Document of
The World Bank

Report No: ICR00002191

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-78170)

ON A

LOAN

IN THE AMOUNT OF US$ 195.450 MILLION EQUIVALENT

TO THE

STATE OF ALAGOAS, BRAZIL

WITH THE GUARANTEE OF THE FEDERATIVE REPUBLIC OF BRAZIL

FOR AN

ALAGOAS FISCAL AND PUBLIC SECTOR REFORM DEVELOPMENT POLICY LOAN

May 8, 2012

Poverty Reduction and Economic Management
Brazil Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May, 8)

Currency Unit = Real (R$)
US$ 1.00 = R$ 1.94

FISCAL YEAR
January, 1 – December, 31

ABBREVIATIONS AND ACRONYMS

| | | |
|---|---|---|
| AMGESP | Agency for the Modernization of Process Management | Agência de Modernização da Gestão de Processos |
| CPS | Country Partnership Strategy | Estratégia de Parceria para o País |
| CRP | Social Security Regularity Certification | Certificado de Regularidade Previdenciária |
| DPL | Development Policy Loan | Empréstimo para Políticas de Desenvolvimento |
| FRL | Fiscal Responsibility Law | Lei de Responsabilidade Fiscal |
| GDP | Gross Domestic Product | Produto Interno Bruto |
| GoA | Government of Alagoas | Governo do Estado de Alagoas |
| HR | Human Resources | Recursos Humanos |
| ICR | Implementation Completion and Results Report | Relatório de Conclusão da Implantação e Resultados |
| IEG | Independent Evaluation Group | Grupo de Avaliação Independente |
| ISR | Implementation Status Report | Relatório do Status de Implantação |
| LDO | Budget Guidelines Law | Lei de Diretrizes Orçamentárias |
| LOA | Annual Budget Law | Lei Orçamentária Anual |
| PAF | Fiscal Adjustment Program | Programa de Reestruturação e Ajuste Fiscal |
| PDO | Program Development Objective | Objetivo de Desenvolvimento do Programa |
| RBM | Results-Based Management | Gestão Baseada em Resultados |
| RGPS | Pension System for the Private Sector Workers | Regime Geral de Previdência Social |
| RPPS | Pension System for the Public Sector Employee | Regime Próprio de Previdência Social |
| SEFAZ | State Secretariat of Finance | Secretaria de Estado da Fazenda |
| SEPLANDE | State Secretariat of Planning and Economic Development | Secretaria de Estado de Planejamento e Desenvolvimento Econômico |
| SEGESP | State Secretariat of Public Management | Secretaria de Estado de Gestão Pública |
| SIPREVI | Social Security Information System | Sistema de Informações da Seguridade Social |
| STN | National Treasury Secretariat | Secretaria do Tesouro Nacional |

| | |
|---|---|
| Vice President: | Hasan Tuluy |
| Country Director: | Deborah L. Wetzel |
| Sector Director: | Rodrigo A. Chaves |
| Sector Manager: | Auguste T. Kouame |
| Task Team Leader: | Pablo Fajnzylber |
| ICR Team Leader: | Rafael Barroso |

**COUNTRY**
**Project Name**

## CONTENTS

## A. Basic Information

| | | | |
|---|---|---|---|
| Country: | Brazil | Program Name: | ALAGOAS FISCAL AND PUBLIC MANAGEMENT REFORM |
| Program ID: | P103770 | L/C/TF Number(s): | IBRD-78170 |
| ICR Date: | 06/26/2012 | ICR Type: | Core ICR |
| Lending Instrument: | DPL | Borrower: | STATE GOVERNMENT OF ALAGOAS |
| Original Total Commitment: | USD 195.45M | Disbursed Amount: | USD 195.45M |
| Revised Amount: | USD 195.45M | | |

**Implementing Agencies:**
STATE SECRETARIAT OF FINANCE, PLANNING AND MANAGEMENT

**Cofinanciers and Other External Partners:**

## B. Key Dates

| Process | Date | Process | Original Date | Revised / Actual Date(s) |
|---|---|---|---|---|
| Concept Review: | 02/03/2009 | Effectiveness: | | 12/23/2009 |
| Appraisal: | 09/28/2009 | Restructuring(s): | | |
| Approval: | 12/17/2009 | Mid-term Review: | | |
| | | Closing: | 12/31/2011 | 12/31/2011 |

## C. Ratings Summary

### C.1 Performance Rating by ICR

| | |
|---|---|
| Outcomes: | Moderately Satisfactory |
| Risk to Development Outcome: | Moderate |
| Bank Performance: | Moderately Satisfactory |
| Borrower Performance: | Moderately Satisfactory |

### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

| Bank | Ratings | Borrower | Ratings |
|---|---|---|---|
| Quality at Entry: | Moderately Satisfactory | Government: | Moderately Satisfactory |
| Quality of Supervision: | Moderately Satisfactory | Implementing Agency/Agencies: | Moderately Satisfactory |
| **Overall Bank Performance:** | Moderately Satisfactory | **Overall Borrower Performance:** | Moderately Satisfactory |

| C.3 Quality at Entry and Implementation Performance Indicators | | | |
|---|---|---|---|
| **Implementation Performance** | **Indicators** | **QAG Assessments (if any)** | **Rating:** |
| Potential Problem Program at any time (Yes/No): | No | Quality at Entry (QEA): | None |
| Problem Program at any time (Yes/No): | No | Quality of Supervision (QSA): | None |
| DO rating before Closing/Inactive status: | Satisfactory | | |

| D. Sector and Theme Codes | | |
|---|---|---|
| | **Original** | **Actual** |
| **Sector Code (as % of total Bank financing)** | | |
| Central government administration | 37 | 37 |
| Sub-national government administration | 63 | 63 |
| | | |
| **Theme Code (as % of total Bank financing)** | | |
| Administrative and civil service reform | 30 | 30 |
| Debt management and fiscal sustainability | 13 | 13 |
| Managing for development results | 19 | 19 |
| Public expenditure, financial management and procurement | 25 | 25 |
| Tax policy and administration | 13 | 13 |

| E. Bank Staff | | |
|---|---|---|
| **Positions** | **At ICR** | **At Approval** |
| Vice President: | Hasan A. Tuluy | Pamela Cox |
| Country Director: | Deborah L. Wetzel | Makhtar Diop |
| Sector Manager: | Auguste Tano Kouame | Rodrigo A. Chaves |
| Program Team Leader: | Pablo Fajnzylber | Fernando Andres Blanco Cossio |
| ICR Team Leader: | Rafael Chelles Barroso | |
| ICR Primary Author: | | |

## F. Results Framework Analysis

**Program Development Objectives (from Project Appraisal Document)**

The proposed loan will support significant and sustainable reforms in key areas of public administration. These reforms would expand fiscal space for public investments. They will also allow the State to use more effectively its own resources and those transferred by the Federal Government to undertake a program of targeted capital investments and improve its management capability. Such improvements are a necessary condition for eventually meeting the high order objectives of reducing poverty levels and achieving levels of economic growth comparable to those of other states in the region. In addition, the proposed loan will help the State to comply with the Federal Fiscal Responsibility Law (FRL), a purpose shared by Brazil#s Federal Authorities.

**Revised Program Development Objectives (if any, as approved by original approving authority)**

**(a) PDO Indicator(s)**

| Indicator | Baseline Value | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
|---|---|---|---|---|
| **Indicator 1 :** | Net Consolidated Debt to Net Current Revenue ratio (FRL) | | | |
| Value (quantitative or Qualitative) | 1.97 | 1.75 | | 1.62 |
| Date achieved | 12/30/2008 | 12/30/2010 | | 12/30/2010 |
| Comments (incl. % achievement) | | | | |
| **Indicator 2 :** | Financial Debt to Net Real Revenue ratio (PAF) | | | |
| Value (quantitative or Qualitative) | 2.18 | 2.10 | | 1.91 |
| Date achieved | 12/30/2008 | 12/30/2010 | | 12/30/2010 |
| Comments (incl. % achievement) | | | | |

**(b) Intermediate Outcome Indicator(s)**

| Indicator | Baseline Value | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
|---|---|---|---|---|

## G. Ratings of Program Performance in ISRs

| No. | Date ISR Archived | DO | IP | Actual Disbursements (USD millions) |
|---|---|---|---|---|
| 1 | 05/22/2010 | Satisfactory | Satisfactory | 120.00 |
| 2 | 02/23/2011 | Satisfactory | Satisfactory | 194.96 |
| 3 | 09/06/2011 | Satisfactory | Satisfactory | 194.96 |

## H. Restructuring (if any)

Not Applicable

# 1. Program Context, Development Objectives and Design

## 1.1 Context at Appraisal

### Background

1. Located in the Northeast (NE) region, Alagoas is a small state with 27.8 thousand $km^2$ (0.3 percent of Brazil's territory), a population of 3 million inhabitants (1.5 percent of Brazilian population) and a GDP amounting to R$15.8 billion in 2006 (US$7 billion or 0.7 percent of Brazil's GDP)[1]. Public administration services and the sugarcane-ethanol cluster are the most important state economic activities.

2. Alagoas is one of the least developed states in Brazil. In 2006, its per capita GDP achieved R$5,200 (or US$2,200)[2], the third lowest in the country, only 40 percent of the national average and 80 percent of the Northeast Region average. Income inequality is extremely high with a Gini index of 0.59, one of the highest in the country (Gini for Brazil is 0.55). Low income per capita and high income inequality resulted in the highest poverty rate in the country, with 48 percent of the state population living below the poverty line (the national poverty rate is 22 percent).

3. Medium term economic and social development trends have been poor. Alagoas' economic growth rate in the 90's and 00's decades lagged behind both the regional and national averages. From 1985 to 2006 economic growth in both the NE region and for Brazil as a whole reached 2.6 percent. During the same period, the annual growth rate of the Alagoas's economy was only 1.8 percent, the lowest economic growth rate in the NE.

4. Aligned with slow GDP growth, the State has experienced for nearly two decades one of the most difficult fiscal situations in Brazil. Excessive personnel expenditures resulted in continuous fiscal deficits and high indebtedness. This, in turn, had hampered the Government of Alagoas' (GoA) ability to invest and constrained the State's capacity to provide adequate economic infrastructure and public service delivery.

5. Moreover, high levels of current expenses and lack of access to credit in the last decade have led to a strong dependence on federal capital transfers to finance investment spending. These fiscal constraints are causing a downward spiral whereby weak state capacity was leading to a reduction in the quality of public services, lower economic growth, which led to lower revenues and a more precarious fiscal equation.

### Rationale for Bank Involvement

6. The proposed operation was fully consistent with and closely linked to the objectives of the Brazil Country Partnership Strategy (CPS), 2008-2011. Sound macroeconomic management, fiscal reform, efficient public sector management, and good governance were key pillars of the CPS strategy for achieving inclusive economic growth. CPS also identified support for the states and improvement in fiscal management as two of the most important areas of Bank engagement. Furthermore, the partnership

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[1] Recent data shows that Alagoas' GDP reached R$19.1 billion in 2009 (approximately US$11.2 billion or 0.7% of Brazil's GDP)

[2] R$6,121 (or US$3,589 ) in 2009

strategy was developed in close consultation with the federal authorities, responding both to the state needs and requests by the National Treasury Secretariat (STN).

7. The proposed operation also reinforced fiscal discipline at the subnational level. As a result of a strong fiscal adjustment and good revenue performance, in 2008 Alagoas reached the FRL limit on indebtedness and met all of the targets under the Fiscal Adjustment Program (PAF) for the period 2007-09. The DPL became possible due to good fiscal performance in 2007 and 2008 opened space for new borrowing. Moreover, the loan supported measures aimed at increasing the state's ability to satisfy FRL restrictions and the requirements of the debt renegotiation contract signed with STN.

8. Lastly, by supporting one of the poorest sub-national governments in Brazil, the operation also responded to an IEG study which assessed the Bank's engagement with sub-national governments in large federal client countries. IEG recommended that the Bank deepen its involvement in the lesser developed sub-nationals to enhance operations' poverty impact, to provide the Bank with tested prototypes and to create desirable demonstration effects for the broader community of lagging states.

### 1.2 Original Program Development Objectives (PDO) and Key Indicators

9. The proposed loan will support significant and sustainable reforms in key areas of public administration. These reforms would expand fiscal space for public investments. They will also allow the State to use more effectively its own resources and those transferred by the Federal Government to undertake a program of targeted capital investments and improve its management capability. Such improvements are a necessary condition for eventually meeting the high order objectives of reducing poverty levels and achieving levels of economic growth comparable to those of other states in the region. In addition, the proposed loan will help the State to comply with the Federal Fiscal Responsibility Law (FRL), a purpose shared by Brazil's Federal Authorities.

### 1.3 Revised PDO and Key Indicators, and Reasons/Justification

10. PDO was not revised.

### 1.4 Original Policy Areas Supported by the Program (as approved)

11. The operation supported essential policy reforms and institutional strengthening actions in 10 areas within four broad components of the government program: fiscal adjustment, human resource management, social security and public sector modernization. Table 1 depicts only tranche conditions for the sake of simplicity, although the original table included benchmarks as well.

**Table 1 – Supported Policy Areas**

| **Area / Objectives** | **Challenges** | **First Tranche Conditions** (December 29th, 2009) | **Second Tranche Conditions** (June 29th, 2010) |
|---|---|---|---|
| Component 1: Consolidating the Fiscal Adjustment and Creating Fiscal Space for Investment | | | |
| **1. Fiscal Balances** Achieve long run fiscal | Maintain compliance with federal fiscal discipline legal framework | | Maintenance of good fiscal status under the Brazil's Fiscal Responsibility Law. |

| | | | |
|---|---|---|---|
| sustainability<br><br>Create fiscal space for public investments | Guarantee the generation of positive and robust fiscal balances to maintain declining path of indebtedness<br><br>Increase operating balances to finance the expansion of investment | | |
| **2. Revenues**<br>Improve tax revenue performance to support fiscal adjustment<br><br>Increase the fiscal space for investment through the increase in own resources | Modernization of State tax collection methods and systems administration<br><br>Reduction of tax Evasion<br><br>Efficiency in the recovery of tax in arrears | Adoption of a system aimed at achieving GoA's revenue collection targets through the establishment of an integrated data base (*Gestão Matricial da Receita - GMR*) to facilitate the identification of tax evasion and the establishment of a remuneration schedule for the staff at the Secretariat of Finance (SEFAZ) linked to specific tax collection targets. | |
| **3. Expenses**<br>Reduce the pressure of personnel and other recurrent expenditures on State finances<br><br>Improve State expenditure composition in favor of investment | Maintain personnel expenditures below the FRL ceiling Expand the use of modern procurement methods to generate savings in government purchases Reduce the time of Procurement processes | Introduction of a series of reforms aimed at modernizing the Borrower's public procurement system, including the implementation of an electronic price registration system for the purchasing of 635 items during 2008 and the establishment of time limits to complete each procedure under said system. | |
| Component 2: Improving Human Resource Management | | | |
| **4. Information System and Management of the Payroll**<br><br>Impose effective control over the payroll.<br><br>Assure reliability of information and its processing | Generate and maintain reliable information on public personnel – including salaries and benefits<br><br>Correct State payroll fraud and mistakes | The completion of the Census of the civil service staff and the carrying out of remedial measures, including the elimination of about 450 staff from the registry of active public servants.<br><br>Launching the audit of the state payroll including compensation for active employees and pensioners and survivors benefits which includes the contract | Completion of the payroll audit and implementation of remedial legal, administrative and accounting measures. |

| | | | |
|---|---|---|---|
| | | with the auditing firm, the approval of its working plan and first progress report confirming the conclusion of the Audit first phase. | |
| **5. Definition of a strategy for Human Resources Management**[3]<br><br>Improve civil service Performance<br><br>Improve efficiency of human resources management in the State | Define hiring priorities, internal personnel shifts and compensation policies according to Government's short and medium term needs<br><br>Review the positions' and careers' structures. | | |
| Component 3: Reducing the State Social Security Deficits | | | |
| **6. Structural and Administrative Reforms**<br><br>Improve the management framework of the State social security system (RPPS) | Centralize social security functions in only one entity<br><br>Generate and maintain reliable information on pensioners and survivors<br><br>Identify and correct fraud and irregular benefits | Approval by the State Assembly of the Law No/2009 establishing the Single Administrator (*Gestor Único*) for the Government of Alagoas's (RPPS) pension system and the restructuring of the State Social Security System directed to a gradual transition to a fully funded system, through the segmentation of participants in said system into different beneficiary groups and the establishment of corresponding funding mechanisms, including : (i) a fully-funded system (*FundoPrevidenciário*) for the civil service staff contracted after December 31. 2006; (ii) a pay as you go funding mechanism (*Fundo Financeiro*) for the civil service staff contracted before December 31, 2006; and (iii) a pay as *you go funding mechanism Fundo* | Adoption of administrative, legal and regulatory instruments required to fully implement the provisions of the Social Security Law No 7114/2009, including: (i) the issuance of the statutes of the Single Administrator, the staffing of the governing bodies and appointment of officials and key technical staff of the Single Administrator, the approval of its financing plan; (ii) the segregation of the three funding and the (iii) the capitalization of the funding of an amount of at least R$122.5 million in 2010.<br><br>Crosschecking of the information on the social security system with the National Registry of Obits (SISOBI) to identify deceased beneficiaries that are still receiving pensions and with National Registry of Social Security System |

[3] The operation did not include any tranche release condition related to component 5. It only included benchmarks as can be seen in Table 10 in the original PD. This decision reflected the team's judgment on the ambition of the proposed reforms.

| | | | |
|---|---|---|---|
| | | *dos Militares*) for the military staff. | Participants (SIPREV) and implementation of remedial legal, administrative and accounting measures.<br><br>Satisfaction of all the requirements to get the Social Security Regularity Certification (CRP) from the Federal Government. |
| **7. Parametric Reforms**<br><br>Reduce the actuarial (long run) deficit of the RPPS | Apply existing federal rules for the calculation of benefits and contributions | | Application of federal social security legislation including: (a) public sector entities should pay 100 percent of survivors benefits up to the RGPS ceiling plus 70 percent of the value that exceed this ceiling; (b) public entities should calculate pensions using the average of the 180 previous salaries before retirement and not anymore the exit salary; and (c) public entities need to use specific social security exemptions legislations to be applied to pensioners and survivors contributions in excess to the RGPS ceiling and not the legislation used by the income tax legislation |
| Component 4: Strengthening Public Sector Management | | | |
| **8. Strengthening the Process of Budget Elaboration and Execution**<br><br>Provide tools and methods for better design and implementation of government programs | Strengthen planning and budgetary institutions<br><br>Improve coordination between planning, budgeting and expenditure execution | Approval of an action plan detailing the measures required for the improvement of the Borrower's capabilities for budget formulation and financial execution, including the establishment of a task force (*Grupo Gestor*) responsible for the implementation of the action plan. | Satisfactory implementation of the Action Plan to improve planning, budgetary, financial management and internal control systems. The criteria for satisfactory implementation would be the implementation of at least 5 out of the 9 actions included in the Action Plan. |
| **9. Introduce Results Based Management and Strengthen Strategic Investments**<br><br>Provide tools to ensure that the State delivers | Avoid fragmentation of public resources<br>Improve management of public programs<br>Introduce result based management tools in government programs | Establishment and staffing of the Project Management Office at the Secretary of Planning (SEPLAN) responsible for the definition of rules governing the execution of the portfolio of priority projects and for their and their monitoring. | Satisfactory implementation of the State priority programs "Strengthening of Public Management" and "Strengthening Planning". The criteria for satisfactory implementation would be the government expenditure of at least R$5 million of committed expenditures (or 30 |

| | | | |
|---|---|---|---|
| results in an efficient and effective way | | Approval by the State Assembly of an amendment to the Multi-Year Plan 2008-11, to the Budgetary Guidelines Law (LDO) 2009-11 and to the Annual Budget Law (LOA) 2009, including the State priority programs Strengthening of Public Management and Strengthening Planning with a budget allocation of R$7.8 million and R$7.2 million, respectively. | percent of budget allocations) in these programs. |

### 1.5 Revised Policy Areas

12. Not Applicable.

### 1.6 Other significant changes

13. No significant changes were made to the DPL.

## 2. Key Factors Affecting Implementation and Outcomes

### 2.1 Program Performance

14. Overall progress in implementation of the GoA medium term strategy for the enhancement of its fiscal accounts and the improvement of public sector management was satisfactory. The reform activities planned under each of the four components progressed well and the prior actions for the release of both tranches were met.

**Table 2 –DPL actual and effective disbursement structure**

| Tranche # | Amount | Expected Release Date | Actual Release Date | Release |
|---|---|---|---|---|
| *Tranche 1* | *USD 120 million* | *12/23/2009* | *12/29/2009* | *(1) Regular* |
| *Tranche 2* | *USD 74.96 million* | *06/25/2010* | *06/29/2010* | *(1) Regular* |

## Table 3 – Results Indicator Matrix[4]

| Indicator | Baseline[5] 2008 | Target 2010 | Actual 2010 | Actual 2011 | |
|---|---|---|---|---|---|
| **Component 1: Consolidating the Fiscal Adjustment** | | | | | |
| 1.1 Fiscal Balance | | | | | |
| **Net Consolidated Debt to Net Current Revenue ratio (FRL)** | **1.97** | **1.75** | **1.62** | **1.48** | ✓ |
| **Financial Debt to Net Real Revenue ratio (PAF)[6]** | **2.18** | **2.10** | **1.91** | **1.79** | ✓ |
| Primary Balance Consolidated Public Sector (FRL) – R$ Million | 466 | 700 | 375 | 470 | **X** |
| Primary Balance Direct Administration (PAF) – R$ Million | 408 | 500 | 497 | 459 | ✓ |
| Gross Operating Balance Consolidated Public Sector – R$ Million | 736 | 800 | 1,139 | 940 | ✓ |
| Net Lending/ Borrowing Consolidated Public Sector – R$ Million | 366 | 200 | 271 | 374 | ✓ |
| 1.2 Revenues | | | | | |
| State Tax Revenue – R$ Million | 1.609 | 1,760 | 2,284 | 2,624 | ✓ |
| Real growth rate of state tax revenue - % | 6.0 | 4.5 | 10.1 | 7.8 | ✓ |
| Federal Transfers/ Net Current Revenue - %[7] | 64 | 62 | 61 | 60 | ✓ |
| Tax revenue to state GDP ratio - % | 7.4 | 7.0 | 9.2[8] | 9.7 | ✓ |
| 1.3 Expenditures | | | | | |
| Personnel Expenditure to Net Current Revenue (FRL) - % | 56 | 58 | 55 | 55 | ✓ |
| Personnel Expenditure to Net Current Revenue (PAF) - % | 59 | 60 | 50 | 55 | ✓ |

[4] PDO indicators are written in bold and the last column indicates whether the indicator was achieved or not. The operation also has two key outcome indicators listed in the loan and program summary that are slightly different from the results indicator matrix. These are primary balance/ NCR instead of the nominal value of primary balance and net operating balance/ NCR instead of the nominal value of gross operating value. The ICR team decided to report on the indicators as they are purported in the result indicator matrix.
[5] The original results indicator matrix included two baseline years: 2007 and 2008. The ICR team opted to judge the improvements against the 2008 figures. Thus, only the 2008 baseline is reported in the table.
[6] PAF stand for Adjusting and Restructuring Fiscal Plan. It is a three year rolling fiscal plan signed between the state and STN as part of the 1997-99 state debt bailout promoted by the federal government. Therefore all indicators with PAF in brackets mean that the indicator was calculated according to the PAF methodology as opposed to the ones that have FRL (Fiscal Responsibility Law) in brackets, which were calculated according to the FRL reporting standards. The main difference is the scope. FRL methodology encompasses all state government bodies and corresponding revenues (except non treasury dependent state owned companies), while PAF covers only treasury revenues such tax and transfers.
[7] The original baseline number was 54 and the target was 51. The team decided to adjust the baseline and the target since the original numbers could not be reconstructed and it seemed to the ICR team that there was a problem of scale in the numbers. Thus, based on the latest information provided, the baseline would amount to 64 in 2008, thus showing that the state dependence on transfers has in fact decreased.
[8] The 2010 and 2011 GDP figures will only be available by year end 2012 and 2013 respectively. Therefore, the ICR team estimated the state nominal GDP from the national GDP (already available from official sources) assuming that the Alagoas share in the Brazilian GDP remained the same as in 2009.

| Indicator | Baseline | Target | Actual | | |
|---|---|---|---|---|---|
| | 2008 | 2010 | 2010 | 2011 | |
| Investments - R$ Million | 370 | 500 | 847 | 558 | ✓ |
| Investment Expense to Net Current Revenue ratio Direct Administration (PAF) - % | 10 | 8.0 | 18.4 | 9.8 | ✓ |
| Items purchased through electronic price registration[9] | 653 | 1000 | N.A. | 906 | X |
| Average number of days to complete a reverse auction in AMGESP | 146 | 60 | 95 | 93 | X |
| **Component 2: Improve Human Resources Management** | | | | | |
| 2.1 Information System and Management of the payroll | | | | | |
| Number of civil servants that registered in the census | 0 | 72,000 | 68,466 | | X |
| Number of registers audited | 0 | 57,000 | 45,338 | | X |
| Savings on payroll due to elimination of irregularities - % of payroll expenditures | N.A | 5.0 | 0.1 | 0.1 | X |
| 2.2 Definition of a Strategy for Human Resources Management | | | | | |
| Work Plan Force | No | Yes | No | No | X |
| Number of staff trained | 1,600 | 24,000 | 400 | | X |
| Rate of absenteeism - % | N.A. | 20 | N.A | N.A | X |
| Compensation policy in place aligned with salaries paid in other state governments | No | Yes | No | No | X |
| Number of strike days of public servants[10] | 250 | <100 | N.A. | 42 | ✓ |
| **Component 3: Reducing the State Social Security Deficits** | | | | | |
| 3.1 Administrative Reforms | | | | | |
| Single Administrator | No | Yes | Yes | Yes | ✓ |
| Crosscheck Information with Federal Government Systems | No | Two Cross-checks | Yes | Yes | ✓ |
| CRP | No | Yes | No | No | X |
| 3.2 Parametric Reforms | | | | | |
| Cash Deficit of the RPPS – R$ Million | 451 | 600 | 568 | 456 | ✓ |
| Civil Servants Contributions to the RPPS – R$ Million | 161 | 300 | 93 | 106 | X |
| Government Contributions – R$ Million | 120 | 200 | 206 | 280 | ✓ |
| RPPS Benefits paid – R$ Million | 731 | 1,100 | 867 | 842 | ✓ |
| Pensioners + Survivors / actives - % | 45 | 45 | 55 | 62 | X |
| Benefits/Contributions - % | 190 | 150 | N.A. | N.A. | X |
| 3.3 Structural Reforms | | | | | |
| SS Fund for new participants | No | Yes | Yes | Yes | ✓ |
| Actuarial Social Security Deficit – R$ Billion | 8.9 | 8 | 14 | 16 | X |

[9] The target was intended to be 1000, not 100 as printed in the PD.
[10] The indicator reflects the number of days in which the service was not fully delivered because of unions' action and is counted on a per service basis.

| Indicator | Baseline 2008 | Target 2010 | Actual 2010 | Actual 2011 | |
|---|---|---|---|---|---|
| **Component 4: Strengthening Public Sector Management** | | | | | |
| 4.1 Strengthening the Process of Budget Elaboration and Execution | | | | | |
| Aggregate expenditure out-turn compared with original approved budget | N.A. | A or B | A | B | ✓ |
| Definition of planning competencies between central and line secretariats | N.A. | A or B | A | A | ✓ |
| Guidelines for preparation of PPA, LDO and LOA | N.A. | A or B | B | A | ✓ |
| Macro-Fiscal programming | N.A. | A or B | B | A | ✓ |
| Definition of budgetary ceilings | N.A. | A or B | B | A | ✓ |
| 4.2 Introduce Results Based Management and Strengthen Strategic Investments | | | | | |
| Investment in priority programs (R$ Million) | N.A. | 300 | 108 | 126 | **X** |
| Number of priority programs | N.A. | 18 | 22 | 22 | ✓ |
| Number of programs with intensive monitoring | N.A. | 18 | 22 | 22 | ✓ |
| Budget execution of priority programs | N.A. | 60% | 32% | 57% | **X** |

**Component 1: Consolidating the Fiscal Adjustment**

15. GoA has maintained good fiscal status under the Brazil's FRL not only during the time of the second tranche disbursement, as required by the tranche release condition, but throughout the operation and most importantly, even after the loan was closed.

16. *Fiscal Balance*. Five out of the six indicators were achieved. The primary balance for the consolidated public sector calculated according to the FRL standards was the only target missed. This however does not signal frailty of the GoA fiscal management, but rather a problem with the target set. The primary balance according to the FRL is always lower than in the PAF standard due to methodological issues. However, in the results matrix the values for primary balance targets in the LRF are greater than in the PAF. Thus, had the operation set an LRF primary balance target compatible with the corresponding PAF target the GOA would have probably achieved it.

17. *Revenue*. The main reform supported was the introduction of a fact-based analytical approach to tax inspection. It also allowed feedback information to flow from tax agents in charge of inspecting taxpayers to those responsible for planning tax actions. This approach called, GMR (*Gestão Matricial de Receitas*) allowed the State to obtain real gains in tax revenue collection, even in 2009, during the crisis, when tax revenue grew 2.5 percent in real terms. As a result, all indicators relating to this area were achieved.

18. *Expenditures*. All targets relating to expenditure control were achieved. Good revenue performance helped, but improvement in processes done by the GoA is not to be neglected also. Since 2007, the GoA adopted budget procedures that have helped to control expenditures and deliver balanced budgets. Sectoral spending ceilings have been set and enforced by the Secretariat of Finance. Increases in payroll and recurrent expenditures are decided on a collegial basis by the central secretaries and line secretaries involved with Governor participation and only when allowed by FRL limits. Expenditures are no longer canceled after the State has committed to them and obligations owed by the government are honored in due time.

19. The GoA has showed some progress on procurement reforms. The delay in government purchasing was one of the bottlenecks identified for low government efficiency. Even though the targets were not achieved, progress was reported on both indicators. The number of items purchased through electronic price registration increased from 653 to 906, while the time to complete a reverse auction decreased from 146 days in 2008 to 93 in 2011.

**Component 2: Improving Human Resources Management**

20. The objective of this component was twofold. The first one was to tackle the expenditures wastes due to poor controls on the payroll and the second was to institute an HR policy adequate to the State's needs and geared to enhance civil service performance.

21. *Information System and Management of Payroll*. The state acted promptly to address the issues on payroll management and control. A census and audit of the payroll was done. The government also acted on the audit findings by sending them to the Public Prosecutor office. All this measures were tranche release conditions and were complied by GoA. Therefore, the fact that the targets for the number of civil servants registered in the census and number of audits were missed reflect mostly poorly set targets rather than problems with government actions. On the other hand, the missed target for savings on payroll reflects a government decision to send the findings to the Public Prosecutor Office and wait for its decision, while the GoA could have taken administrative measures to curb irregular payments *pari passu*. Nevertheless, according to preliminary estimates supplied to the Bank the potential savings amounted to nearly two percent of the payroll.

22. Additionally this component foresaw the procurement of a new HR system and its implementation as first and second tranche benchmarks. After lengthy discussions, the GoA decided to procure the system instead of developing it in-house. The implementation of the new system was not as smooth as expected and to make matters worse the IT provider of the former system went bankrupt, which hindered the state of having the two systems running in parallel for a transitioning period. This problem drained a lot of resources from the GoA that could otherwise be devoted to other improvements. Currently, the state decided to have its IT company customize the new system to solve the problems identified, while at the same time it managed to have the old system operating again.

23. *Definition of a Strategy for Human Resources Management*. This component did not include any tranche release condition, but only benchmarks. They related to the establishment of an HR committee to oversee the GoA HR policy and the formulation of a workforce planning. The state made clear efforts to implement such policies. It hired consultancies to execute the workforce (WF) planning and staff training. Nonetheless, the intermediate products delivered for the workforce planning were unsatisfactory and the contract was revoked. Therefore, the target on WF was missed.

24. As part of the enhancing civil service performance and adequate HR policy, the results matrix for this area also included indicators on training, absenteeism, and strikes. The target on training was missed because the state made available "off the shelf" courses supplied by the vendor, skipping the preliminary task of defining the matrix of competencies for the State Government. Thus, out of the first 2,000 training spots made available, only 1,000 servants enrolled and even less workers – 400 servants – concluded

the training. The baseline for the indicator on absenteeism was not recorded even though the GoA provided the numbers. Nonetheless, the abovementioned problems with the HR system prevented the government to report reliable figures on this indicator. The fourth indicator was not achieved since the HR committee did not prove itself very effective. Lastly, the number of work days lost due to strikes was reduced due to the implementation of a permanent negotiating committee with the civil servants' union. The Bank will continue to support the state in the issues of training and WF planning in the next loan.

**Component 3: Reducing the State Social Security Deficits**

25. One big source of imbalance in Alagoas has been the civil servants retirement system. In order to curb the fiscal pressures arising from pensions, the DPL supported structural, administrative and parametric reforms in the social security system. Broadly speaking, the DPL required the adoption of federally mandated rules.

*26. Administrative Reforms* – The single administrator (AL Previdência) was instituted by state legislation and it is now operational. The cross-checking of the state pension database with federal databases was also accomplished, however due to IT technical problems between the two systems, as documented by the second tranche release document, only one cross-checking was possible. Lastly, the GoA fulfilled all requirements to obtain the CRP[11] without judicial recourse. Nevertheless, the CRP was not issued administratively because it required the state to drop a judicial claim against the federal government. After the second tranche disbursement, the other state powers (Legislative, Judiciary, …) refused to hand over the administration of its pension benefits to AL Previdência, which in turn led the state to lose the CRP, as shown in Table 3. Although this recourse can be extended, it is expected that all powers will reach an agreement as it has occurred in other states.

27. *Parametric reforms*. The state 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, some of the indicators under this component were not met, namely 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.

28. *Structural Reforms*. The most successful reform was the transition –on a phasing-out basis- from a pay as you go (PAYG) to a funded pension system. The State's pension fund for new employees (those hired after December 31, 2006) shows an actuarial surplus as of R$ 52.5 Million. Naturally, there is a large actuarial deficit for the system as a

[11] CRP is a certificate issued by the Federal Ministry of Social security that confirms that the state social security system is in compliance with the federal rules.

whole, but this is due to the fact that the great majority of employees, pensioners and survivors are still financed in a PAYG way. Lastly, the current figures for the actuarial deficit of the state are much larger than the baseline and the target, because the state failed to inform the deficit on comparable standards to the baseline and target.

**Component 4: Strengthening Public Sector Management**

29. The objective of this component was to address failures in the budget process that were compromising the allocative and operational efficiency of the budget. In order to do so, a Bank diagnostic and action plan was undertaken together with the client.

30. *Strengthening the Process of Budget Elaboration and Execution.* The approval of the action plan, the establishment of a steering committee to oversee the plan and the effective implementation of at least five out of nine actions were tranche release conditions for the budget area, all fulfilled by the client.

31. The Bank adopted the PEFA indicators to monitor the developments in this area. The aggregate expenditure out-turns compared with original approved budget scored A in 2010 and slightly deteriorated in 2011, scoring B. The result, however, still represents an advance relative to 2008. Through the implementation of two legal decrees (Decretos N$^{o}$. 6.582/10 and 6.581/10), the State managed to adequately define planning competencies between central and line secretariats. The state also succeeded in the formulation of guidelines for preparation of PPA, LDO and LOA. A course on planning and budget was delivered by *Fundação João Pinheiro* and manuals on the elaboration of PPA, LDO and LOA were concluded in November 2010 and submitted for approval in 2011, which led the state to score A in the second and third indicator for area 4.1.

32. Regarding Macro-Fiscal Programming, during 2010 a finance specialist was designated to work on the statistical monitoring and to formulate the State of Alagoas Fiscal Policy. The creation of an Office of Studies and Projections, subordinated to the Secretary of Finance in 2011 should begin to consolidate the work on macro-fiscal programming. The definition of budgetary ceilings was applied during the budget elaboration in 2010. The use of this tool was extended in 2011 and also applied for the PPA 2012-2015 elaboration, justifying the “A” mark in the last indicator. Currently, SEPLANDE clearly recognizes the benefits of budgetary ceilings.

33. *Introduce Results Based Management and Strengthen Strategic Investments*. This area envisaged the improvement of government service delivery through the gradual adoption of intensive monitoring in a selected set of government programs. The tranche release conditions required the establishment of an office to perform the intensive monitoring of program, the amendment of the multiannual plan to include the priority programs to be monitored as well as a satisfactory execution of it.

34. The targets on the number of priority programs established and monitored intensively were achieved. On the other hand the indicators on the execution of the priority programs, measured by the amount spent and the degree of budget execution were not achieved. In 2011, the priority programs’ budget execution reached 57 percent, nearly reaching the 60 percent target set for 2010.

35. Even though the numerical targets were not met, the monitoring of the portfolio of priority projects was substantially improved, due to the creation of the “*Diretoria de*

*Gestão Estratégica - Escritório de Projetos*" in the Secretariat of Planning, just to implement this activity. More importantly, the rationale and the know-how behind it were absorbed by the state government, signaling its sustainability.

36. In 2011, after a significant administrative reform the "*Diretoria de Gestão Estratégica*", was superseded by the "*Superintendência de Modernização da Gestão*". This office is in charge of the intensive program monitoring in the new "*Alagoas Tem Pressa*", which is the main government strategy. Moreover, the results-based management strategy was deepened, focused on the performances of the State Government, guiding the Government to achieve results and including such tools as strategic planning, budgeting planning and implementation, results monitoring and evaluation.

**2.2 Major Factors Affecting Implementation:**

37. Government commitment was strong, however changes in the secretariat and in key positions at times slowed program implementation and contributed to institutional memory loss.

38. Background analysis was sound. The design of operation tackled the critical issues. The HR component was affected the most by changes in government and external factors such as the bankruptcy of the former payroll IT provider and inability of consultants to deliver high quality outputs to the tasks contracted. Nonetheless, the component was overly optimistic in the sense that it required a very low capacity government to implement policy reforms (workforce planning) that had not been implemented in any other state in Brazil. Lastly, the risks faced by the operation were the ones identified in the preparation stage.

**2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:**

39. *M&E design*. The results indicator matrix was composed of adequate indicators to monitor progress toward the PDO in all components. Nonetheless, the number of indicators in the matrix (44) and the redundancy of some of them (Primary Balance – PAF and FRL) indicate that some indicators could have been dropped without compromising the M&E design.

40. *M&E Implementation and utilization*. The indicators that were collected properly and used more widespread were the ones already in place before the operation, such as the ones mandated by FRL and PAF. The GoA exhibited some difficulties in collecting data for other indicators especially in human resources and social security, which is evidence that the indicators were not being used in their routine decision-making process.

**2.4 Expected Next Phase/Follow-up Operation (if any):**

41. The Bank is already preparing a follow-up investment loan with the client (Alagoas Poverty Reduction and Economic Inclusion Project – PREIP – P126620). This new loan will build upon the reforms supported by this DPL to assist the government in its strategy to reduce poverty by strengthening the social programs' cadastre and maternal health initiatives. It will also continue to support public sector reforms, especially on HR. Given the low capacity of the State, a strong technical assistance component as well as intense cooperation and client support is strongly advised.

## 3. Assessment of Outcomes

### 3.1 Relevance of Objectives, Design and Implementation

42. The objective of this loan was of high overall relevance both to the state and the federal government as well as to the Bank during its appraisal and has remained so until the time of the ICR. First and foremost, Alagoas is one the poorest states in Brazil, which magnified the poverty impacts of this operation. The DPL is consistent with Brazil CPS 2008-2011 to the extent that it fostered public management efficiency and effectiveness, sought to improve quality in public expenditures and engaged in results-oriented public sector reform. It has also helped to reinforce the fiscal sustainability framework in the country, an explicit request from the federal government. Moreover, this DPL engagement also served the Bank as a learning opportunity to engage with Northeastern states using the DPL instrument. This allowed the Bank to expand its engagement with other states in the region in the 2012-2015 CPS.

### 3.2 Achievement of Program Development Objectives

43. The operation was successful in achieving most of its objectives. Fiscal space for public investment was expanded and state finances were brought into compliance with the subnational fiscal framework. Management capability was enhanced, especially in terms of administering priority projects.

44. The success of the operation can also be seen by the PDO indicators and other key outcome indicators listed. Both PDO indicators were achieved. Key indicators such as the PEFA ones and payroll expenditures in terms of NCR were also achieved. Overall, out of the 44 targets in the results matrix, 27 were achieved.

### 3.4 Justification of Overall Outcome Rating

Rating: Moderately Satisfactory

45. The operation was rated moderately satisfactory since the PDO indicators were achieved. Furthermore, other key indicators related to the operation's objective were also fulfilled as explained in the above paragraph and in section 2.1. Some shortcomings were recorded however, in the HR and social security components, although these haven't stopped the reforms to achieve most of the intended objectives.

### 3.5 Overarching Themes, Other Outcomes and Impacts

46. One noteworthy institutional change was the expansion and embracement by the governor of Results-Based Management (RBM) through the "*Alagoas Tem Pressa"* program. This program which has mirrored successful experiences in other states, especially Pernambuco, encompasses a series of priority government interventions and has benefited from the experience gained with the RBM reforms supported by the DPL.

## 4. Assessment of Risk to Development Outcome

Rating: Moderate

47. For the fiscal adjustment, the main risks are related to the sustainability of the adjustment into the next electoral cycle[12] since the state holds a long tradition of fiscal

[12] The next government elections are scheduled to take place in 2014.

profligacy and mismanagement. However, the recent case of Rio Grande do Sul[13], where the election of an opposing party reinforced the fiscal responsibility values gives a good precedent for Alagoas. Furthermore, the reformed processes implemented at SEFAZ and SEPLANDE, as well as the reaped benefits of a more sustainable fiscal situation are risk mitigating factors going forward.

48. The greatest risks to development outcomes relate to the HR and social security reforms. The public payroll exerts a great impact in the state economy so any measure that might affect the status quo is opposed by strong interest groups. This can be seen by the reluctance of the Legislative and other powers to adhere to the social security single administrator and the slow follow-up on the payroll audit.

49. The risk to development outcome is deemed moderate since the government is committed to the reforms, will be in office until 2014 and the Bank will remain engaged with the client. On the other hand, the political economy of some of the reforms may affect its sustainability.

## 5. Assessment of Bank and Borrower Performance

### 5.1 Bank Performance

**(a) Bank Performance in Ensuring Quality at Entry**

Rating: Moderately Satisfactory

50. The Bank conducted a satisfactory job in preparing the operation. Local experts were identified and employed for diagnostic work. Bank staff actively assisted the government in devising a financial structure for the operation that would derive the highest benefit for the client as well as helped the client through Bank procedures and negotiations with the National Treasury Secretariat. However, it failed to put together a suitable results matrix, which in turn led to difficulties in tracking the success of the operation. Bank performance in ensuring quality at entry is thus rated moderately satisfactory.

**(b) Quality of Supervision**

Rating: Moderately Satisfactory

51. The Bank employed the same experts in the supervision stage of the operation at least until the 2nd tranche disbursement, which allowed the Bank to guide state officials through the policy reforms supported and closely monitor the achievements. The Bank has also extended invitations for government officials to attend trainings provided by the Bank in the areas of the reforms supported. Lastly, the drawbacks faced by reforms in HR and social security after the second tranche release could have been identified before the ICR, however it is unclear whether the Bank would have had the ability to prevent them.

**(c) Justification of Rating for Overall Bank Performance**

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[13] Rio Grande do Sul and Alagoas were at project appraisal epoch, the only two states not complying with the subnational fiscal responsibility framework. They both embarked in Bank supported fiscal reforms at the same time. However, the former governor of Rio Grande do Sul was not reelected, but the reforms implemented during her tenure with Bank support were mostly maintained and some of them were even deepened such as the social security reform. More detail can be found at the Rio Grande do Sul Fiscal Sustainability for Growth DPL ICR.

Rating: Moderately Satisfactory

52. Bank performance is rated moderately satisfactory as it ensured quality at entry and during implementation for the operation. No waivers were sought for the second tranche disbursement and no major issues interfered with preparation and implementation. After second tranche disbursement, however, there were some problems in the HRM and pensions components that were not spotted in the previous ISR.

**5.2 Borrower Performance**

**(a) Government Performance**

Rating: Moderately Satisfactory

53. Government commitment to the reforms and achievement of the development objectives was undisputable. The inclusion of objectives and targets mandated by federal legislation reinforced government ownership. On the other hand, readiness for implementation was hampered by the government's low capacity and change of key government staff. The inability to internalize the operation's M&E arrangement, to report properly on the targets and the difficulty to coordinate the actions between the government agencies involved were also obstacles during implementation.

**(b) Implementing Agency or Agencies Performance**

Rating: Moderately Satisfactory

54. The State Secretariat of Finance was the implementing agency and as such showed strong commitment to the program and invested great efforts in coordinating all stakeholders involved. Nonetheless, it was not able to consolidate and evaluate the indicators of the result matrix before sending the figures to the Bank.

**(c) Justification of Rating for Overall Borrower Performance**

Rating: Moderately Satisfactory

55. The overall borrower performance was moderately satisfactory. Government and implementing agency commitment were outstanding. Shortcomings recorded were related to inter-government coordination, loss of institutional memory and internalization of M&A framework.

## 6. Lessons Learned

56. The main lesson that can be drawn from this operation is related to the adequacy of the M&E framework.

57. The main lessons are:

- Too many indicators don't necessarily imply a good M&E framework. This DPL had a total of 44 indicators in its results indicator matrix. Furthermore, several different indicators were used for key outcome indicators in the loan and program summary table, inflating the number of indicators to close to 50, which is not only difficult to manage by the Bank, but especially by low capacity clients.
- Avoid redundant indicators. The first component in the results indicator matrix had 16 indicators; however some of them were redundant like measuring the primary balance according to LRF and PAF methodology. Although, the numbers differ from each other, they both respond to the same policies and move in the same direction. The fact that one target was achieved and the other was not just reflects issues in the calibration of the target and not a failure of the reform.

- If different indicators track the same reform, use only one indicator. In the case of social security reforms, the results matrix included indicators for revenues, expenditures and deficit (both cash and actuarial). However, the same reforms could be tracked with just one indicator.
- Leave a How-to-Manual with the client to help internalize the M&E framework. This operation involved monitoring around 50 indicators, many of them were not familiar to the client. Thus, it is understandable that the client had trouble internalizing the M&E framework. The first step to reduce this problem would be to leave a document with the client – a How-to-Manual – stating step by step how to calculate the indicator, the data sources used and other methodological issues to be taken care of.

## 7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

**(a) Borrower/Implementing agencies**

**(b) Cofinanciers**

**(c) Other partners and stakeholders**
*(e.g. NGOs/private sector/civil society)*

## Annex 1 Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

| Names | Title | Unit | Responsibility/ Specialty |
|---|---|---|---|
| **Lending** | | | |
| Fernando Andres Blanco Cossio | Senior Economist | AFTP4 | |
| Marcelo Caetano | Consultant | LCSPE | |
| Regis Thomas Cunningham | Sr Financial Management Specia | LCSFM | |
| William R. Dillinger | Lead Public Sector Management | ECSP4 | |
| Raul Wagner Dos Reis Velloso | Consultant | LCSPE | |
| Jose Gil-Diaz | Consultant | AFTP1 | |
| Evelyn Levy | Consultant | EASHD | |
| Zelia Brandt de Oliveira | Program Assistant | LCC5C | |
| Chris Parel | Consultant | AFTPR | |
| Antonio Mario Rattes de Oliveira | Consultant | LCSPE | |
| Juliana Wenceslau Biriba Santos | Consultant | LCSUW | |
| Anderson Caputo Silva | Lead Securities Market Special | FCMSM | |
| Ngoc-Bich Tran | Consultant | AFTP4 | |
| Tarsila Ortenzio Velloso | Public Sector Mgmt. Spec. | LCSPS | |
| Antonio Paulo Vogel | Consultant | LCSPR | |
| Deborah L. Wetzel | Chief of Staff | EXC | |
| Luciano Wuerzius | Procurement Specialist | LCSPT | |
| **Supervision** | | | |
| Regis Thomas Cunningham | Sr Financial Management Specia | LCSFM | |
| Flavia Nahmias da Silva Gomes | Program Assistant | LCC5C | |
| Evelyn Levy | Consultant | EASHD | |
| Tatianna Guerrante Schlottfeldt | E T Temporary | LCC5C | |
| Tarsila Ortenzio Velloso | Public Sector Mgmt. Spec. | LCSPS | |
| Luciano Wuerzius | Procurement Specialist | LCSPT | |

### (b) Staff Time and Cost

| Stage | Staff Time and Cost (Bank Budget Only) | |
|---|---|---|
| | No. of staff weeks | USD Thousands (including travel and consultant costs) |
| **Lending** | | |
| **Total:** | | 0.00 |
| **Supervision/ICR** | | |
| **Total:** | | 0.00 |

## Annex 2. Beneficiary Survey Results

Not Applicable.

## Annex 3. Stakeholder Workshop Report and Results

Not Applicable.

## Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

1. The GoA has prepared the borrower's ICR and delivered it to the team during the ICR mission that took place from April, 3rd to 5th. The report was 66 pages long and had no executive summary. The World Bank team commends the state for preparing the report on a timely manner as well as for the warm reception and attention given to the team at the ICR mission.
2. The GoA reported to have obtained satisfactory results regarding fiscal consolidation, increased fiscal space for investment, public sector management strengthening, especially in HR management. It also highlights the institution of AL Previdência and the creation of a fully funded pension system as a major reform accomplished.
3. The state reported presents in detail the data sources and evidences for the accomplishment of the targets, as well as the justifications for the targets not achieved.
4. On June, 6th the Bank made a presentation through video-conference for GoA officials on the draft ICR. The intent of the presentation was to give the client the opportunity to comment on the document. The draft ICR and the presentation were shared with the client on May, 31st. The comments received are listed below.
5. Regarding the savings on payroll due to the elimination of irregularities, the GoA officials informed the Bank that the Public Prosecutor's office suspended all administrative measures that were taken by the Executive Branch. The Bank team noted however that such information was not provided at the client's ICR, neither during the ICR mission conducted in April.
6. GoA officials noted that one hindrance to align the state compensation policy with wages paid by other states was the difficulty to obtain this information from other states. The Bank team acknowledged this obstacle and remarked that such factor is registered in the client ICR as well as in the Aide-Memoire of the last mission. Furthermore, it was told that a task force has been set within the Public Management State Secretaries Forum (CONSAD), with support from *Fundação João Pinheiro* to address this issue.
7. In relation to the state social security the GoA officials reported that many civil servants have retired in the last couple years. They claimed that in 2011 more than 5,000 have retired and the expectation for 2012 is the retirement of around 3,000 servants. As for the actuarial deficit, government officials claimed that the difference between the target and the actual numbers is mainly attributable to the new criteria introduced by the firm hired in 2009 to carry out the actuarial analysis for Al Previdência.
8. Government officials expressed satisfaction with the ratings given and praised the suggestion included in the lessons learned section to leave a M&E manual with the client, in order to facilitate the absorption and production of the statistics required. The client highlighted that it was hard to reproduce the numbers since they had not documented the calculation done for the baseline and targets.

## 9. Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

Not Applicable.

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