

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**PROGRAM TO PROMOTE FISCAL SUSTAINABILITY AND ENHANCE THE  
EFFECTIVENESS OF PUBLIC EXPENDITURE IN THE MUNICÍPIO OF RECIFE**

**(BR-L1575)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Maria Cristina Mac Dowell (IFD/FMM), Project Team Leader; André Martinez (IFD/FMM), Alternate Project Team Leader; Soraya Naffah, Renata Motta Café, Axel Radics, Anastasiya Udovenko, Ana Lucía Dezolt, Patricia Bakaj, Leslie Harper, Marcio Alvarenga, Mariana Canillas, Maria Lorena Kevish, Carmen Montesinos, and Liza Builes (IFD/FMM); José Luiz Rossi (CSC/CDR); Krycia Avila and Guillermo Eschoyez (LEG/SGO); Rosangela Bando and José Alejandro Martinez (SPD/SDV); Fabia Bueno (VPC/FMP); Helio Ferreira and Jose Luiz Rossi (CSC/CDR); and Ricardo Gazel, Monise Faria, and Lilia Dobbin (consultants).

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ELECTRONIC LINKS	
REQUIRED	
1	<a href="#">Policy Letter</a>
2	<a href="#">Means of verification matrix</a>
3	<a href="#">Monitoring and evaluation plan</a>

OPTIONAL	
1	<a href="#">Municipal fiscal report</a>
2	<a href="#">Fiscal Balance Promotion Plan for Recife (PEF)</a>
3	<a href="#">Subnational finance report, 2021</a>
4	<a href="#">Gender diagnostic assessment</a>
5	<a href="#">Recife debt sustainability analysis</a>
6	<a href="#">Recife financial capacity analysis</a>
7	<a href="#">Climate finance - preliminary report</a>

ABBREVIATIONS	
AMPASS	Autarquia Municipal de Previdência e Assistência à Saúde dos Servidores [Autonomous Municipal Pension and Civil Servant Healthcare Authority]
CAPAG	Capacidade de Pago (Payment capacity)
CGD	Consolidated gross debt
CPF	Conselho de Política Financeira [Financial Policy Council]
DEM	Development Effectiveness Matrix
DOM	Diário Oficial do Município de Recife [Official Journal of the Município of Recife]
GHG	Greenhouse gas
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre operações relativas à circulação de mercadorias e à prestação de serviços de transporte interestadual e intermunicipal e de comunicação [Goods and services sales tax]
IMF	International Monetary Fund
IPTU	Imposto sobre propriedade imobiliária [Real estate tax]
ISSQN	Imposto sobre serviços de qualquer natureza [Tax on all services]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
MEP	Monitoring and evaluation plan
NCI	Net current income
PAF	Programa de Acompanhamento e Transparência Fiscal [Fiscal Monitoring and Transparency Program]
PBL	Policy-based loan
PCR	Project completion report
PCU	Project coordination unit
PEF	Plano de Promoção do Equilíbrio Fiscal [Fiscal Balance Promotion Plan]
PGM	Procuradoria Geral do Município [Office of the Attorney General of the Município]
PNAFM	Programa Nacional de Apoio à Gestão Administrativa e Fiscal dos Municípios Brasileiros [National Program to Support the Administrative and Fiscal Management of Brazilian Municípios]
RGPS	Regime Geral de Segurança Social [General Social Security System]
SEFIN	Secretaria de Finanças [Finance Department]
SEPLAGTD	Secretaria de Planejamento, Gestão e Transformação Digital [Planning, Management and Digital Transformation Department]
STN	Secretaria do Tesouro Nacional [National Treasury Department]

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Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Município of Recife			Amortization period:	20 years
Guarantor:				
Federative Republic of Brazil			Disbursement period:	4 years
Executing agency:				
Município of Recife, through the Finance Department (SEFIN)			Grace period:	5.5 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	SOFR-based
IDB (Ordinary Capital):	104,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
			Weighted average life:	12.75 years
Total:	104,000,000	100	Currency of approval:	U.S. dollar
Project at a Glance				
<b>Project objective/description:</b> The program’s general development objective is to contribute toward achieving balanced fiscal accounts in the Município of Recife. The specific development objectives are to: (i) make tax collection more effective; and (ii) make public expenditure more efficient.  This operation is structured as a policy-based loan under the multitranche modality, with disbursements being made in four tranches.				
<b>Special contractual conditions precedent to disbursements of the loan:</b> The four disbursements of the Bank loan proceeds will be subject to fulfillment of the policy reform conditions set forth in the Policy Matrix (Annex II) and <a href="#">Policy Letter</a> , and to the conditions specified in the loan contract (paragraph 3.4).				
<b>Special contractual conditions precedent to all disbursements.</b> (i) the establishment and maintenance of a project coordination unit, under the terms agreed upon with the Bank; and (ii) evidence submitted by the borrower to the Bank that the Guarantor has confirmed that the Fiscal Balance Promotion Plan (PEF) remains in effect and that the applicable legal requirements for the respective disbursement have been met (paragraph 3.5).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
Challenges: <sup>(d)</sup>	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: <sup>(e)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

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

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and the 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 applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 **Before the onset of the COVID-19 crisis, Brazil was already confronting a situation of lackluster economic growth and public account deficits.** The country endured a severe recession in 2015 and 2016, involving a cumulative contraction of 6.9% of gross domestic product (GDP) in real terms. Between 2017 and 2019, economic growth averaged a paltry 1.5% per year, reflecting historically weak productivity growth, low rates of consumption, high levels of unemployment and household debt, and a decline in investment. This scenario meant reduced tax revenue which, compounded by the growing rigidity of current spending, generated fiscal deficits that fueled a sharp increase in general government gross public debt from 51.5% of GDP in 2013 to 75.3% in 2018.<sup>1,2</sup>
- 1.2 Implementation of the expenditure ceiling<sup>3</sup> in 2016, and the approval of a comprehensive pension reform in 2019,<sup>4</sup> helped to ease budgetary pressures and boost market confidence in the fiscal adjustment process. Although the general government gross public debt stabilized at 74.4% of GDP in 2019, several public finance challenges persist. On the revenue side, the high tax ratio (33.1% of GDP in 2019, compared to the Latin American and Caribbean average of 22.9%)<sup>5</sup> is collected through a complex, regressive tax system that imposes high costs, for both the taxpayer and the government. On the expenditure side, due to the high degree of rigidity and the upward trend of current spending, particularly in the personnel category, compliance with the expenditure ceiling forced a cut in general government investment from 2.4% of GDP in 2014 to 1.2% in 2019; and the federal government's primary deficit went from 2.5% of GDP in 2016 to 1.2% in 2019.<sup>6</sup>
- 1.3 **The pandemic has interrupted the fiscal consolidation process by generating the need for exceptional spending to address health demands and heightened social vulnerability.** In 2020, Brazil implemented an expansionary fiscal policy that raised the primary deficit to 10% of GDP and the general government gross public debt to 89.3% of GDP in that year. The fiscal response contributed to a better-than-expected economic performance, as the contraction of 3.9% in 2020 was followed by growth of 4.6% in the following year. In 2021, the economic recovery and rising inflation<sup>7</sup> combined to reduce the debt to 80.3% of GDP. Given this scenario, market expectations are for negligible

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<sup>1</sup> Brazilian Institute of Geography and Statistics (IBGE). Annual GDP growth: +0.5% (2014); -3.5% (2015); -3.6% (2016); +1.3% (2017); +1.8% (2018); +1.2% (2019).

<sup>2</sup> [Central Bank of Brazil, time series management](#).

<sup>3</sup> [Constitutional Amendment 95/2016](#).

<sup>4</sup> [Constitutional Amendment 103/2019](#).

<sup>5</sup> [Organisation for Economic Co-operation and Development \(OECD\) et al. \(2021\). Revenue Statistics in Latin America and the Caribbean](#).

<sup>6</sup> [National Treasury Department \(STN\): Resultado do Tesouro Nacional 2021](#).

<sup>7</sup> In 2021, persistently high inflation boosted nominal GDP, while the debt indexing factor (Selic) remained below the inflation rate.

growth in 2022 and 2023, of 0.7% and 1%, respectively, strengthening to 2% thereafter.<sup>8</sup>

- 1.4 **The subnational fiscal situation is heterogeneous.** Unlike the situation at the federal level, the fiscal problem facing subnational governments is not the level of public debt, which has fallen relative to GDP since 2000, apart from a few specific cases. The main challenge facing subnational governments is budgetary rigidity and the low degree of freedom to adjust income and expenditure. A large proportion of subnational government current revenues is absorbed by personnel and constitutionally mandated expenditures, such as health and education, thereby reducing fiscal space for investments. In addition, many subnational governments have accumulated substantial outstanding obligations (“*precatórios*”<sup>9</sup> and “*restos a pagar*”).<sup>10</sup> Despite sharing common problems, regional economic, social, and institutional diversity gives rise to heterogeneous capacities and challenges among states and municípios. In 2019, the deterioration of subnational public finances resulted in 14 out of 27 states and 12 state capitals having Payment capacity<sup>11</sup> (CAPAG) ratings of “C” and three states with the lowest rating of “D.”<sup>12</sup>
- 1.5 To cope with health expenditure pressures and mitigate the consequences of the social isolation imposed by the pandemic, subnational governments received exceptional federal transfers, amounting to 1.7% of GDP, and had their debt payments to the federal government suspended. As a result, in 2020 and 2021, the subnational governments, including their public enterprises, posted surpluses of 0.6% and 1.1% of GDP, respectively, their best results in the historical series since 2000.<sup>13</sup> This was reflected in a transitory improvement in their CAPAG ratings; and, in 2021, just four states and seven capitals reported CAPAG “C” and three states maintained CAPAG “D” ratings. Under current legislation, only

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<sup>8</sup> [Focus Report and IBGE](#).

<sup>9</sup> *Precatórios* are payment obligations that governments at the three levels, and other public entities, are required to discharge under final court order, as provided for in the Constitution.

<sup>10</sup> *Restos a pagar* are payment obligations not fully established by December 31.

<sup>11</sup> Methodology adopted by the STN to analyze the fiscal risk and the resulting granting of a guarantee by the Union: [STN](#).

<sup>12</sup> The CAPAG calculation methodology considers three indicators: indebtedness, current savings, and cash liquidity. The CAPAG rating for each subnational government is awarded on the basis of these indicators and ranges from A to D, with A being the highest rating of the fiscal situation and D the lowest. Each indicator can be awarded a grade: indebtedness and current saving can receive grade A, B or C; while cash liquidity receives A or C only, as explained below:

*Indebtedness:* This indicator assesses the entity’s solvency, through its stock of liabilities. It is calculated as the ratio of consolidated gross debt (CGD) to net current income (NCI). The grades are assigned as follows:  $CGD < 60\% = A$ ;  $60\% < CGD < 150\% = B$ ;  $CGD > 150\% = C$ .

*Current savings:* This indicator shows whether the subnational government is saving enough to absorb the growth of its expenditures, since these tend to outpace income. It is calculated as the ratio of expenditure to current income. The grades are assigned as follows:  $Current\ savings < 90\% = A$ ;  $90\% < Current\ savings < 95\% = B$ ;  $Current\ savings > 95\% = C$ .

*Cash Liquidity:* This indicator checks whether the subnational government has sufficient funds to meet its short-term financial obligations. It is calculated as the ratio of financial obligations to gross cash availability. The grades are assigned as follows:  $cash\ liquidity < 100\% = A$ ; and  $cash\ liquidity > 100\% = C$ .

The CAPAG rating is calculated using the previous year’s data.

<sup>13</sup> [Central Bank of Brazil](#).

states with CAPAG “A” or “B” ratings are deemed to have payment capacity to contract sovereign guaranteed loans.<sup>14</sup>

- 1.6 **Fiscal Balance Promotion Plan (PEF).** To confront the adverse economic and fiscal situation, the National Congress approved the PEF,<sup>15</sup> which aims to promote balanced fiscal accounts and solve the subnational governments’ liquidity and current savings problems. The PEF seeks to support subnational governments with CAPAG “C” or “D” ratings<sup>16</sup> in implementing fiscal measures to help balance the public accounts, enabling them to attain CAPAG “B” rating at a minimum. As a condition for accessing the PEF, the subnational governments are expected to sign an affiliation agreement with the federal government and adopt at least three of the eight fiscal adjustment measures included in the plan.<sup>17</sup> In the short term, with either CAPAG “C” or “D,” affiliation to the PEF allows for federal government guarantees to be authorized for credit operations in the amount of the fiscal effort committed, during the life of the Plan.<sup>18</sup> In the medium term, the institutional strengthening measures and fiscal rules are expected to underpin the sustainability of the accounts and fiscal balance of the subnational governments that joined the plan.
- 1.7 **The Município of Recife.**<sup>19</sup> The Município of Recife, capital of the State of Pernambuco, is located in Brazil’s least developed Northeast Region. In 2021 the município had just over 1.6 million inhabitants, making it the ninth most populous capital city in Brazil and the third largest in the Northeast. However, the Recife metropolitan region is the fourth largest in the country.<sup>20</sup> Its economy is based largely on the provision of services and other tertiary activities, including tourism, the digital economy, innovation and commerce.<sup>21</sup> In 2019,<sup>22</sup> the município generated about 28% of Pernambuco’s GDP,<sup>23</sup> and had the state’s highest municipal per capita GDP, albeit slightly lower than the Brazilian average.<sup>24</sup> In 2010, the Gini coefficient of per capita family income in the município was 0.689, representing the highest level of inequality among Brazil’s capital cities. The município’s Human Development Index (HDI) was 0.772 in 2017<sup>25</sup> (compared to a

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<sup>14</sup> Resolution 04/2019 of the External Financing Commission (COFIEX) of the Ministry of Economy. The rule does not apply to fiscal management modernization projects.

<sup>15</sup> [Complementary Law 178/2021](#), proposing the establishment of the PEF, was sanctioned by the President of the Republic of Brazil on 13 January 2021. The law was regulated through [Presidential Decree 10,819](#), dated 27 September 2021. [PEF Accession Manual](#).

<sup>16</sup> For states with a CAPAG “D” rating, the [Fiscal Recovery Regime](#) is a specific program to support fiscal consolidation.

<sup>17</sup> [PEF measures](#).

<sup>18</sup> The disbursement of funds in 2024 reflects achievement of the PEF objectives set for FY 2023.

<sup>19</sup> [IBGE](#).

<sup>20</sup> According to IBGE, 4.065 million inhabitants.

<sup>21</sup> Brazil’s largest technology park, [Porto Digital](#), is located in Recife. It earned revenues of around US\$210 million in 2020.

<sup>22</sup> Latest year with available data.

<sup>23</sup> In only 12 of Brazil’s federative units do the capital municípios account for less than 30% of their state’s GDP.

<sup>24</sup> US\$8,424 compared to US\$8,753. The average exchange rate in 2019 was R\$3.94 per dollar.

<sup>25</sup> Latest year with available data.



national average of 0.724), boosted by education and life-expectancy indices that are above the national average.

- 1.8 **COVID-19 in Recife.** The first six months of the COVID-19 pandemic impacted Recife more severely than the rest of the country, with an incidence rate in 2020 of 3,802 cases per 100,000 inhabitants, compared to 3,625 per 100,000 in Brazil as a whole. In 2021, this coefficient in the Município of Recife was 6,013, which was below the national average of 6,850. As of 7 June 2022, the incidence rates for the município and Brazil were 4.541 and 4.209, respectively. In terms of mortality, COVID fatalities in Recife evolved from 178.4 deaths per 100,000 inhabitants in 2020, to 169.6 in 2021, before falling back to 25.5 in 2022. In the country at large, the fatality rate rose from 92.1 per 100,000 inhabitants in 2020 to 198.8 in 2021, before dropping to 22.6 in 2022. To combat the spread of the pandemic and diminish its impact, the município has recently invested in outreach campaigns to promote mass rapid testing and vaccination procedures.
- 1.9 **Fiscal situation of Recife.**<sup>26</sup> In recent years, Recife has posted fluctuating primary balances, reporting primary deficits in five years since 2009 (in 2013, 2014, 2015, 2019, and 2020). Between 2013 and 2019, current income grew by 4%, driven by tax revenue which increased by 23.4%, both in real terms. In 2020, in the midst of the pandemic, Recife registered the third worst tax revenue performance of the country's capital cities, with a real contraction of 7.5%, compared to an average reduction of 1.9% in other state capitals. Transfers dropped by 8.5% in real terms between 2013 and 2019, from 52.8% to 46.5% of total income, before rebounding to 50% as a result of exceptional transfers to confront the pandemic.
- 1.10 Current expenditure grew by 13.9% in 2013-2019, clearly outpacing current income. Personnel expenditure, which represents more than half of current spending, increased its share from 46% of net current income (NCI) in 2013 to 50% in 2016, above the alert threshold set by the [Fiscal Responsibility Law \(LRF\)](#).<sup>27</sup> Following a period of adjustment, in which personnel expenses decreased in real terms, this indicator fell back to 46.6% in 2019. Investment in Recife represented 15.9% of total expenditure in 2013, but only 8.5% in 2019. As a result of the pandemic response, the município recorded an increase in health spending of 29% in 2020, relative to the previous year's level, well above the 10.2% average among the country's other state capitals.
- 1.11 In this scenario, the município's payment capacity was compromised and it is currently classified as CAPAG "C" by the National Treasury Department (STN). Since 2017, the cash liquidity indicator has been above 100%, which means that financial obligations exceed gross cash availability (the indicator levels recorded were 250.7% in 2018; 1,365.5% in 2019; 514.5% in 2020 and 492.4% in 2021). The current savings indicator, which until 2020 was classified as "B," deteriorated in 2021 to a "C" rating (figures of 93.3% in 2018; 93.8% in 2019; 94.5% in 2020; and 95.4% in 2021). The município's indebtedness indicator is rated "A," at 35% of the NCI in 2021, well below the LRF threshold for municípios of 120%.

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<sup>26</sup> Source: STN, 2021.

<sup>27</sup> The LRF thresholds for the executive branch are: 48.6% (alert), 51.3% (prudential) and 54% (maximum).

- 1.12 **Rationale.** In early 2021, the new municipal administration announced its intention to join the PEF<sup>28</sup> with the aim of achieving balanced fiscal accounts and improving investment capacity. The município is endeavoring to strengthen its fiscal institutions,<sup>29</sup> in particular through the pension and administrative reforms adopted in 2021 to improve current spending.<sup>30</sup> It has also been making consistent improvements in revenue management. As a result of these actions, the município achieved a primary surplus of 9.3% of NCI in 2021, its best result in recent years. However, several challenges remain to achieve fiscal balance. Against this backdrop, in December 2021, the government of Recife gained accession to the PEF<sup>31</sup> and, with the federal government's approval, requested support from the Bank to adopt the measures proposed in its plan.
- 1.13 **Recife's fiscal balance indicators are deficient.** The cash liquidity and current saving indicators are not sufficient to achieve a CAPAG "B" rating, which prevents the município from obtaining loans guaranteed by the federal government. This is partly due to the lack of a clear plan with targets, and a failure to establish a systemized process of controls aimed at achieving balanced fiscal accounts.
- 1.14 **The município's revenue performance is below potential.**<sup>32</sup> This results from the following: (i) no process has been put in place to estimate and monitor tax revenues, which makes it difficult to make expenditure decisions and, therefore, can affect the fiscal balance;<sup>33</sup> (ii) the taxpayer register is out of date, which results in poor-quality data and, consequently, weak tax oversight;<sup>34</sup> (iii) there is no specific policy for monitoring large taxpayers to encourage voluntary tax compliance, which generates high rates of litigation and costs for the tax administration and taxpayers alike;<sup>35</sup> and (iv) there are no guidelines for prioritizing virtual services, which generates high tax compliance costs and environmental impact owing to reliance on the face-to-face service.<sup>36</sup>

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<sup>28</sup> Mayor João Campos: "We will make management more efficient and nimble with savings of R\$100 million," Recife City Hall.

<sup>29</sup> The fiscal institutional framework comprises the following areas: fiscal management, fiscal transparency, and fiscal responsibility.

<sup>30</sup> Amendment to Organic Law 34 of 2021 and Ordinary Laws 18,809, 18,810 and 18,851 of 2021.

<sup>31</sup> [PEF-Recife](#).

<sup>32</sup> Revenue from the tax on all services (ISSQN) is growing more slowly in Recife than in the majority of Brazil's capital cities; and the corresponding per capita revenue is less than 70% of the Brazilian average. Tax evasion in Brazil is estimated to represent 9.2% of GDP ([National Union of National Treasury Attorneys, 2018](#)). At the municipal level, the tax gap, which includes tax avoidance and taxes that are declared but unpaid, is larger.

<sup>33</sup> The data reveal the inaccuracy of the revenue projection. In 2021, the deviation was equivalent to approximately 7% of the revenue amount.

<sup>34</sup> Some 30% of the real estate property register does not contain correct owner identification data. The amount of real estate property tax (IPTU) levied without owner data is estimated at 6.3% of total IPTU revenue intake. Currently, cadastral updating occurs exclusively through fiscal inspections and visits, which are costly and have low coverage.

<sup>35</sup> A total of 48% of tax litigation in the last five years concerned disputes with the largest ISSQN taxpayers. In 2021, just 100 lawsuits involving large taxpayers represented 5% of total ISSQN revenue for the year.

<sup>36</sup> The Finance Department (SEFIN) portal has only 60% of taxpayer services online. The majority of the population still seeks face-to-face assistance owing to the lack of adequate information and guidance.

- 1.15 The Município of Recife faces challenges that hinder the efficient use of public resources.**<sup>37</sup> Despite using sound budgetary instruments (such as multiyear planning, the Annual Budget Law, the Budgetary Guidelines Law with multiyear fiscal targets), the município suffers from the following shortcomings: (i) lack of a regulation for centralized financial management of government entities under direct and indirect administration of the executive branch, which can result in funding being allocated inefficiently among the different entities;<sup>38</sup> (ii) failure to update the legal framework that provides guidelines to public posts in entities under direct administration, which has been generating additional personnel costs for the município;<sup>39</sup> (iii) failure to update the pension rules in line with current life expectancy<sup>40</sup> and retiree registration data, which has imposed additional costs on the município; (iv) absence of management regulations to ensure actuarial balance in the complementary pension regime;<sup>41</sup> (v) a public procurement policy that lacks management mechanisms, such as annual planning, and governance elements that promote economies of scale,<sup>42</sup> the prioritization of female suppliers, and environmental protection; and (vi) lack of a governance model and an institutionalized strategy for monitoring public investment projects, including indicators of gender and climate change vulnerability, especially for projects under the Urban Mobility Plan.<sup>43,44</sup>
- 1.16 Environmental and climate change considerations.** Recife is considered one of the most climate-vulnerable cities in the world;<sup>45</sup> it has recently suffered catastrophic environmental events, such as floods and landslides, which have

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<sup>37</sup> In 2020, Recife's personnel expenses represented of 57.3% current income, compared to the median for capital cities of 56.3%; and just 28.1% of the município's investment was internally funded, compared a median of 48.1%. [Better Spending for Better Lives \(IDB, 2018\)](#) estimates that infrastructure cost overruns and delays in Latin America and the Caribbean represent 0.7% of GDP.

<sup>38</sup> The financial management of agencies of the Município of Recife is done on a decentralized basis.

<sup>39</sup> The legislation of the Município of Recife still provides for payment to employees of financial benefits that have been abolished at the federal government level. This generates a distortion in the country and an excessive expense to the município. The potential for saving on personnel expenses is estimated at up to 7% .

<sup>40</sup> The legislation of the Município of Recife authorizes retirement for its employees aged 55 years in the case of women and 60 in the case of men, compared 62 and 65 years of age, respectively, in the federal government. The pension contribution of the Município of Recife is 12.82%, compared to 14% in the federal government.

<sup>41</sup> Considering the reform provided for in Municipal Law 18,809 of 21 July 2021 and the migration of the 729 older retirees (born on or before 31 December 1947), the município's expenses in financing its employee pension system will decrease by an estimated present value of R\$465 million over 30 years.

<sup>42</sup> Even for off-the-shelf items, procurement is decentralized, which is unproductive and uneconomical.

<sup>43</sup> According to a report by the Dutch company *TomTom Traffic Index*, which evaluates 416 cities in 57 countries, Recife was the Brazilian city with the highest level of congestion in 2020, followed by Rio de Janeiro, Fortaleza, and Salvador. With a high population density, people spend an average of 24 additional minutes in traffic per day, which represents up to 193 "extra travel hours" per year. Mobilize Brazil also conducted a study to evaluate the situation of sidewalks in 12 Brazilian capitals, ranking Recife among the five worst, below the average of the 12 evaluated. Accordingly, to promote economic growth, the município needs to make sound investments in urban mobility.

<sup>44</sup> Recife's Mobility Plan will give orientation to public investments in the city's transportation infrastructure in the coming years. It will integrate non-motorized and motorized modes into a single, cohesive, and sustainable system, prioritizing walking, cycling, and public transportation.

<sup>45</sup> According to the Intergovernmental Panel on Climate Change, Recife is the most climate-vulnerable city in Brazil and sixteenth most vulnerable in the world.

generated economic losses and imposed an additional cost on development and poverty reduction policies. At the same time, fiscal policies are recognized as having an important role to play in reducing carbon emissions. Improving the natural-disaster-resilience of public investments can reduce the impact of climate shocks; and including green criteria in public procurement processes would prioritize the procurement of low-carbon products. Similarly, making services accessible online would reduce the number of trips made by citizens to municipal agencies, thereby reducing greenhouse gas (GHG) emissions.

- 1.17 **Gender considerations.** In 2020, women accounted for 53% of the population of Recife, compared to the Brazilian average of 51.8%. In 2019, the female unemployment rate was 15.1%, compared to the male rate of 13.6%.<sup>46</sup> Various studies have shown that increased female participation in the economy enhances productivity and boosts the social reinvestment of income.<sup>47</sup> Thus, encouraging the procurement of goods and services from female suppliers can help increase women's participation in the economy. Moreover, including gender markers in public investments enables a better understanding of the impact of expenditures on gender equity.
- 1.18 **International evidence.** This operation aims to support the Município of Recife in balancing its fiscal accounts, through policy measures aimed at strengthening institutional capacity, while also improving tax revenue management, budgetary and financial management, expenditure control and efficiency.<sup>48</sup> These support measures are backed by empirical evidence. In particular, Arenas de Mesa (2016) finds that the key determinants of balanced fiscal accounts have four dimensions: public revenues, public expenditure, fiscal institutions, and fiscal political economy. Empirical evidence also shows that fiscal sustainability and discipline are associated with strong fiscal institutions (Poterba et al. (1999), and Alesina et al. (1999). Other studies also show that fiscal institutions have major effects on fiscal policy outcomes (Valencia and Ulloa, 2021) and can signal a country's commitment to fiscal sustainability, thereby reducing sovereign risk perceptions (Gomez-Gonzales, Valencia, and Sánchez, 2021). In terms of the importance of a sound fiscal management system, Arenas de Mesa (2016) demonstrates the relationship between the sustainability of public finances and the institutional framework for fiscal management and transparency. On expenditure management, Afonso and Alves (2022) find that more efficient expenditure contributes both to fiscal sustainability and to improving the budgetary primary balance.
- 1.19 On the taxation side, recent evaluations show that tax revenue performance depends significantly on the institutional strengthening of tax administrations: (i) enhancing the quality of available information and improving access to it;<sup>49</sup> (ii) audit models that make intensive use of information;<sup>50</sup> and (iii) simplified

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<sup>46</sup> [Gender diagnostic assessment](#).

<sup>47</sup> International Monetary Fund (IMF) (2013).

<sup>48</sup> See the description of the components and the Policy Matrix for details of the proposed measures.

<sup>49</sup> Evasion rates are up to eight times higher where the tax administration lacks automated tools to verify taxpayers' income sources (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011).

<sup>50</sup> Information availability complements the audit of companies in Spain (Almunia and López Rodríguez, 2016).

procedures to facilitate tax compliance.<sup>51</sup> Several tax administrations in Latin America have strengthened these elements, most notably those of Brazil and Uruguay.<sup>52</sup>

- 1.20 In terms of public expenditure, several studies flag the need for actions to improve technical and allocative efficiency, in order to promote fiscal sustainability, equity, and economic growth.<sup>53</sup> It is therefore essential to improve public procurement,<sup>54</sup> through strategic procurement planning, the use of electronic systems, systematic monitoring, and fiscal transparency. In addition, strengthening management of public investment could increase the potential benefits thereof for economic and social development by up to 30%.<sup>55,56</sup> In Latin America, countries with more developed national public investment systems have better rates of efficiency.<sup>57</sup> The literature also shows that leveraging and making intelligent use of existing administrative data has high potential to improve spending efficiency (Bah et al. (2018); Garcimartin et al. (2021), and Haseeb and Vyborny (2022).
- 1.21 **The Bank's experience in the sector and lessons learned.** The Bank has supported several successful experiences in the fiscal area in Brazil, in particular the PROFISCO programs<sup>58</sup> (loans [BR-X1005](#) and [BR-X1039](#)) and the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (PNAFM) (loan [3391/OC-BR](#), approved in 2014 for US\$166,700.00, of which 66% is disbursed). These involve the modernization and digitalization of fiscal management in subnational governments, including tax and financial administration, and the management of strategic resources.<sup>59</sup> According to its impact evaluation, PROFISCO I contributed to an 11.7% increase in the states' tax revenue intake.<sup>60,61</sup> In Chile, the Bank has supported reforms to digitalize public financial management, and in particular its centralized payment system through recent reforms. In Mexico, the Bank's experience in implementing a re-engineering of public expenditure, which resulted in savings of about 0.7% of GDP in 2016, through the Public Finance Strengthening Program II (loan [3676/OC-ME](#) approved in 2016 for US\$600 million, fully disbursed) has

<sup>51</sup> This can increase payment rates by up to four percentage points (Hallsworth et al., 2014).

<sup>52</sup> [Project completion report \(PCR\) 1783/OC-UR](#). Barreix and Zambrano (2018), IDB. The *Nota Fiscal Paulista* program boosted revenue from the goods and services sales tax (ICMS) by US\$226 million.

<sup>53</sup> [Better Spending for Better Lives \(2018\)](#).

<sup>54</sup> [Better Spending for Better Lives \(2018\)](#): inefficiencies in public procurement in Latin America and the Caribbean waste an estimated 1.4% of the region's GDP.

<sup>55</sup> [IMF \(2015\)](#).

<sup>56</sup> Calderón and Servén, 2004; Gupta et al., 2014. IMF (2014).

<sup>57</sup> Armendariz and Contreras, 2016.

<sup>58</sup> For further details, see the final [project completion reports](#).

<sup>59</sup> Recife is one of the municípios in the third stage of the PNAFM, the outputs of which will drive a number of the policy measures included in this project.

<sup>60</sup> [PROFISCO I impact assessment](#).

<sup>61</sup> The trend of revenue obtained from the ICMS, the main state-level tax, which is linked to PROFISCO, is associated particularly with the implementation of outputs such as the electronic invoice and other electronic tax documents, and the effective use of digital data for the automation of controls, identification of irregularities, and tax collection procedures.



furthered implementation of the Adjusted Zero-Base Budget. The knowledge contributions emanating from the [DIA-2018 report “Better Spending for Better Lives.”](#) aligned with international best practices, have supported the government’s efforts to improve expenditure evaluation processes and methodologies, and to incorporate them into the budget formulation process. The Bank has supported institutionalization of the public expenditure evaluation function in Ecuador (Program to Support Improved Fiscal Management and Productive Development, loan [4825/OC-EC](#) approved in 2019 for US\$300 million, fully disbursed). In the public procurement domain, the Bank supported Chile with the technical cooperation operation “Business Platform for the Public Procurement Market in Chile” (operation [ATN/ME-12663-CH](#), client support, approved in 2011 for US\$427,757, fully disbursed). The data pertaining to this operation is held in [Analiza.cl](#) and makes it possible to apply data science, artificial intelligence, and machine learning to determine prices and other parameters. The Bank also supported El Salvador in the digitalization of public procurement processes (Fiscal Strengthening for Inclusive Growth II, loan [4807/OC-ES](#) approved in 2019, for US\$200 million, fully disbursed).

- 1.22 **Previous work in the sector.** The Bank has been supporting the Brazilian government with several technical cooperation operations in the fiscal area. This included studies on the impact of COVID-19 on federative relations, regional development, the federative income balance, and fiscal responsibilities between levels of government. Studies are ongoing on public investment management in subnational government, the evaluation of regional development funds, intergovernmental transfers, and fiscal policy and climate change (operation [ATN/OC-18813-BR](#), client support, approved in 2021 for US\$200,000, 40% disbursed). In the taxation sphere, the diagnostic study of tax litigation signaled the need to reduce litigation and promote voluntary tax compliance programs and collection actions, and to upgrade the quality of taxpayer registers (operation [ATN/OC-18099-BR](#), client support, approved in 2020 for US\$300,000, 83% disbursed). The measures contained in Component 2 of this operation, aimed at improving tax collection, are aligned with the recommendations of this diagnostic assessment. To strengthen financial administration modernization policies, the Bank has funded analytical studies on the federal public investment governance model, the implementation of digital government and the analytical use of electronic data in financial management, improved debt management, improved fiscal transparency, and the subnational government public finance coordination model (operation [ATN/AA-16776-BR](#) / [ATN/FI-16777-BR](#), client support, approved in 2018 for US\$750,000, fully disbursed, and operation [ATN/OC-18956-BR](#), client support, approved in 2021 for US\$300,000, 11% disbursed). In the case of structural reforms to public finances, the Bank is supporting studies on fiscal rules, the medium-term fiscal framework, micro-simulations of tax reform, and public expenditure rigidity (operation [ATN/OC-18750-BR](#), client support, approved in 2021 for US\$300,000, disbursement pending).
- 1.23 **Lessons learned from similar Bank operations.**<sup>62</sup> Lessons learned include the following: (i) value-added in the combination of policy and investment operations.

<sup>62</sup> PCRs of the following projects: [3590/BL-HO](#); [2850/OC-BR](#); [2841/OC-BR](#) and [3039/OC-BR](#) and [Country Program Evaluation: Brazil, 2011-2014](#).

The policy actions in this operation are complementary to the PNAFM investment project being implemented by the Município of Recife; (ii) the importance of the medium-term monitoring of policy actions. The monitoring plan provides for the presentation of CAPAG fiscal indicators every four months and the close monitoring of policy implementation; (iii) it is essential that the institutional arrangement be well defined and executed by a specific entity. The executing agency will be the Finance Department (SEFIN), where a program coordination unit (PCU) will be created, tasked with monitoring fulfillment of the policy measures; and (iv) technical discussions between the authorities and the Bank are essential to develop the fiscal policies and reforms included in a policy-based loan (PBL). The Bank team has been maintaining intensive dialogue with the authorities and technical staff of the município and federal government, to provide intellectual and technical support in the planning and monitoring of this operation and of the PEF.

- 1.24 **The Bank's value-added and additionality.** The Bank's technical knowledge in the fiscal sector and its in-depth dialogue with the federal authorities facilitated intermediation between the município and the STN. This resulted in the Bank's participation in the design of a program that satisfies both the guidelines of a federal program, the PEF, and the município's institutional strengthening needs. In 2021, the Bank supported the Município of Recife in conducting a diagnostic assessment of the main problems in achieving balanced fiscal accounts; and it supported the design of reforms promoted by the current administration. Between 2021 and 2022, the Bank provided technical assistance to the município during the different stages of the PEF-Recife preparation process. It has also been providing technical assistance for the definition of methodologies and models needed to implement the program's policies, such as the taxpayer service digitalization and automation policy, as well as guidance and oversight of large taxpayers (cooperative compliance). The Bank has extensive experience in implementing investment, policy, and results-based programs; in conducting diagnostic assessments on the maturity of fiscal management; and in providing support to subnational governments through technical cooperation operations (paragraph 1.25). All of this contributes to a deep understanding of the fiscal problems faced by these entities, thereby facilitating the Bank's implementation of this operation.
- 1.25 **Complementarity with other Bank operations.** To fulfill the policies, the executing agency will receive support from the Bank through technical cooperation operation [ATN/OC-18813-BR](#), client support, approved in 2021 for US\$200,000 with 40% disbursed; and operation [ATN/OC-18375-RG](#), research and development, approved in 2020 for US\$150,000 with 49% disbursed. It will also receive resources from the PNAFM ([loan 3391/OC-BR](#) approved in 2014 for US\$167.7 million with 66% disbursed). The first of these technical cooperation operations targets the analysis and design of reform proposals to support the strengthening of federalism in Brazil, including improvements in the tax system and in public expenditure. Operation [ATN/OC-18375-RG](#) seeks to manage the territorial impact of the pandemic by strengthening multilevel governance and subnational fiscal management capacities in the region's countries. The PNAFM is a multiphase program, currently in its third phase, aimed at enhancing municipal fiscal autonomy by modernizing administrative, fiscal, financial, and

asset management in municipal entities. The Município of Recife is participating in the PNAFM through a subloan, with the SEFIN serving as executing agency. Several of the policy actions foreseen in this operation are associated with the outputs of the município's PNAFM project.

- 1.26 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy 2020-2024 (document AB-3190-2) in relation to the development challenge of productivity and innovation, through its use of information technology and digitalization in tax oversight and taxpayer services. The operation is aligned with the following cross-cutting themes: (i) Institutional Capacity and Rule of Law, in strengthening tax and public resource planning systems to make public expenditure more efficient and transparent; (ii) Gender Equity, by strengthening the public investment system and improving public procurement policy, including gender considerations; and (iii) Climate Change and Environmental Sustainability; through policy measures to include environmental markers in the public investment system and in public procurement, and through the digitalization of citizen service processes. Since three of the policy measures envisaged in this operation support the fulfillment of the country's climate commitments, climate financing has been estimated at 23.08%, according to the [multilateral development banks' joint methodology](#). The program also contributes to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12), through the following indicators: (i) emissions avoided (annual tons of CO<sub>2</sub> equivalent); (ii) countries with strengthened tax and expenditure policy and management; (iii) agencies with strengthened digital technology and managerial capacity; and (iv) agencies with strengthened transparency and integrity practices. In addition, the program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in the areas of public sector strengthening and tax administration. It is also consistent with the following sector framework documents: (i) Decentralization and Subnational Governments (document GN-2813-8), and Fiscal Policy and Management (document GN-2831-8), in the dimensions of strengthening own-revenue generation, improving the efficiency and quality of expenditure and service delivery, and fostering greater transparency and accountability; (ii) Innovation, Science, and Technology (document GN-2791-8) which includes the Bank's support in driving digital transformation; (iii) Climate Change (document GN-2835-8) through the reduction of GHG emissions; and (iv) Gender and Diversity (document GN-2800-8), through gender equity.
- 1.27 **The Bank's country strategy.** The operation is aligned with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973) in the priority area of building a more effective public sector that promotes fiscal sustainability, with the following strategic objectives: (i) reform the structure of public expenditure; and (ii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering better public services to citizens and enterprises. It is also aligned with the crosscutting themes of gender and diversity; environmental sustainability and climate change; and innovation and digital transformation. Lastly, the operation is included in the Update of the Annex III of the 2022 Operational Program Report (document GN-3087-2).



**B. Objectives, components, and cost**

- 1.28 The program's general development objective is to contribute toward achieving balanced fiscal accounts in the Município of Recife. The specific development objectives are to: (i) make tax collection more effective; and (ii) make public expenditure more efficient. The program is structured in three components.
- 1.29 **Component 1. Macroeconomic stability.** The objective of this component is to maintain a macroeconomic context that is consistent with the program's objectives as defined in the Policy Matrix and the [Policy Letter](#); and to help the Município of Recife improve its fiscal indicators to attain a CAPAG "B" rating, as agreed upon with the federal government.
- a. Tranches I, II, III, and IV-Maintenance of a macroeconomic framework in the country that is consistent with the program's objectives and the guidelines set out in the Policy Letter.
  - b. (i) Tranche I - (a) Fulfillment of the requirements for affiliation to the PEF, and (b) affiliation to the Fiscal Monitoring and Transparency Program (PAF), provided for in Complementary Law 178/2021; (ii) Tranche II-Fulfillment of the saving and cash liquidity targets in force for 2021, contained in the PEF of the Município of Recife, as agreed upon with the STN; (iii) Tranche III-Fulfillment of the saving and cash liquidity targets in force for 2022, contained in the PEF of the Município of Recife, as agreed upon with the STN; and (iv) Tranche IV-Fulfillment of the saving and cash liquidity targets in force for 2023, contained in the PEF of the Município of Recife, as agreed upon with the STN.
- 1.30 **Component 2. Efficacy of tax collection.** The objective of this component is to strengthen the management of tax collection, through the following policy conditions:
- a. (i) Tranche I-Creation of the General Directorate of Strategic Information and specification of its duties in improving revenue forecasting and monitoring capacity; (ii) Tranche II-Implementation, in the General Directorate of Strategic Information, of the new tax on all services (ISSQN) and real estate tax (IPTU) revenue forecasting model using the online tax database; (iii) Tranche III-Adoption of the Fiscal Panel, which includes data from the new revenue forecasting model, in the fiscal policy monitoring meetings of the management unit consisting of the Mayor and the municipal secretaries; and (iv) Tranche IV-Evaluation of the results of the new municipal revenue indicators forecasting and monitoring model, presenting the benefits generated.
  - b. (i) Tranche I-Creation of a Work group within SEFIN to propose guidelines and a model for the continuous validation of the property and commercial taxpayers register for tax oversight; (ii) Tranche II-Preparation of a proposal for guidelines and a model for the systematic validation of the property and commercial taxpayers register for tax oversight; (iii) Tranche III-Approval of the guidelines and a model for the systematic validation of the property and commercial taxpayers register for tax oversight; and (iv) Tranche IV-Evaluation of the results of the new tax oversight model, through the continuous purging of the property and commercial taxpayers register.

- c. (i) Tranche I-Creation of a work group within SEFIN to develop a model for monitoring large ISSQN taxpayers; (ii) Tranche II-Development of a proposed conceptual model for the ISSQN large taxpayer monitoring program; (iii) Tranche III-Approval of the regulation creating the ISSQN large taxpayer monitoring program; and (iv) Tranche IV-Evaluation of the results of the ISSQN large taxpayer monitoring model, including the result in terms of voluntary tax compliance.
- d. (i) Tranche I-Approval of the regulation instituting the processing, preferably digital, of SEFIN administrative processes; (ii) Tranche II-Creation of a work group within SEFIN to design criteria for the automation of citizen services provided by SEFIN; (iii) Tranche III Submission to the Planning, Management and Digital Transformation Department (SEPLAGTD) of the criteria for the automation of citizen services provided by SEFIN, to be included in the Município's Citizen Services Charter; and (iv) Tranche IV-Development of a proposed model for the automation of SEFIN services.

1.31 **Component 3. Public expenditure efficiency.** The objective of this component is to strengthen public expenditure management, through the following policy conditions:

- a. (i) Tranche I-Implementation of centralized financial management in the executive branch,<sup>63</sup> to include entities under indirect administration (enterprises and *autarquias*);<sup>64</sup> (ii) Tranche II-Approval of the rules on the composition of members of the Financial Policy Council (CPF) so as to enhance the work of the Council; (iii) Tranche III-Approval of the regulation of the new duties of the CPF to adapt it to the new centralized financial management; and (iv) Tranche IV-Evaluation of the results of the implementation of the new rules on budgetary and financial execution of the Município of Recife, presenting the benefits generated.
- b. (i) Tranche I (a) Abolition of the conversion into cash of length-of-service leave and allowances for employees of the Município of Recife;<sup>65</sup> and (b) Maintenance of the government's consolidated personnel expenditure ceiling below the LRF prudential ceiling; and (ii) Tranches II, III, and IV-Maintenance of the government's consolidated personnel expenditure ceiling below the LRF prudential ceiling.
- c. (i) Tranche I (a) Approval of the regulation that makes the rules of the municipal civil servants pension system compatible with the parameters defined by [EC103/2019](#) (federal government pension reform);<sup>66</sup> and (b) Approval of the regulation that institutes the Complementary Pension System and restricts the maximum value of pensions of the Recife Municipal Pension System to the ceiling of the General Social Security System

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<sup>63</sup> Measure of the Fiscal Balance Promotion Plan of the Município of Recife ([PEF-Recife](#)).

<sup>64</sup> *Autarquias* are government bodies that provide an autonomous service. They are created by law, with their own legal status, capital, and revenues, to carry out public administration activities that function more effectively under decentralized administrative and financial management.

<sup>65</sup> PEF measure.

<sup>66</sup> PEF measure.

(RGPS);<sup>67</sup> (ii) Tranche II-Approval of the regulation that includes, in the pension fund of the Recife Civil Servants Healthcare and Pension System (RECIPREV), retirees born on or before 31 December 1947 who had their retirement pension approved no later than 31 December 2020; (iii) Tranche III - (a) Approval of the regulation that institutes the new mandatory annual register of active and retired civil servants, with the aim of guaranteeing the quality of social security information; and (b) Approval of the regulation that tasks the Fiscal and Pension Boards of the Autonomous Municipal Pension and Civil Servant Healthcare Authority (AMPASS) with supervising and evaluating management of the Complementary Pension Fund; and (iv) Tranche IV-Evaluation of the results of the new pension rules, including the Complementary Regime, presenting the benefits generated.

- d. (i) Tranche I-Approval of the regulation that establishes and disseminates the annual corporate procurement planning, with an indication of the products that could generate a climate impact; (ii) Tranche II - (a) Approval of the regulation that establishes a centralized public procurement management unit for off-the-shelf items; and (b) Creation of a work group to propose a guide for women to participate in municipal public procurement, and a guide for planning environmentally sustainable public procurement; (iii) Tranche III-Approval of the regulation establishing a contract management unit for entities under direct municipal administration; and (iv) Tranche IV-Publication of a guide for women to participate in municipal public procurement and a guide planning environmentally sustainable public procurement.
- e. (i) Tranche I-Publication of a strategic investment framework for municipal management that considers indicators for climate action and gender equality; (ii) Tranche II-Approval of the regulation instituting the Urban Mobility Plan, taking into account environmental considerations, including the definition of guidelines for the selection of investment projects; (iii) Tranche III-Approval of the regulation instituting a methodology for monitoring public investment projects through a computerized system that includes indicators for projects that contribute to climate change adaptation; and (iv) Tranche IV-Evaluation of the results of the new public investment monitoring methodology, presenting the benefits generated.

1.32 **Beneficiaries.** The main beneficiaries will be: (i) the Município of Recife,<sup>68</sup> which will have balanced fiscal accounts and additional public funds to implement its public policies; and (ii) the municipal population, which will benefit from living in a jurisdiction with a stable economic environment. In addition to the loan proceeds, this program's policy measures will enable the município to upgrade its cash liquidity rating from "C" to "A," by lowering the indicator (short-term obligations relative to available cash) from 492.4% in 2020 to 100% by program completion. It will also enable the município to raise its current savings rating from "C" to "B," by reducing the indicator from 95.4% in 2020 to 95% by the end of the program.

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<sup>67</sup> PEF measure.

<sup>68</sup> Specifically, budget, treasury, accounting, debt, investment, procurement, purchasing and payroll, etc.

The overall CAPAG rating will thus improve from “C” to “B,” thereby allowing the município to receive a sovereign guarantee for its borrowing.<sup>69,70</sup>

### C. Key performance indicators

- 1.33 The results expected from the program actions are shown in the Results Matrix (Annex III). In terms of the general development objective, the project will contribute to the achievement of balanced fiscal accounts by improving the current savings and cash liquidity indicators, thus enabling the município to achieve a better CAPAG rating of “A” or “B.” In terms of specific development objectives, expected outcomes are: (i) increased inflation-adjusted tax revenue collected from large taxpayers; (ii) greater use of centralized public procurement for off-the-shelf items; and (iii) slower growth of pension expenditure.
- 1.34 **Economic evaluation.** Based on the recommendations made by the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects, and on the findings of the review of evaluation practices and standards for PBLs, conducted by the Evaluation Cooperation Group (ECG) (which consists of the multilateral development banks’ independent evaluation offices), as provided for in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix (DEM) for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which, *inter alia*, indicates that an analysis of efficiency in the use of financial resources is unnecessary, it was determined that an economic analysis would not be performed for loans of this type. The Board of Executive Directors was informed of this decision. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the program’s DEM.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This operation is structured as a multitranche PBL.<sup>71</sup> The multiple tranche modality and the number of tranches were agreed on by consensus and reflect the interest of the Município of Recife and the federal government in receiving the Bank’s support to promote policy reforms and institutional changes, in the short and medium terms, thus achieving balanced fiscal accounts. It is also justified by the municipal government’s high level of knowledge and commitment of the to the scope and content of the established policy process, thus strengthening the instrument’s consistency over time. The policy commitments made by the Município of Recife are at an advanced stage of implementation, particularly those to be fulfilled for the first tranche. The reform measures associated with the four tranches are described in detail and involve an appropriate sequencing of reform: the generation of knowledge to guide the formulation and implementation of these policies; the legal foundation of the

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<sup>69</sup> [PEF-Recife](#): goals and commitments agreed upon with the federal government to attain a CAPAG “B” rating.

<sup>70</sup> The CAPAG calculation methodology is explained in footnote 10.

<sup>71</sup> According to the document “Policy-based Loans: Guidelines for Preparation and Implementation. Update” (document CS-3633-2).

program, through the issuance of regulatory instruments related to the new policy measures; measures to support the implementation of the policies; and, lastly, evaluation of the policies' results.

- 2.2 **Dimensioning.** This operation will be financed through a loan of up to US\$104 million<sup>72</sup> drawn against the Bank's Ordinary Capital. This amount will be disbursed in four tranches of US\$26 million each.<sup>73</sup> The operation will provide fungible resources to meet fiscal needs in support of a mutually agreed-upon policy reform program. The amount of the operation is justified by the financial requirements of the public sector, although it is not directly related to the costs associated with the program reforms, which is consistent with paragraph 3.27(b) of document CS-3633-2. The estimated disbursement for 2022 represents 52.4% of the authorized borrowing approved in the município's Annual Budget Law for 2022.

#### **B. Environmental and social risks**

- 2.3 In accordance with the Environmental and Social Policy Framework (document GN-2965-23), this program does not require ex ante impact classification. The operation provides support for the definition of policies, standards, management instruments, and other institutional strengthening actions. Accordingly, no significant direct effects on the environment and natural resources are anticipated.

#### **C. Fiduciary risks**

- 2.4 No fiduciary risks associated with the operation have been identified. First, a financial instrument that does not include procurement is used; and, second, the proceeds of this operation will go directly to the Recife Treasury Single Account to cover the município's financing needs. The executing agency has the necessary financial management instruments and control systems in place for this purpose. The funds will be disbursed once the policy measures specified in the loan contract have been met.

#### **D. Other key issues and risks**

- 2.5 This operation was determined to pose a medium-high risk, with the following risks identified:
- a. **Economic-financial.** If Brazil departs from its sustainable growth path, there is a medium-high risk that this could affect the município's economic and fiscal performance, causing delays in the delivery of project outputs. This risk will be largely mitigated by implementation of the policies included in the project, which contribute to a more robust and resilient fiscal framework for the state, and by technical assistance to promote fiscal sustainability.
  - b. **Institutional.** If the município does not fulfill the PEF fiscal indicators, there is a medium-high risk that the expected outcomes will not be achieved, with an impact on disbursement. This risk will be mitigated by close monitoring of the PEF targets. In addition, the PEF provides an escape clause in the event of

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<sup>72</sup> Amount agreed upon with the National Treasury.

<sup>73</sup> [PEF-Recife](#) provides for disbursement in four tranches.

economic crisis, whereby disbursements can be delayed until the targets in question are met.

- c. **Internal processes.** If the município is unable to fulfill the policy measures on time because some of the conditions depend on several municipal entities, there is a medium-high risk that this could impact execution or cause the expected outcomes not to be achieved. This risk will be mitigated by creating a PCU, tasked with coordinating the entities involved in fulfilling the program's policy measures (SEFIN, SEPLAGTD, the Municipal Attorney General's Office (PGM), and AMPASS).
- 2.6 **Sustainability of the reforms.** The PBL supports fiscal policies with broad political consensus and benefits to the population, by enabling the município to achieve a CAPAG "B" rating and thus return to financing guaranteed by the federal government, which has lower financial costs. By being linked to the PEF, policies and their results will be monitored by the STN, thereby creating an incentive to maintain CAPAG "B". Moreover, the impacts of the policies agreed upon are long-term and contribute to fiscal sustainability. Lastly, the inclusion of evaluation-related policy conditions in the last tranche will allow for corrections and adjustments to be made to maintain the reforms.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 The borrower will be the Município of Recife, which will execute the project through the SEFIN. The Federative Republic of Brazil will guarantee the borrower's financial obligations, pursuant to the Bank's policy on Guarantees required from the borrower (document GP-104-2).
- 3.2 **Executing agency.** For project execution, and as a special contractual condition precedent to all disbursements, a PCU (paragraph 3.5) will be set up in the SEFIN. The PCU will be staffed by a coordinator and monitoring specialist (with project management experience). The unit will coordinate activities related to the monitoring of policy measures and project evaluation. It will have technical responsibility and commits to the following: (i) maintain official communication with the Bank and deliver reports and evidence of fulfillment of the policy measures, and any other reports required by the Bank, within the agreed upon timeframes and conditions; (ii) promote actions aimed at achieving the policy objectives defined in the program; and (iii) collect, file, and deliver to the Bank all information, indicators, and parameters needed to enable the Município of Recife and the Bank to monitor, measure and evaluate the program results.
- 3.3 **Interagency coordination mechanism.** The PCU will be responsible for coordination with the entities involved in fulfilling the program's policy measures (SEFIN, SEPLAGTD, PGM and AMPASS), and presentation of the means of verification agreed upon with the Bank. In addition, leaders will be appointed in these institutions to coordinate their actions with the PCU and underpin their technical development and implementation.
- 3.4 **Special contractual conditions precedent to disbursements of the loan. The four disbursements of the Bank financing will be subject to fulfillment of the**

policy reform conditions set forth in the Policy Matrix (Annex II) and [Policy Letter](#), and to the conditions specified in the Loan Contract.

- 3.5 **Special contractual conditions precedent to all disbursements.** (i) the establishment and maintenance of the PCU, under the terms agreed upon with the Bank; and (ii) evidence submitted by the borrower to the Bank that the Guarantor has confirmed that the PEF remains in effect and that the applicable legal requirements for the respective disbursement have been met. The first condition is justified on the grounds that a formally established PCU is essential for timely program monitoring and evaluation activities, coordination among the entities tasked with fulfilling the program's policy measures (SEFIN, SEPLAGTD, PGM and AMPASS), and to facilitate the project's knowledge management, given its long-term nature. The second conditions is justified due to the applicable local provisions based on [Decree 10.819/2021](#).

**B. Summary of arrangements for monitoring results**

- 3.6 **Monitoring.** Program monitoring is specified in the [monitoring and evaluation plan \(MEP\)](#). The PCU and the Bank will hold periodic meetings to monitor the results of the operation, and to anticipate and resolve technical difficulties arising during its execution. The PCU will provide the Bank with all information needed to measure achievement of the program's targets, and it will provide timely information on their status.
- 3.7 **Evaluation.** The project will be evaluated against the annual targets and indicators of the outcomes and outputs set out in the project's Results Matrix, by comparing results before and after. In addition, an impact evaluation is also planned, using the quasi-experimental differences-in-differences methodology, to assess the effectiveness of the policy for strengthening voluntary tax compliance through the ISSQN large taxpayer monitoring program. Upon completion of the project, a project completion report (PCR) will be prepared to review the results in terms of achievement of the targets and performance of the indicators established in the Município of Recife. The PCR will be submitted within the timeframe specified in the DEM or in another Bank regulation in effect; and it will report on fulfillment of the disbursement conditions.

**IV. POLICY LETTER**

- 4.1 The [Policy Letter](#) reiterates the Município of Recife's commitment to the objectives and actions envisaged for the program. In addition, the Bank and the Município of Recife agreed on a Policy Matrix describing this operation's policy actions.

Development Effectiveness Matrix		
Summary		BR-L1575
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Emissions avoided (annual tons CO2 equivalent) -Countries with strengthened tax and expenditure policy and management (#) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Reform the structure of public expenditure and (ii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises.
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
		Evaluable
3. Evidence-based Assessment & Solution		9.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		N.A.
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

*Evaluability Assessment Note:* The objective of the program to promote fiscal sustainability and improve the effectiveness of public spending in the municipality of Recife is to contribute to the achievement of fiscal balance in the municipality. The specific objectives are: i) to increase the effectiveness of tax collection; and ii) increase the efficiency of public spending. The borrower will be the Municipality of Recife and will execute it through the Special Advisory and Institutional Representation of the Mayor's Office.

The diagnosis of the program is clear and identifies that Recife has poor fiscal balance indicators, particularly in terms of cash liquidity and current savings. This is due, to a large extent, to the fact that the performance of the municipality in terms of collection is limited, given its potential. Among the determinants of this limitation is the lack of an formal process for estimating and monitoring tax revenues, outdated taxpayer registration, the absence of a policy to motivate compliance by large taxpayers, and the absence of guidelines to prioritize virtual services. Additionally, the municipality presents difficulties in the efficient use of public resources. This is a consequence of a lack of regulation for centralized financial management, additional personnel costs due to outdated legal framework, outdated pension rules, absence of public procurement management mechanisms that promote economies of scale, among others.

To achieve its objectives, the program is based on three components and has SMART result indicators to measure the expected objectives, as well as to monitor the implementation of the products that will be generated during the program. However, not all the dimensions of specific objective 1 are captured by its results indicator and one of the targets of specific objective 2 is not fully justified by the empirical evidence.

The project includes an impact evaluation for component 2, which seeks to increase the effectiveness of tax collection. In particular, it evaluates the program to promote voluntary compliance with tax obligations by large taxpayers. Finally, it is important to acknowledge that there is a risk that the proposed indicators are not resilient to the possibility that future sections of the operation will not be carried out.



## POLICY MATRIX

**Objective:** The general development objective is to contribute toward achieving balanced fiscal accounts in the Município of Recife. The specific development objectives are to: (i) make tax collection more effective; and (ii) make public expenditure more efficient.

Component - policy objective	Tranche I policy conditions	Status of fulfillment of Tranche I conditions <sup>1</sup>	Tranche II policy conditions	Tranche III policy conditions	Tranche IV policy conditions
<b>Component 1. Macroeconomic stability</b>					
Maintain a macroeconomic context that is consistent with the program objectives as defined in the Policy Matrix and the Policy Letter.	1.1 Maintenance of a macroeconomic framework in the country that is consistent with the program's objectives and the guidelines set out in the Policy Letter.	Fulfilled	1.1 Maintenance of a macroeconomic framework in the country that is consistent with the program's objectives and the guidelines set out in the Policy Letter.	1.1 Maintenance of a macroeconomic framework in the country that is consistent with the program's objectives and the guidelines set out in the Policy Letter.	1.1 Maintenance of a macroeconomic framework in the country that is consistent with the program's objectives and the guidelines set out in the Policy Letter.
Improve the fiscal indicators of the Município of Recife to contribute to the stability of its public finances as foreseen in the Fiscal Balance Promotion Plan (PEF).	1.2a Fulfillment of the requirements for affiliation to the PEF	Fulfilled (fourth quarter 2021)	1.2a Fulfillment of the savings and cash liquidity targets currently in force for 2021, contained in the PEF of the Município of Recife, as agreed upon with the National Treasury Department (STN).	1.2a Fulfillment of the savings and cash liquidity targets currently in force for 2022, contained in the PEF of the Município of Recife, as agreed upon with the STN.	1.2a Fulfillment of the savings and cash liquidity targets currently in force for 2023, contained in the PEF of the Município of Recife, as agreed upon with the STN.
	1.2b Affiliation to the PEF, as provided for in Complementary Law 178/2021.	Fulfilled (second quarter 2022)			

<sup>1</sup> As of the date of this document, this information is merely indicative. Pursuant to document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), the fulfillment of all conditions specified for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower requests disbursement, and will be included in the disbursement eligibility memorandum at the appropriate time.

Component - policy objective	Tranche I policy conditions	Status of fulfillment of Tranche I conditions <sup>1</sup>	Tranche II policy conditions	Tranche III policy conditions	Tranche IV policy conditions
<b>Component 2. Efficacy of tax collection</b>					
Improve institutional capacity to predict and monitor municipal revenues using online fiscal data and new digital technologies.	2.1 Creation of the General Directorate of Strategic Information and specification of its duties in improving revenue forecasting and monitoring capacity.	Fulfilled (third quarter 2021)	2.1 Implementation, in the General Directorate of Strategic Information, of the new tax on all services (ISSQN) and real estate tax (IPTU) revenue forecasting model, using the online tax database.	2.1 Adoption of the Fiscal Panel, which includes data from the new revenue forecasting model, in the fiscal policy monitoring meetings of the management unit consisting of the Mayor and the municipal secretaries.	2.1 Evaluation of the results of the new municipal revenue indicators forecasting and monitoring model, presenting the benefits generated.
Strengthen tax oversight through the continuous purging of the property and commercial taxpayers register.	2.2 Creation of a work group within the Finance Department (SEFIN) to propose guidelines and a model for the continuous validation of the property and commercial taxpayers register for tax oversight.	Pending fulfillment (fourth quarter 2022)	2.2 Preparation of proposed guidelines and a model for the systematic validation of the property and commercial taxpayers register for tax oversight.	2.2 Approval of the guidelines and the model for the systematic validation of the property and commercial taxpayers register for tax oversight.	2.2 Evaluation of the results of the new tax oversight model, through the continuous purging of the property and commercial taxpayers register.
Encourage voluntary tax compliance through the monitoring of large ISSQN taxpayers.	2.3 Creation of a work group within SEFIN to develop a model for monitoring large ISSQN taxpayers.	Fulfilled (fourth quarter 2021)	2.3 Development of a proposed conceptual model for the ISSQN large taxpayer monitoring program.	2.3 Approval of the regulation creating the ISSQN large taxpayer monitoring program.	2.3 Evaluation of the results of the ISSQN large taxpayer monitoring model, including the result in terms of voluntary tax compliance.
Strengthen citizen service through digitalization, automation, and greater transparency of services.	2.4 Approval of the regulations instituting the processing, preferably digital, of SEFIN administrative processes.	Fulfilled (first quarter 2021)	2.4 Creation of a work group within SEFIN to design criteria for the automation of citizen services provided by SEFIN	2.4 Submission to the Planning, Management and Digital Transformation Department (SEPLAGTD) of the criteria for the automation of citizen services provided by SEFIN, to be included in the município's Citizen Services Charter	2.4 Development of a proposed model for the automation of SEFIN services

Component - policy objective	Tranche I policy conditions	Status of fulfillment of Tranche I conditions <sup>1</sup>	Tranche II policy conditions	Tranche III policy conditions	Tranche IV policy conditions
<b>Component 3. Public expenditure efficiency</b>					
Improve the município's budgetary and financial execution rules.	3.1 Implementation of centralized financial management in the executive branch, to include entities under indirect administration (enterprises and autonomous bodies).	Pending fulfillment (fourth quarter 2022)	3.1 Approval of the rules on the composition of members of the Financial Policy Council (CPF) so as to enhance the work of the Council.	3.1 Approval of the regulation of the new duties of the CPF to adapt it to the new centralized financial management.	3.1 Evaluation of the results of the implementation of the new rules for budgetary and financial execution of the Município of Recife, presenting the benefits generated.
Improve control of the Município of Recife's personnel expenses.	3.2a Abolition of the conversion into cash of length-of-service leave and allowances for employees of the Município of Recife.  3.2b Maintenance of the government's consolidated personnel expenditure ceiling below the Fiscal Responsibility Law (LRF) prudential ceiling.	Fulfilled (third quarter 2021)	3.2. Maintenance of the government's consolidated personnel expenditure ceiling below the LRF prudential ceiling.	3.2. Maintenance of the government's consolidated personnel expenditure ceiling below the LRF prudential ceiling.	3.2. Maintenance of the government's consolidated personnel expenditure ceiling below the LRF prudential ceiling.
Improve control of the Município of Recife's pension expenses.	3.3a Approval of the regulation that makes the rules of the municipal civil servants pension system compatible with the parameters defined by <a href="#">EC103/2019</a> (federal government pension reform)	Fulfilled (third quarter 2021)	3.3 Approval of the regulation that includes, in the pension fund of the Recife Civil Servants Healthcare and Pension System (RECIPREV), retirees born on or before 31 December 1947 who had their retirement pension approved no later than 31 December 2020.	3.3a Approval of the regulation that institutes the new mandatory annual register of active and retired civil servants, with the aim of guaranteeing the quality of social security information.	3.3 Evaluation of the results of the new pension rules, including the Complementary Regime, presenting the benefits generated.

Component - policy objective	Tranche I policy conditions	Status of fulfillment of Tranche I conditions <sup>1</sup>	Tranche II policy conditions	Tranche III policy conditions	Tranche IV policy conditions
	3.3b Approval of the regulation that institutes the Complementary Pension System and restricts the maximum value of pensions of the Recife Municipal Pension System to the ceiling of the General Social Security System (RGPS).			3.3b Approval of the regulation that tasks the Fiscal and Pension Boards of the Autonomous Municipal Pension and Civil Servant Healthcare Authority (AMPASS) with supervising and evaluating management of the Complementary Pension Fund.	
Strengthen public procurement to enhance public expenditure quality.	3.4 Approval of the regulation that establishes and disseminates the annual corporate procurement planning, with an indication of the products that could generate a climate impact.	Pending fulfillment (fourth quarter 2022)	3.4a Approval of the regulation that establishes a centralized public procurement management unit for off-the-shelf items.  3.4b Creation of a work group to propose a guide for women to participate in municipal public procurement, and a guide for planning environmentally sustainable public procurement.	3.4 Approval of the regulation establishing a contract management unit for entities under direct municipal administration.	3.4 Publication of a guide for women to participate in municipal public procurement and a guide for planning environmentally sustainable public procurement.
Improve expenditure quality by strengthening the public investment system.	3.5 Publication of a strategic investment framework for municipal management that considers indicators for climate action and gender equality	Pending fulfillment (fourth quarter 2022)	3.5 Approval of the regulation instituting the Urban Mobility Plan, taking into account environmental considerations, including the definition of guidelines for the selection of investment projects.	3.5 Approval of the regulation instituting a methodology for monitoring public investment projects through a computerized system that includes indicators for projects that contribute to climate change adaptation.	3.5 Evaluation of the results of the new public investment monitoring methodology, presenting the benefits generated.

## RESULTS MATRIX

<b>Project objective:</b>	The specific development objectives are to: (i) make tax collection more effective; and (ii) make public expenditure more efficient. The program's general development objective is to contribute toward achieving balanced fiscal accounts in the Município of Recife.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline	Baseline year	Final target	Project completion	Means of verification	Comments
Improved payment capacity (CAPAG) rating	Rating	C <sup>1</sup>	2021	A or B	2024	National Treasury Department (STN)	<p><b>Calculation methodology:</b> The CAPAG rating is a synthetic indicator that considers three dimensions of payment capacity:</p> <p><i>Indebtedness:</i> consolidated debt as a percentage of net current income (NCI);</p> <p><i>Current savings:</i> current expenditure as a percentage of adjusted current income; and</p> <p><i>Cash liquidity:</i> financial obligations as a percentage of available cash. Each dimension is rated from A to D, where A is the best possible rating.</p> <p>Aggregation of the ratings in three dimensions results in the CAPAG synthetic indicator. Details of the methodology are provided in Official Notice (<a href="#">Portaria 501 of 23 November 2017</a>) of the Official Journal of the Union.</p> <p>The baseline CAPAG rating in 2021 is C, representing the aggregation of the following values: Current saving = 95.4% (C), Cash liquidity = 492.4% (C), Indebtedness = 36.4% (A).</p>

<sup>1</sup> The rating of subnational entities is published by the National Treasury Department ([STN](#)) in the subnational entities finance bulletin.

### SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline	Baseline year	Final target	Final target year	Means of verification	Comments
<b>OUTCOME 1: More effective tax collection.</b>							
Increased Service Tax (ISSQN) inflation-adjusted revenue intake from large taxpayers.	Index	100	2021	104	2024	Finance Department (SEFIN) report	<p><b>Calculation formula:</b></p> <p>The indicator represents cumulative real growth of ISSQN tax revenues obtained from the 500 largest taxpayers.</p> <p><b>Ratio:</b> (2024 revenue intake at 2021 prices/ 2021 revenue intake)*100</p> <p><b>Baseline:</b> (R\$484,420,932/ R\$ 484,420,932)* 100</p> <p><b>Baseline source:</b> SEFIN report</p> <p><b>Target:</b> 4% real increase over the baseline value.</p> <p><b>Justification for the target:</b> paragraph 3.3 of the monitoring and evaluation plan (<a href="#">MEP</a>).</p>
<b>OUTCOME 2: More efficient public expenditure</b>							
Increase in the proportion of off-the-shelf items procured centrally	%	50.26	2021	60	2024	SEFIN report	<p><b>Calculation formula:</b></p> <p>Value of centralized procurement of off-the-shelf items / total value of procurement of off-the-shelf items</p> <p><b>Baseline:</b> R\$43,674,027/ R\$86,896,195.52 = 50.26%.</p> <p><b>Target:</b> 60%.</p> <p><b>Justification for the target:</b> paragraph 3.4 of the <a href="#">MEP</a>.</p>
Reduction in total pension expenditure	%	100	2020	95	2024	Independent consulting report	<p><b>Calculation formula:</b></p> <p>The indicator represents total pension expenditure (post-reform value) divided by the counterfactual of total pension expenditure (without reforms).</p> <p><b>Baseline (2020):</b> 100% (pre- reforms)</p> <p><b>Target:</b> 95%.</p> <p><b>Justification for the target:</b> paragraph 3.5 of the <a href="#">MEP</a>.</p>

## OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
<b>Component 1. Macroeconomic stability</b>										
1.2a - Tranche I. Instrument approved confirming affiliation of the Município of Recife to the Fiscal Balance Promotion Plan (PEF).	STN report	0	2021	1	0	0	0	1	STN report containing favorable statement referred to in Article 14(1), paragraph I of Decree 10,819/2021, included in the PEF.	
1.2b - Tranche I. Instrument approved confirming that the Município of Recife has affiliated to the Fiscal Monitoring and Transparency Program (PAF).	STN report	0	2021	1	0	0	0	1	STN report containing the statement in favor of joining the PAF, as provided for in Federal Law 178/2021.	
1.2a - Tranche II, III, and IV. Instrument for monitoring the scope of the fiscal indicators defined by the PEF for the município.	STN report	0	2021	0	1	1	1	3	STN report containing statement favorable to the fulfillment of targets	
<b>Component 2. Efficacy of tax collection</b>										
2.1 - Tranche I. Specific administrative structure and allocation to improve forecasting and revenue monitoring capacity.	Decree	0	2020	1	0	0	0	1	Decree 34,801 of 6 August 2021, published in the Official Journal of the Município of Recife (DOM) creating structures and specifying the respective responsibilities.	
2.1 - Tranche II. New model approved for forecasting ISSQN and IPTU revenue intake, using the online tax database.	Regulatory Instruction	0	2021	0	1	0	0	1	SEFIN regulatory instruction published on the Município of Recife Intranet	
2.1 - Tranche III. Adoption of the Fiscal Panel, which includes data from the new revenue forecasting model, in the fiscal policy monitoring meetings of the management unit consisting of the Mayor and the municipal secretaries.	Minutes of the meeting	0	2021	0	0	1	0	1	Minutes of the Management Unit meeting demonstrating use of the Fiscal Panel to monitor fiscal policy, duly signed by the participants.	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
2.1 - Tranche IV. Evaluation of the results of the new municipal revenue indicators forecasting and monitoring model, presenting the benefits generated.	Report	0	2021	0	0	0	1	1	SEFIN report evaluating the results of the policy implemented, published on the Município of Recife Intranet.	
2.2 - Tranche I. Creation of a work group within SEFIN to propose guidelines and a model for continuous validation of the property and commercial taxpayers register for tax oversight.	Ordinance	0	2021	1	0	0	0	1	SEFIN regulatory instrument ( <i>Portaria</i> ) published in the DOM	
2.2 - Tranche II. Proposal for guidelines and a model for the systematic validation of the property and commercial taxpayers register for tax oversight.	Report	0	2021	0	1	0	0	1	Work group report containing proposed guidelines and continuous validation model	
2.2 - Tranche III. Guidelines and model approved for the systematic validation of the property and commercial taxpayers register for tax oversight.	Regulatory instruction	0	2021	0	0	1	0	1	SEFIN regulatory instruction published on the Município of Recife Intranet	
2.2 - Tranche IV. Evaluation of the results of the new tax oversight model, through the continuous purging of the property and commercial taxpayers register.	Report	0	2021	0	0	0	1	1	SEFIN report evaluating the results of the policy implemented, published on the Município of Recife Intranet.	
2.3 - Tranche I. Creation of a work group within SEFIN to develop a model for monitoring large ISSQN taxpayers.	Ordinance	0	2020	1	0	0	0	1	SEFIN regulatory instrument ( <i>Portaria</i> ) 78 of 18 October 2021, published in the DOM.	
2.3 - Tranche II. Development of a proposed conceptual model for the ISSQN large taxpayer monitoring program.	Report	0	2021	0	1	0	0	1	Work group report containing the proposed conceptual model for the ISSQN large taxpayer monitoring program.	



Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
2.3 - Tranche III. Approval of the regulation creating the ISSQN large taxpayer monitoring program.	Regulatory instruction	0	2021	0	0	1	0	1	SEFIN regulatory instruction published on the Município of Recife Intranet	
2.3 - Tranche IV. Evaluation of the results of the ISSQN large taxpayer monitoring model, including the result in terms of voluntary tax compliance.	Report	0	2021	0	0	0	1	1	SEFIN report evaluating the results of the policy implemented, published on the Município of Recife Intranet.	
2.4 - Tranche I. Approval of the regulations instituting the processing, preferably digital, of SEFIN administrative processes.	Ordinance	0	2020	1	0	0	0	1	SEFIN regulatory instrument ( <i>Portaria</i> ) 18/2021, published in the DOM.	
2.4 - Tranche II. Creation of a work group within SEFIN to design criteria for the automation of citizen services provided by SEFIN.	Ordinance	0	2021	0	1	0	0	1	SEFIN regulatory instrument ( <i>Portaria</i> ) published in the DOM	
2.4 - Tranche III. Submission to the Planning, Management and Digital Transformation Department (SEPLAGTD) of the criteria for the automation of citizen services provided by SEFIN, to be included in the município's Citizen Services Charter.	Memorandum	0	2021	0	0	1	0	1	Memorandum of SEFIN digital services delivery to SEPLAGTD	
2.4 - Tranche IV. Development of a proposed model for the automation of SEFIN services.	Report	0	2021	0	0	0	1	1	Work group report containing the model proposed for automation of SEFIN services.	
<b>Component 3. Public expenditure efficiency</b>										
3.1 - Tranche I. Implementation of centralized financial management in the executive branch, to include indirect administration (enterprises and <i>autarquias</i> ).	Decree	0	2021	1	0	0	0	1	Government Decree published in the DOM.	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
3.1 - Tranche II. Approval of the rules on the composition of members of the CPF so as to enhance the work of the Council.	Decree	0	2021	0	1	0	0	1	Government Decree published in the DOM	
3.1 - Tranche III. Approval of the regulation of the new duties of the Financial Policy Council (CPF) to adapt it to the new centralized financial management.	Regulatory instruction	0	2021	0	0	1	0	1	SEFIN regulatory instruction, published in the DOM	
3.1 - Tranche VI. Evaluation of the results of the implementation of the new rules governing budgetary and financial execution of the Município of Recife, presenting the benefits generated.	Report	0	2021	0	0	0	1	1	SEFIN work group report containing the results of the improvement of the Município of Recife's budget and financial execution standards, published on the Município of Recife Intranet.	
3.2a - Tranche I. Abolition of the conversion into cash of length-of-service leave and allowances for employees of the Município of Recife.	Law	0	2020	1	0	0	0	1	Amendments to Organic Law 34 of 2021 and to Ordinary Law 18,809 of 2021, published in the DOM	
3.2b - Tranche I and 3.2 - Tranches II, III, and IV. Maintenance of the consolidated personnel expenditure ceiling of the Executive Branch below the Fiscal Responsibility Law (LRF) prudential ceiling.	Report	1	2021	1	1	1	1	4	Latest LRF Fiscal Management Report, published in the DOM	Annual Checkup
3.3a - Tranche I. Harmonization of the rules of the municipal civil servants pension system with the parameters defined by <a href="#">EC103/2019</a> (federal government pension reform).	Law	0	2020	1	0	0	0	1	Amendment to Organic Law 34 of 2021; Complementary Law 3 of 2021; and Ordinary Laws 18,809 and 18,810 of 2021, published in the DOM.	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
3.3b - Tranche I. Approval of the regulation that institutes the Complementary Pension System and restricts the maximum value of pensions of the Recife Municipal Pension System to the ceiling of the General Social Security System (RGPS).	Law	0	2020	1	0	0	0	1	Ordinary Law 18,810 of 2021, published in the DOM.	
3.3 - Tranche II. Regulation that includes, in the pension fund of the Recife Civil Servants Health and Pension system (RECIPREV), retirees born on or before 31 December 1947 who had their retirement pension approved by 31 December 2020.	Law	0	2020	0	1	0	0	1	Ordinary Law 18,851 of 2021, published in the DOM.	
3.3a - Tranche III. Regulation instituting the new mandatory annual register of active and retired civil servants, with the aim of guaranteeing the quality of the approved social security information.	Decree	0	2021	0	0	1	0	1	Executive Branch Decree published in the DOM	Effective as an annual regulation from the date of definitive publication of the Decree.
3.3b - Tranche III. Approval of the regulation that tasks the Fiscal and Pension Boards of the Autonomous Municipal Pension and Civil Servant Healthcare Authority (AMPASS) with supervising and evaluating management of the Complementary Pension Fund.	Decree	0	2021	0	0	1	0	1	Executive Branch Decree published in the DOM.	
3.3 - Tranche IV. Evaluation of the results of the new pension rules, including the Complementary Regime, presenting the benefits generated.	Report	0	2021	0	0	0	1	1	SEPLAGTD/AMPASS report evaluating the results of the policy implemented.	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
3.4 - Tranche I. Approval of the regulation that establishes and disseminates the annual corporate procurement planning, with an indication of the products that could generate a climate impact.	Decree	0	2021	1	0	0	0	1	Executive Branch Decree published in the DOM.	Effective as an annual regulation from the date of definitive publication of the Decree.
3.4a - Tranche II. Approval of the regulation that establishes a centralized public procurement unit for off-the-shelf items.	Decree	0	2021	0	1	0	0	1	Executive Branch Decree published in the DOM.	
3.4b - Tranche II. Creation of a work group to propose a guide for women to participate in municipal public procurement, and a guide for planning environmentally sustainable public procurement.	Regulatory instrument	0	2021	0	1	0	0	1	SEPLAGTD regulatory instrument ( <i>Portaria</i> ), creating the work group and specifying its duties, published in the DOM.	
3.4 - Tranche III. Approval of the regulation establishing a contract management unit for entities under direct municipal administration.	Decree	0	2021	0	0	1	0	1	Executive Branch Decree published in the DOM.	
3.4 - Tranche IV. Publication of a guide for women to participate in municipal public procurement and a guide for planning environmentally sustainable public procurement.	Guide	0	2021	0	0	0	1	1	Publication of the guide on the Município of Recife's public procurement portal.	Pro-gender
3.5 - Tranche I. Publication of a strategic investment framework for municipal management that considers indicators for climate action and gender equality.	Normative Act	0	2021	1	0	0	0	1	SEPLAGTD regulatory instrument ( <i>Portaria</i> ), published in the DOM.	Pro-gender
3.5 - Tranche II. Approval of the regulation instituting the Urban Mobility Plan, taking into account environmental considerations, including the guidelines for selecting investment projects.	Law	0	2020	0	1	0	0	1	Municipal Law 18,887 of 29 December 2021, published in the DOM.	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
3.5 - Tranche III. Approval of the regulation instituting a methodology for monitoring public investment projects through a computerized system that includes indicators for projects that contribute to climate change adaptation.	Report	0	2021	0	0	1	0	1	Management Unit report containing the proposed governance model for public investment management	
3.5 - Tranche IV. Evaluation of the results of the new public investment monitoring methodology, presenting the benefits generated.	Report	0	2021	0	0	0	1	1	SEPLAGTD report evaluating the results of the policy implemented.	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Brazil. Loan \_\_\_/OC-BR to the Município of Recife. Program to Promote  
Fiscal Sustainability and Enhance the Effectiveness of  
Public Expenditure in the Município of Recife

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 Município of Recife, as Borrower, and the Federative Republic of Brazil, as a Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Program to Promote Fiscal Sustainability and Enhance the Effectiveness of Public Expenditure in the Município of Recife. Such financing will be for an amount of up to US\$104,000,000 from the resources 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.

(Adopted on \_\_\_\_ 2022)