NATIONAL PROGRAM TO SUPPORT THE ADMINISTRATIVE AND FISCAL MANAGEMENT OF BRAZILIAN MUNICIPALITIES

(BR-0286)

EXECUTIVE SUMMARY

Borrower: The Federative Republic of Brazil

Executing agency: The Ministry of Finance, through its Executive Secretariat

Financial agent/coexecuting agency: Caixa Econômica Federal [Federal Savings Bank]

Beneficiaries: Municipal governments

Amount and source:

(In millions of U.S. dollars)

	Stage 1	**Stage 2**	**Stage 3**	**Total**
IDB (OC):	300	450	350	1,100
Local:	300	450	350	1,100
Total:	**600**	**900**	**700**	**2,200**

Financial terms and conditions for each stage:

Amortization period:	20 years
Grace period:	4 years
Disbursement period:	4 years
Commitment period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	Currency pool

Objectives: The main objective of the program is to support the Brazilian government in achieving macroeconomic stability through a self-sustaining fiscal balance, bolstered by an efficient and transparent public policy for managing municipal income and spending.

The specific objectives to be achieved during the program are:

a. **With respect to efficient municipal management:** (i) increase in municipal financing of public spending using own revenues; (ii) economy in municipal public administration; and (iii) improved quality and availability of municipal public services.

b. **With respect to transparency in municipal management:** (i) regular information made available to the public on budget performance, public accounts and municipal management; (ii) effective participation by citizens in budget planning and definition and in the municipal investment plan; and (iii) evaluation and review of the actions of municipal governments, taking public opinion into account.

Description: The program will finance two main components:

1. Coordination and technical assistance component (US$5 million for stage 1)

Loan proceeds will be used to strengthen the Executive Secretariat of the Ministry of Finance in the supervision, integration and coordination of the fiscal area on the national level. The secretariat will support the municipalities in preparing specific modernization projects and will conduct studies and offer national conferences and courses on aspects of municipal management.

2. Municipal institutional strengthening component (US$295 million for stage 1)

This component will finance projects to modernize municipal management in the administrative and fiscal areas (tax and financial administration) in particular, as well as projects to improve the municipalities' ability to serve the public.

The program will support the individual initiatives of each municipality under a common frame of reference, which will provide a basic structure for specific projects while leaving room to address needs that arise during each case study. Projects to modernize municipal management in the following fields will be financed: (a) **modernization of tax administration** (tax legislation and regulations, budget preparation, tax administration, financial administration, auditing and internal control);
(b) **administrative modernization** (organization and

management, planning, human resources, services to citizens and information technology); and (c) **land use administration** (geographic information systems and referential databases).

This operation has been structured with three stages on the basis of the number of municipalities in the country and the Brazilian government's policy of making the program accessible to a large majority of municipalities.

The Bank's Sector Strategy: The country paper identifies four main areas for socioeconomic development in Brazil: (i) price stabilization; (ii) public sector reform; (iii) modernization of the productive sectors; and (iv) attention to social problems. The proposed program is compatible with the Bank's operating strategy since it is targeted to municipal reform.

Environmental and social review: While the program will not have a direct impact, it may play a significant role by promoting improved environmental management and transparency in municipal administration. The CESI's recommendations have been incorporated into the program (paragraph 4.14).

Benefits: The main benefits expected from the program are:

a. Better prospects for achieving a sustainable fiscal balance in the municipalities thanks to a reduction in tax evasion, with the consequent increase in tax revenues and better programming and control of public spending. This, in turn, translates into a more solid foundation for fiscal solvency on the national level.

b. Increase in the capacity of municipal governments to carry out economic and social development programs since they will have more funds to spend and tools to manage them more efficiently and effectively.

c. Substantial savings for the municipal governments as a result of the integration of national tax systems, and a reduction in the operating costs of monitoring compliance as a result of the introduction of integrated taxpayer and property rolls.

d. Reduction or elimination of tax distortions that affect domestic trade, through a reduction in the sharp differences in efforts to monitor compliance in the different municipalities, which will lead to a reduction in inequities in the national tax system.

e. Strengthening of the mechanisms for dialogue on taxation between the federal and municipal governments.

f. Greater participation in and control over municipal management by society, with the introduction of measures to promote transparency recommended by the program.

Risks: The following main risks have been identified in terms of program execution:

a. The possibility of inadequate project formulation by the participating municipalities during the program. To mitigate this risk, the Bank has developed an automated support system for preparing analyses and projects and will transfer its know-how to the technical experts of the program coordination unit (PCU) and the Caixa.

b. The possibility of unsatisfactory execution of specific projects owing to a lack of institutional capacity in the municipalities. This risk will be reduced by the criteria and rules established mainly for the simplified projects, which provide detailed definitions of all projects stages, with support provided by the Caixa, and the fact that each municipality must issue a resolution creating a municipal executing unit (MEU).

c. The possibility that technical yardsticks for measuring financial needs will not be used in distributing program funds to the municipalities. This risk is minimized by including explicit quantitative parameters in the program that have been defined by designing and reviewing the projects in the sample, which will be used as the basis for distributing funds to the municipalities.

Special contractual conditions:

1. <u>Conditions precedent to the first disbursement of the Bank loan</u>:

a. Presentation to the Bank of the contract between the borrower and the financial agent/coexecuting agency (paragraph 3.13).

b. Presentation to the Bank of the final version of the model contract for subloans between the financial agent/coexecuting agency and the municipalities (paragraph 3.24).

c. Evidence that the Caixa and the PCU have compatible systems for financial administration (paragraph 3.7).

d. Entry in force of the Operating Regulations (paragraph 3.1).

2. Conditions precedent to signature of the contract for subloans between each municipality and the financial agent/coexecuting agency (see paragraphs 3.17 and 3.18):

a. Evidence in the form of acceptable legal documents that the municipalities have created their executing units (MEUs).

b. Evidence that the legislature has approved contracting of the subloans and granting of guarantees.

c. Evidence that the counterpart funds have been allocated for the respective projects or evidence that the funds have been committed, thereby ensuring project execution during the first year.

d. Presentation of a project that is eligible for financing under the program.

3. The Bank will recognize program-related spending after April 30, 1998, of up to US$30 million as part of the counterpart, provided it complies with requirements that are substantially similar to those stipulated in the loan contract (paragraph 3.41).

Poverty-targeting and social sector classification: This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Eighth General Increase in the Resources of the Bank (document AB-1704).

Procurement of goods and services:	The Bank's procedures will apply for the construction of works, procurement of goods and contracting of services to be financed from the prospective loan. International competitive bidding will be required for works costing US$5 million and over, goods costing US$350,000 and over, and services costing US$200,000 and over (paragraph 3.36).
Exceptions to Bank policy:	None