

**PROGRAM INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

February 7, 2014

Report No.: 85375

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| <b>Operation Name</b>                   | BR Amazonas DPL   |
| <b>Region</b>                           | LATIN AMERICA AND CARIBBEAN   |
| <b>Country</b>                          | Brazil  |
| <b>Sector</b>                           | General public administration sector (50%);Sub-national government administration (50%) |
| <b>Operation ID</b>                     | P147979   |
| <b>Lending Instrument</b>               | Development Policy Lending  |
| <b>Borrower(s)</b>                      | STATE OF AMAZONAS   |
| <b>Implementing Agency</b>              | Secretariat of Finance (SEFAZ), State of Amazonas                                       |
| <b>Date PID Prepared</b>                | February 7, 2014  |
| <b>Estimated Date of Appraisal</b>      | February 24, 2014   |
| <b>Estimated Date of Board Approval</b> | April 22, 2014  |
| <b>Corporate Review Decision</b>        | TBD   |
| <b>Other Decision <i>{Optional}</i></b> | TBD   |

**I. Key development issues and rationale for Bank involvement**

The State of Amazonas is sparsely populated with only 3.6 million inhabitants, and has the second lowest population density in the world, only higher than that of Mongolia. Amazonas's GDP totaled R\$59.8 billion in 2010 (US\$34 billion), which represents 1.6 percent of the country's GDP. Per capita GDP was R\$17,158 in 2010 (US\$8,500), which is equivalent to 87 percent of the national average. With 41.7 percent of the population living under the poverty line (under US\$4 PPP/day) and 24.5 percent in extreme poverty (under US\$2.50 PPP/day), the incidence of poverty in Amazonas continues to be a pervasive problem. Currently, the State registers the fourth highest poverty rate in Brazil and the highest in the Northern region. Poverty reduction has been achieved in recent years, although the reduction has been less pronounced than in the rest of the country. Whereas poverty in Brazil has fallen steadily from 41 percent in 2004 to 25 percent in 2011, poverty in Amazonas has declined from 55 percent to 41 percent. Crime and violence is also a growing challenge. While states such as São Paulo reduced their homicide rate by almost 70 percent between 2000 and 2010, in the North homicide rates doubled over the same period. In Amazonas alone the rise reached 54.6 percent, from 19.8 per 100,000 inhabitants, in 2000, to 30.6, in 2010. In the capital city, Manaus, the homicide rate reached 56.2 per 100,000 inhabitants in 2011. Rates of gender-based violence have also risen alarmingly. In 2010, the female homicide rate in Manaus, 11.5 murders per 100,00, was the third highest in Brazil. In 2011, the State also presented the second highest robbery rate in the country, reaching 1,038 per 100,000 inhabitants.

Due to its poor social indicators, elevated crime rate, and vast territory, the State has been investing more than the national average in social sectors since 2000, 2.8 percent of GDP compared to 1.1 percent respectively. Among Amazonas's primary budget expenditures is citizen security, which accounts for 9 percent of total expenditure and has been increasing

rapidly in recent years. Between 2010 and 2012, expenditures on citizen security increased by 31.8 percent in real terms, compared to an increase of 8.6 percent in education and a 1.8 percent drop in health. This significant increase in sector expenditures is explained mainly by the Government's efforts to respond to rising levels crime and violence through the establishment of Integrated Police Delegations (*Delegacias de Polícia Integrada – DIPs*) of the civil and military police. This trend towards increasing expenditure in this sector is estimated to continue for at least the next two years, with new hires, training and increase in wages, which depart from a significant low base.

In this context, one of the State's main challenges is to more efficiently manage the State's financial resources and to promote service delivery. To meet these challenges, the GoAM has identified a number of deficiencies in tax and financial administration, and in the management of the citizen security sector, which limit its fiscal capacity and service delivery efficiency. This operation supports specific measures to tackle these deficiencies. Support for the citizen security sector is important both because of the priority given by the GoAM to improve service delivery in this area - reduction of crime and violence, including gender-based violence, is fundamental for citizen welfare and economic growth - and the risk that the expansion of this sector could inhibit service delivery in other sectors if resources are not used more efficiently.

## **II. Proposed Objective(s)**

The Policy Development Objective (PDO) of this proposed operation is to assist the Government of Amazonas to i) improve tax administration and procurement procedures and (ii) to strengthen the delivery of citizen security services and women's access to justice and social services. In order to achieve this, the loan will help the State devise and put into practice policies, procedures and tools to improve public sector performance in these areas. The policy areas covered by this operation aim to support the State's own goals in the areas of public sector management; therefore, the PDO is fully aligned with the Government's longer-term development objectives. Furthermore, the proposed operation also supports other programs under implementation or preparation by the State aimed at improving its fiscal position and the quality of public sector management. For instance, the IADB-supported Program of Consolidation of Fiscal Equilibrium for Social and Economic Development in the State of Amazonas (*Programa de Consolidação do Equilíbrio Fiscal para o Desenvolvimento Econômico e Social do Estado do Amazonas - Proconfins*) from SEFAZ.

The expected result from this operation is an improvement in public sector management and performance through increased efficiency. These efficiency gains will be perceived through several channels such as increased tax compliance, streamlined procedures, policies and systems for procurement and financial management resulting in public sector savings, and through the implementation of a results-based management approach, and greater coordination in the citizen security sector, including agencies specialized in gender-based violence issues, which would lead to a more optimal allocation of resources. Given the breadth of these reforms, these measures would benefit all state citizens, but in particular those in vulnerable groups who are more dependent on government services.

From the tax administration, financial management and procurement pillar, several results are expected. In the area of the tax administration results are intended to increase sales tax compliance through the modernization of the fiscal receipt system, which will formalize many smaller retailers. In the areas of financial management and procurement, the expected results are reductions in the cost of selected out-sourced services through the implementation of a contract management system and Price Registry, standardization of service specifications, and improvements in planning and execution of public private partnerships (PPP). On the citizen security pillar, the expected results include improved police performance, more efficient allocation of resources, and increased citizen participation. Within this second pillar there is special focus given to the area of gender-based violence, whose results target increasing awareness of gender-based violence issues in society and improving access to justice and social services by women. The direct beneficiaries of this last pillar will be citizens who live in areas most affected by crime and violence in the State.

### **III. Preliminary Description**

This proposed operation is a single tranche Development Policy Loan in the amount of US\$216 million to the Brazilian State of Amazonas, to be carried out in partnership with the Inter-American Development Bank and supports the program of the Government of Amazonas in areas of public sector management. The operation is structured around two pillars: a tax administration, financial management and procurement pillar, and a citizen security pillar with a focus on gender-based violence.

**Pillar I. Tax Administration Financial Management and Procurement.** There are two main objective of this first pillar: (i) to modernize tax administration, increase sales tax compliance and improve the taxpayer database; and (ii) streamline public financial management and procurement procedures to generate savings, enhance transparency, and increase efficiencies.

Amazonas suffers from low sales tax collection rates. As such, the Government of Amazonas has sought innovative solutions to strengthen tax administration, such as the implementation of the 2013 pilot of the Consumer Electronic Fiscal Note (*Nota Fiscal do Consumidor Electronica - NFC-e*). The NFC-e, a free system for retailers, creates an electronic file at the time of purchase with the invoice information and sends it to SEFAZ, which then validates the information against the taxpayer database. Once this information is validated, the invoice is issued to the consumer. The system's rollout across the whole State will substitute the previous system involving paper receipts, reduce the cost of compliance for retailers, decrease the demand for in-depth audits by increasing the availability of real-time and reliable information on collection, and elevate the risk of non-compliance. This, in turn, is estimated to increase tax compliance and improve taxpayer database. The State has planned for a gradual deployment of the NFC-e, starting with voluntary membership in July 2013 and moving to obligatory compliance for retailers by 2015. This pillar directly supports the implementation of this system. A continuation of this reform involves instituting incentives for consumers to comply with sales tax obligations.

The Government of Amazonas suffers from low efficiency in budget and financial planning and from the absence of standardized policies and tools in the areas of (i) control of recurrent expenditures; (ii) contract management; (iii) public procurement systems; and (iv) investment planning. The proposed actions of the operation support the adoption of the new policies and standards for procurement and contract management that will allow the executive branch to

improve planning of resource allocation, thus, improving financial control and generating savings.

**Pillar II. Citizen Security with a Focus on Gender-Based Violence.** Policy actions to be financed under this component aim at improving efficiency and transparency in the citizen security sector as a whole, and reduce gender-based violence in particular. Specifically, this operation will target this objective through: (i) the integration of resources and actions of the various sector entities; (ii) the planning, monitoring and evaluation of police performance and public security expenditures; (iii) the promotion of intergovernmental coordination and streamlining of operating costs; (iv) and the promotion of greater transparency and social control of public security management. Within the specific area of gender-based violence, this operation seeks to (i) increase knowledge about *Maria de Penha Law* for public servants and increase awareness towards domestic violence amongst the general public and (ii) improve victims' access to services provided by the specialized social assistance networks.

The lack of coordination, information sharing, and trust between the civilian and military police have historically posed problems in many Brazilian states and in the country as a whole. *Ronda Bairro* is therefore the main State effort to integrate the work of the two police forces in order to avoid duplication of efforts and lack of coordination. The program is based on the principles of results-oriented and community policing, aimed at increasing efficiency in the allocation of citizen security resources, establishing monitoring and evaluation mechanisms to oversee citizen security performance and expenditures, and at strengthening the relationship between the police and civil society. This operation will directly support the administrative strengthening of these coordination processes through the formal integration of the civilian and military police into DIPs as well as the creation of a results-based approach for evaluating police activities. The operation will also support enhancing civil society participation in the sector through the creation of a disclosure mechanism for expenditure indicators.

Despite progress in recent years, women in the State of Amazonas still face challenges in terms of economic opportunities and agency. As such, the GoAM created the Executive Secretariat for Gender-related Policies (*Secretaria Executiva para Políticas de Mulheres*, SEPM), aiming to increase gender equity in the state and address the problem of domestic violence, among others. The GoAM has also joined state and federal initiatives to reduce the incidence of gender-based violence, including House of the Brazilian Woman (*Casa da Mulher Brasileira*), whose objectives involve improving network services to women victims of violence such as special police units, shelters and specialized social assistance centres offering counselling, health services, and employment and income generation opportunities. This operation will directly support this area through promoting public awareness of gender-related issues and training for practitioners of legislation aimed at protecting and preventing violence against women as well as the overall expansion of social assistance services to victims through the construction of specialized centres.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

The policy actions supported by this operation are expected to have a positive impact on poverty as they will address good governance and fiscal sustainability, citizen security and gender equity issues. The PSIA assesses the expected distributional impacts and attempts to identify political economy and implementation risks linked to this operation on different socioeconomic groups, especially poor and vulnerable groups. The assessment relies on the analysis of secondary data. The combined social and economic impacts of the policies supported by this operation for the most vulnerable population are expected to be positive.

To demonstrate the potential pro-poor effects of the citizen security and gender-related policies supported by this operation (Pillar II), it is necessary to assess the distributional impacts of crime and violence in Amazonas. Violence and criminality rates are much higher at the capital city and in its more underserved areas with higher rates of poverty, poor housing stock, unemployment, lower educational attainment, low levels of investment in public spaces and higher levels of social vulnerability (the East, the North and the West Regions). As elsewhere in Brazil, age, gender and race disparities are also characteristic of crime victimization in Amazonas. The rate of homicides more than doubled in the state and in its capital city in the last decade. These rates experienced larger increases among the youth: at the state level, homicides among the young population grew 138 percent; in the capital city, this growth equaled 151.5 percent. Furthermore, while Amazonas is on the lower end of female homicides according to the *Mapa da Violencia* 2012 (3.7 homicides per 100,000 women in 2010), Manaus has the third highest female homicide rate amongst Brazilian capitals at 11.5 murders per 100,000 women in 2010. . Finally, homicide rates are higher among Afro-Brazilians than among white Brazilians, and this gap is increasing. In the last decade, this rate has increased 155.7 percent among the Afro-Brazilians and 128.3 percent among the white Brazilians. Therefore, the proposed policy changes in citizen security are expected to bring positive outcomes for the society as a whole, but they will particularly benefit the poorest and most vulnerable segments of the population, including youth, women and the Afro-descendant population. Additionally, by emphasizing public disclosure of criminality rates and police activities, the proposed citizen security policy changes will foster transparency and social accountability in the involved sectors.

The strengthening of Public Sector Management by means of improved planning and budgeting systems, and financial and resource management are essential for Amazonas to expand the State's capacity in public service delivery. By adopting new policies to improve planning and budgeting, increase compliance with the tax system, and expand tax collection, the GoAM is expected to increase revenue collection and efficiency in the allocation of public funds, to provide public services more effectively, and to target better programs and projects to benefit the poor. The establishment of the NFC-e is expected to curb tax evasion and increase revenues from sales tax. The impact of this policy change may be felt most by segment of small merchants and service providers in the retail sector,<sup>1</sup> but it is also expected to reduce the financial burden that small merchants currently face to comply with the requirements for emission of consumers' receipts, as the new solution cuts costs with specific hardware and equipment maintenance. Redistributive and pro-poor effects are expected from increased compliance with the NFC-e and increased state fiscal space as the better-off segments of the population will finance improved public services, and the higher revenues might be allocated according to existing social priorities.

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<sup>1</sup> More than 80 percent of the 34 thousand registered small businesses in the retail sector of the state are not in compliance with the tax collection system.

