper understanding of the root causes and dynamics of these challenges will enable the development of more effective solutions, both in terms of governance and the formulation of active debt recovery strategies. More precise diagnostics, supported by rigorous methodologies and advanced technological tools, can significantly enhance the efficiency of collection processes and reduce unnecessary litigation. Moreover, the adoption of preventive strategies and the implementation of new approaches to resolving fiscal disputes can help mitigate the negative impacts of excessive judicialization on public administration and the private sector.

2.9   A critical element of this collaboration is conducting a thorough analysis of institutional and procedural obstacles that hinder active debt collection and contribute to the system's unpredictability. Cutting-edge technologies, such as Artificial Intelligence (AI), have been increasingly used worldwide to enhance litigation analysis and active

debt recovery strategies. Their application represents a significant leap forward for Brazil, enabling more precise, data-driven decision-making in fiscal management. By adopting these tools, the country has the potential not only to streamline active debt collection processes and reduce litigation unpredictability but also to position itself as a regional leader in innovative fiscal governance. A successful implementation could serve as a benchmark for Latin America and the Caribbean, demonstrating how advanced analytics can modernize public administration and improve institutional efficiency.

2.10 **Beneficiary**. The direct beneficiary of this TC is the Federative Republic of Brazil through the PGFN, 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.

2.11 **Contribution to the Bank's operational program.** This TC will support the Brazilian federal government in strengthening the financial capacities, thereby contributing to fiscal sustainability. This TC aims to reinforce and complement the work the Bank has been developing in public finance with Brazil for more than 25 years. At the federal level, the Bank supported the Fiscal Modernization Project of the Brazilian Federal Revenue Service (888/OC-BR). At the state level, the Bank has contributed to the modernization of fiscal management through initiatives such as: The National Fiscal Administration Program for the States (PNAFE) (980/OC-BR); The CCLIP PROFISCO I (BR-X1005); The CCLIP PROFISCO II (BR-X1039); The Fiscal Management Modernization and Transparency Project for the State of Bahia (1727/OC-BR); Projects for fiscal balance consolidation in the states of Amazonas, Alagoas, Bahia, Pernambuco, and Rio Grande do Sul. At the municipal level, the Bank has supported: The Administrative and Fiscal Management Modernization Program (PNAFM I) (1194/OC-BR); PNAFM II (2248/OC-BR); PNAFM III (3391/OC-BR). Finally, this TC will also contribute to CCLIP PROFISCO III (BR-O0016) by developing new models for active debt management and the role of prosecutors in the judicial representation of the State.

2.12 **Strategic Alignment.** The TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: bolster sustainable regional growth by improving fiscal governance, enhancing debt recovery strategies, and promoting institutional efficiency in public finance management. The TC is also aligned with the operational focus areas of: (i) institutional capacity, rule of law, and citizen security; and (ii) productive development and innovation through the private sector, by reducing litigation unpredictability, enhancing debt recovery strategies, and leveraging advanced technologies such as AI to modernize fiscal management. The TC is also aligned with the priorities of the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), supporting public Sector Management and Finance by enhancing revenue generation. This alignment is reflected in the TC's focus on improving the efficiency of active debt management and tax credit collection, which directly contributes to strengthening the government's capacity to mobilize resources in the face of fiscal pressures. It is also consistent with the Fiscal Management Sector Framework (GN-2831-13) by supporting fiscal consolidation processes and strengthening fiscal institutions for the sustainability of public finances. By enhancing fiscal management through AI, the initiative strengthens public revenue collection, ensuring greater fiscal capacity to fund essential social programs and public services.

Additionally, by improving institutional capacity and the rule of law, the TC fosters a more predictable and transparent fiscal environment, reducing inefficiencies and promoting economic stability. These advancements not only support Brazil's long-term fiscal sustainability but also create a more favorable economic environment for inclusive growth, positioning the country as a reference for best practices in public finance management across the region.

2.13 The TC is aligned with the objectives of Priority Area 3: Effective, Efficient, and Transparent Institutions of the Strategic Development Program Financed with Ordinary Capital (GN-2819-14), through improvements in the quality of institutions and policies, increased policy implementation capacities, and the creation and dissemination of knowledge through the preparation of studies and the design of solutions.

2.14 **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.

III. Description of components and budget

3.1 **Component 1: Strengthening Active Debt Management and Collection in Brazil. (US$350,000).** This component aims to enhance the efficiency and effectiveness of active debt management and tax credit collection in Brazil by strengthening PGFN's institutional capacity, improving governance, and incorporating advanced analytical tools into fiscal management. It will finance consultancies and technical studies to support PGFN in optimizing its management and collection of the federal government's active debt. The activities under this component will contribute to: (i) strengthening the management of active debt and PGFN's role in tax-related cases; (ii) improving active debt collection methods and fiscal conflict resolution; (iii) incorporating AI and judicial precedent analysis into active debt management processes; (iv) strengthening national governance of active debt; and (v) improving governance of legal consultancy and overseeing the administrative legality of the Ministry of Finance's actions.

3.2 **Expected results.** At the end of the TC, it is expected to contribute to strengthening active debt management and the representation of the Union in tax-related cases, as well as aligning strategies and best practices in active debt management and collection, with the goal of increasing the joint maturity of the federative entities through a national governance model for active debt management. This process will also enhance technical dialogue between the Bank and the agencies responsible for fiscal management. At the same time, the TC is expected to generate analyses and proposals for innovative solutions that could help reduce the high level of active debt in the country.

3.3 **Communication and dissemination of results.** Throughout the implementation, intermediate results will be presented and discussed with the beneficiary, and at the end, the final product will be presented and discussed, along with support for the implementation of processes and IT systems. Similarly, the TC products will be shared through workshops, courses, and/or expert presentations with the PGFN for training, communication, and dissemination; as well as technical visits to governments of other countries where Brazilian officials can learn from experiences and best practices and potentially apply them to Brazil's institutional context. The knowledge products will be disseminated to the public, as well as technical documents, if they do not contain confidential data or sensitive information from the Brazilian government.

3.4 **Indicative Budget**. The total cost of the TC is US$350,000, which will be financed entirely by the Bank through the Ordinary Capital Strategic Development Program (OC SDP), Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C). No local counterpart contribution is expected. No additional costs are expected to be generated in the transaction budget of the Country Office for supervision. This TC will be executed in a period of 36 months including the disbursement period.

Indicative Budget (US$)

Component	Description	IDB/W2C	Local Counterpart	Total Funding
Strengthening Public Active Debt Management and Collection in Brazil.	Enhance the efficiency and effectiveness of active debt management and tax credit collection in Brazil.	350,000.00	0.00	350,000.00
Total		**350,000.00**	**0.00**	**350,000.00**

3.5 **Supervision, monitoring, and evaluation.** The Fiscal Management Division (IFD/FMM) project team leader located in the Brazil Country Office, will be responsible for and will supervise the activities developed under this TC. The project will be monitored and evaluated according to the products and performance indicators from the results matrix, according to what is established in the document the Technical Cooperation Monitoring and Reporting System (OP-1385-4).

3.6 **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.

IV. Executing agency and execution structure

4.1 **Executing Agency.** The execution of the TC, at the request of PGFN, will be carried out by the Bank through IFD/FMM, in accordance with the Bank's Technical Cooperation Policy (GN-2470-2), as well as the Procedures for Processing TC Operations (OP-619-4). This is based on the Bank's recognition of its highly specialized technical, methodological, and conceptual knowledge required to address the topics of the requested studies, as well as the need to understand best international practices in the areas covered by the TC. The Bank possesses the technical expertise, expert networks, and knowledge of international experiences that justify this request. Furthermore, the Bank can expedite the process of contracting consulting services.

4.2 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.

4.3 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, in accordance with the Procedures for the Publication of Knowledge Products (AM-331). However, at the beneficiary's request, 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.

4.4　If it becomes necessary for the Bank team to receive, manage, or use information that may contain personal data or sensitive information due to activities financed by the TC, the Data Privacy team must be consulted to ensure compliance with the Bank's Personal Data Privacy Policy (GN-3030).

V.　Major issues

5.1　**Risks.** Potential risks include shifts in government priorities regarding fiscal policy and active debt management, which could impact the project's implementation. Additionally, the complexity of integrating AI into PGFN's processes may pose technical and operational challenges. To mitigate the first risk, the project team will maintain close engagement with PGFN officials to ensure the prioritization of these activities. For the second risk, the project will recruit specialized technical experts and form a dedicated team with experience in AI and legal analytics. This team will conduct a thorough needs assessment and develop a detailed integration roadmap. The project team will also ensure that activities remain aligned with the project's objectives, minimizing potential delays and obstacles.

5.2　**Sustainability.** To ensure the continuity of the results of this TC once the project is completed, timely validation of the models will be sought from the leaders of the state and municipal attorney's offices, through discussions of progress and best practices. Additionally, fiscal management modernization projects financed by the Bank may incorporate the models proposed in this TC.

VI.　Exceptions to Bank policy

6.1　The TC does not foresee any exceptions to Bank policy.

VII.　Environmental and Social Aspects

7.1　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:

Request from the Client_95770.pdf

Results Matrix_78273.pdf

Terms of Reference_95141.pdf

Procurement Plan_6101.pdf