

IEG ICR Review

Independent Evaluation Group

1. Project Data :		Date Posted : 04/25/2013	
Country:	Brazil		
	Is this Review for a Programmatic Series?	<input type="radio"/> Yes <input checked="" type="radio"/> No	
Series ID:			
First Project ID : P103770		Appraisal	Actual
Project Name : Alagoas Fiscal And Public Management Reform	Project Costs (US\$M):	195.45	195.45
L/C Number:	Loan/Credit (US\$M):	195.45	195.45
Sector Board : Economic Policy	Cofinancing (US\$M):		
Cofinanciers :	Board Approval Date :		12/17/2009
	Closing Date :	12/31/2011	12/31/2011
Sector(s):	Sub-national government administration (63%); Central government administration (37%)		
Theme(s):	Administrative and civil service reform (30%); Public expenditure; financial management and procurement (25%); Managing for development results (19% - S); Tax policy and administration (13% - P); Debt management and fiscal sustainability (13% - P)		
Evaluator :	Panel Reviewer :	ICR Review Coordinator :	Group:
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2. Project Objectives and Components:

a. Objectives:

The main goal of the Development Policy Loan (DPL) was to support the Government of Alagoas (GOA) in implementing significant and sustainable reforms in key areas of public administration that would enable the state to meet the larger objectives of reducing levels of poverty and achieving levels of economic growth at least comparable to other northeastern states in Brazil . The DPL was expected to assist GOA to comply with the Federal Fiscal Responsibility Law (FRL), a purpose shared by Brazil's Federal Authorities .

The DPL had four specific objectives (Loan and Program Summary, page vii of the Program Document):

- Consolidating the State's fiscal adjustment and enlarging the fiscal space for government investments;
- Enhancing the State's human resource management to rationalize personnel expenses and improve service delivery;
- Reducing the deficits generated by the social security system for civil servants; and
- Improving public sector management through better planning, budgeting, and expenditure execution cycles .

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:

There were four policy areas (the four objectives) each with prior actions for first tranche disbursement and with second tranche release conditions .

1. Consolidating Fiscal Adjustment and Creating Fiscal Space for Investment .

The prior actions included first, adoption by the borrower of a system to achieve its revenue collection targets, through the creation of an integrated database and the establishment of a remuneration schedule for staff linked to tax collection targets; and second, introduction of reform to modernize the public procurement system . Maintenance of good fiscal status under Brazil's FRL was a condition for second tranche release .

2. Improving Human Resource Management .

The prior actions focused on the introduction of reforms to strengthen staffing, remuneration and payroll practices. They included completion of a civil service staff census with implementation of remedial measures, and launching of an audit of the state payroll . Completion of the audit and implementation of remedial measures were conditions of second tranche release .

3. Reducing the Social Security Deficits .

The prior action was legal measures to restructure the social security system to gradually move to a fully funded system. This included creation of a fully funded system for staff contracted after December 31, 2006, and a pay-as-you-go (PAYG) system for staff contracted before December 31, 2006 and for military personnel. Full compliance and implementation of all pertinent social security legal provisions were conditions for second tranche release.

4. Strengthening Public Sector Management .

The prior actions were a series of measures to improve service delivery, including approval of an action plan, creation of a project management office and enactment of a law to implement the reform. Satisfactory implementation of the action plan and of the state priority programs were conditions for second tranche release .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The loan of \$195.45 million was appraised in September 2009, approved by the Board on December 17, 2009 and became effective on December 23, 2009. The loan was disbursed in two tranches and closed on December 31, 2011 as scheduled. The loan was made to the State of Alagoas with the guarantee of the Government of Brazil. The loan was for a period of 30 years with a grace period of 5 years. Foreign exchange risk was borne by the State Government of Alagoas.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

The DPL was consistent with, and closely linked to, the objectives of the Country Partnership Strategy (CPS), 2008-2011. The strategy for achieving inclusive economic growth in Brazil included sound macroeconomic management, fiscal reform, efficient public sector management, and good governance . The CPS also included support for the states and improvement in fiscal management as two of the most important areas of engagement for the Bank.

The objectives were also relevant to economic conditions in the State of Alagoas . Alagoas is one of the poorest states in Brazil with the highest poverty rate in the country, with half the population living below the poverty line . Its economic growth rate over the last decade has lagged both the regional and national averages . GOA suffered from poor fiscal management, poor policy choices and managerial inefficiency . Continuous fiscal deficits resulted in high debt that hampered the State Government 's ability to finance growth and improve the social welfare of its population . Furthermore, inefficiencies in public expenditure management contributed to poor resource allocation of public expenditures and quality of public services .

The relevance of objectives is rated **substantial** .

b. Relevance of Design:

The operation was well-designed. The policy measures supported by the project were designed to lock in reforms within the term of the prevailing administration, and were thus on a short time table . The Bank therefore

opted for a tranching operation, rather than a programmatic approach, to be able to agree on conditions for both tranches at the outset. The operation also had clear links from prior actions (e.g. a solid database and incentives to improve tax collection) to second tranche release conditions (compliance with FRL) to outcomes (increase in tax revenue).

The relevance of design is rated **substantial**.

4. Achievement of Objectives (Efficacy):

All prior actions for the release of both tranches were met. Achievements in each of the four policy areas were as follows.

1. Consolidating Fiscal Adjustment and Creating Fiscal Space for Investment

GOA maintained good fiscal status under Brazil's FRL throughout the operation, and also after the loan was closed. A main reform was the introduction of a tax collection system which allowed feedback information to flow from tax agents in charge of inspecting tax payers to those responsible for planning tax actions. This enabled increases in tax revenues, even during the 2009 crisis year. Also, all targets relating to expenditure control for 2008-2010 were achieved through setting and enforcing sectorial spending ceilings. The resulting primary surplus has created fiscal space to enable the GOA to undertake needed capital investments. There was also progress in the areas of public procurement, even if the targets set were not fully met.

Efficacy in achieving this objective is rated **high**.

2. Improving Human Resource Management

The objective was to better control payroll expenses and to introduce a human resource management system that will enhance performance of civil servants.

The State acted promptly to address the issues on payroll management and control as agreed under the DPL. A census and audit of the payroll was carried out and identified areas that require actions to curb irregular payments. However, the government opted to send the findings to the Public Prosecutor office for enforcement instead of taking administrative measures to address the problems. The Public Prosecutor Office did not act in a timely manner.

A new and comprehensive Human Resource (HR) system was expected to be developed under the DPL to improve the administration and efficiency of human resource management at the State level. The GOA decided to procure the HR system but the implementation was substantially delayed due to the bankruptcy of the selected vendor. The HR system has yet to be completed.

Because of the failures to control payroll expenditures and adopt a robust HR system, the State has limited control over the largest expenditure component of its budget. Thus far, there is no evidence of enhanced civil service performance.

Achievement of this objective is rated as **negligible**.

3. Reducing the State Social Security Deficits

In Alagoas, the cost of the civil servants retirement system has been a major source of budget imbalance. In 2008, pension payments to civil retirees amount to 28 percent of total revenues of the State. Administration of the pension system was also poor and not in compliance with the national requirement that the pension system needs to be administered by a single administration to improve efficiency and avoid abuses. The existing pension system is a pay-as-you-go (PAYG) system and creates a large fiscal liability to the State. The DPL aimed at addressing these problems and established eleven indicators to measure progress in reducing the cost of the social security system and move the social security system from the existing system to a defined contribution system. Six out of eleven indicators under this objective were achieved.

The single administrator for social security system was set up and is now operational. The crosschecking of the state pension database with federal databases was also accomplished. The GOA fulfilled all requirements to obtain the social security registration (CRP, a certificate that confirms that the state social security system is in compliance with federal rules) without judicial recourse. However, the CRP was not issued administratively.

because it required the state to drop a judicial claim against the federal government . The state also implemented new rules to calculate survivor and pension benefits, as well as to grant exemptions of the pensions' contribution, all in accordance with federal legislation. As a result, the cash deficit of the civil servants pension system was reduced as envisaged. However, the expected increase in civil servants contributions did not materialize while the ratio of pensioners and survivors to active personnel increased more than expected. It is not clear whether the targets of the corresponding indicators were inadequately defined or whether there were other factors or even inaccurate data that countervailed the positive impact of the reforms that the loan supported..

The most important long term reform to be achieved under this objective was intended to be the transition from a PAYG to a defined contribution pension system. This has been carried out on a gradual basis and applies to new civil servants hired after December 31, 2006. The pension fund for these employees shows an actuarial surplus as of R\$ 52.5 Million. Overall, however, the GOA still faces a large actuarial deficit for the system because the great majority of employees, pensioners and survivors are still under the PAYG system .

The achievement of this objective is rated as **modest**.

4. Strengthening Public Sector Management

The main goal under this objective was to address failures in the budget process and improve its efficiency . The budgetary processes in GOA were not working well in allocating budgetary resources and operational efficiency was poor. This was confirmed by a joint study between the Bank and the client . The study recommended an action plan and the establishment of a steering committee to oversee the implementation of the plan .

The Bank adopted the Public Expenditure Finance Administration (PEFA) indicators to monitor progress in this area. The State improved its budgetary process and was scored highly (A) in 2010. An Office of Studies and Projections, subordinated to the Secretary of Finance, was created in 2011 to consolidate the work on macro-fiscal programming. The definition of budgetary ceilings was applied during the budget preparation in 2010.

There was also some progress in Results Based Management and Strengthen Strategic Investments . As required under the DPL, GOA has established an office to monitor government programs to improve delivery, of government services. The results based management system includes such tools as strategic planning, budget planning and implementation, and a results monitoring and evaluation system .

The targets on the number of priority programs established and monitored intensively were achieved . The indicators on degree of achievement were nearly met .

The achievement of this objective is rated as **substantial** .

5. Efficiency (not applicable to DPLs):

6. Outcome:

The objectives of the operation were and remain substantially relevant . The DPL was also well designed . Efficacy was high in terms of fiscal adjustment, while substantial progress was also made in strengthening public sector management. On the other hand, there was only modest progress in social security reform and very little progress in improving human resource management . On balance, IEG rates the outcome of operation as **moderately satisfactory** .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The greatest risk to development outcomes relates to the human resources and social security reforms, where vested interest groups can be expected to continue to support the status quo . Yet the current government, which will be in office until 2014, remains strongly committed to reform and the Bank plans to remain engaged . Furthermore, those reforms that have been introduced are unlikely to be reserved . Therefore, the overall risk to

development outcomes is rated **moderate**.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The DPL was well prepared and based on a sound analytical framework and a good understanding of conditions in the State of Alagoas and in Brazil generally. The DPL was designed to be consistent with the overall fiscal policy framework of the country as a whole. Bank staff worked closely with the government in devising an action plan that would deliver the appropriate outcomes. However, the Bank team was overly ambitious in designing a monitoring and evaluation system that was too complex to implement for the State of Alagoas. It included 44 monitoring indicators, some of which were redundant.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

The DPL was well supervised by the Bank. There were three supervision missions and the Bank employed the same consultants in the supervision stage of the operation for the second tranche disbursement. The Bank team was pro-active and engaged with the government in pursuing the agreed reform programs. However, the pace of reform in the area of human resource management and social security reform slowed down after the second tranche release. The Bank's ability to influence the government to undertake the reform was limited after the release of the second tranche.

Quality of Supervision Rating : Moderately Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The GOA was fully committed to the objectives of the DPL and the reform programs. The inclusion of objectives and targets mandated by federal legislation reinforced its ownership. However, implementation of the reform program was constrained by the low capacity in the state government, the complex M&E system and loss of institutional memory due to frequent changes of key government staff. There was also notable difficulty in coordination among the government agencies that were involved in implementing the agreed reforms. As a result, the implementation of reform programs was not as orderly as envisaged at the time of the DPL's preparation.

Government Performance Rating : Moderately Satisfactory

b. Implementing Agency Performance:

The State Secretariat of Finance (SEFAZ) was responsible for the overall implementation of the DPL and for reporting progress and coordinating its actions with the Secretariats of Planning and Budget and Public Management. The SEFAZ was responsible for providing evidence that the first tranche conditions were met and overseeing and reporting progress towards completion of the second disbursement conditions including

tracking individual conditions and facilitating the timely contracting and /or carrying out of the studies and activities required for meeting these conditions . However, SEFAZ was not able to meet the reporting requirement on the results indicators as it suffered from limited capacity .

Implementing Agency Performance Rating : Moderately Satisfactory

Overall Borrower Performance Rating : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The DPL included an overly complex M&E system . It included 44 results indicators to monitor progress . Some of the indicators were redundant, e.g. measuring the same outcome from slightly different perspectives .

b. M&E Implementation:

While some of the indicators were well monitored, the GOA found it difficult to collect the necessary data on others, especially in the human resources and social security areas .

c. M&E Utilization:

The fact the GOA had difficulty collecting information on some of the indicators suggest that those were not being used. At the same time the shortcomings noted in these same areas are being used by the Bank to help design a follow-up operation.

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

None

b. Fiduciary Compliance:

None reported

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings :	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

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NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

IEG concurs with the ICR that the main lesson to be drawn relates to the M&E framework . A great many indicators do not make a good M&E system . Redundancy of indicators especially complicates management and wastes time . Indicators must be well understood by the client and the data sources must be readily available.

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR is well-written, clear and concise. It provides the necessary context to appreciate the importance of the operation. It describes the essence of the operation very well and is candid in its review of achievements and failures.

a. Quality of ICR Rating : Satisfactory