



Board of Executive Directors

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From: The Secretary

Subject: Brazil. Loan 3061/OC-BR for the “Fiscal Stability Consolidation Program for the Economic and Social Development of the State of Alagoas (PROCONFIS-AL)”, approved pursuant to Resolution DE-145/13. Report on fulfillment of the conditions precedent to the disbursement of the second and final tranche of the loan

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Remarks: According to the provisions set in paragraph 3.21 of document AB-1378 “Seventh General Increase in the Resources of the Bank”, upon expiration of the two-week circulation period, Management will proceed to release the second tranche of loan on **11August 2014**.

Reference: AB-1378(4/89), AG-5/89, CS-3633(4/05), PR-4073(10/13), DE-145/13, CS-4065(7/14)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**FISCAL STABILITY CONSOLIDATION PROGRAM FOR THE
ECONOMIC AND SOCIAL DEVELOPMENT OF THE
STATE OF ALAGOAS
(PROCONFIS-AL)**

(BR-L1374, 3061/OC-BR)

**REPORT ON FULFILLMENT OF THE CONDITIONS PRECEDENT TO THE
RELEASE OF THE SECOND AND FINAL TRANCHE OF THE LOAN**

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BRAZIL
FISCAL STABILITY CONSOLIDATION PROGRAM FOR THE ECONOMIC AND SOCIAL
DEVELOPMENT OF THE STATE OF ALAGOAS (PROCONFIS-AL)
(BR-L1374, 3061/OC-BR)

REPORT ON FULFILLMENT OF THE CONDITIONS PRECEDENT TO THE RELEASE OF THE
SECOND AND FINAL TRANCHE OF THE LOAN

Borrower:	State of Alagoas
Executing agency:	State of Alagoas, through its Finance Department (SEFAZ/AL)
Loan contract signature date:	23 December 2013
1st tranche amount:	US\$ 87,222,625.40
2nd tranche amount:	US\$162,777,374.60
Total operation amount:	US\$250,000,000.00

I. EXECUTIVE SUMMARY

- 1.1 On 6 November 2013, the Board of Executive Directors of the Inter-American Development Bank (IDB) adopted Resolution DE-145/13, approving a US\$250 million loan operation to finance the Fiscal Stability Consolidation Program for the Economic and Social Development of the State of Alagoas – PROCONFIS-AL (BR-L1374). The modality chosen was a policy-based loan (PBL), based on the guidelines and directives set out in the document “New Lending Framework, Assessment Report and Recommendations” (document GN-2200-13) and in “Policy-Based Loans: Guidelines for Preparation and Implementation” (document CS-3633-1). The loan contract between the State of Alagoas and the Bank was signed on 23 December 2013.
- 1.2 Pursuant to the provisions contained in section OA-423.I.C of the Operations Administration Manual on Administration of Operations with Sovereign Guarantee – Policy-based Loans (OA-423), we hereby report that the State of Alagoas has fulfilled the conditions precedent to release of the second tranche of the loan, set forth in Article 4.03 of the General Conditions and in Clauses 2.02 and 2.04 of the Special Conditions of loan contract 3061/OC-BR, as described in detail in this report. The special conditions precedent to the second disbursement specified in the loan contract reflect the conditions stipulated in the loan proposal.
- 1.3 Release of the second tranche of the loan depends on fulfillment of the policy measures defined in the program’s Policy Matrix and Means of Verification ([Link 1](#)), which correspond to the special conditions precedent to the second disbursement of the loan proceeds specified in Clause 2.04 of the Special Conditions of loan contract 3061/OC-BR.
- 1.4 Release of the second tranche of the loan will require the presentation of evidence that the following policy measures have been fulfilled.

- 1.5 **Objective.** The program's general objective is to contribute to fiscal sustainability and raise the levels and quality of investment, with an emphasis on promoting tourism activity for the development of the State of Alagoas. The program's purpose is to increase the tourism sector's contribution to the Alagoas economy. To that end, it will support policy-reform actions making it possible to: (i) promote macroeconomic stability; (ii) improve the fiscal position of Alagoas by boosting its internally generated revenue and enhancing public expenditure management, thereby increasing its capacity to make future public investments; and (iii) help create an integrated planning and coordination framework across the different sectors and levels of government, as well as articulation with the private sector, to enable future investments to foster sustainable development of the state's tourism sector and thus increase capacity to create jobs and generate income.
- 1.6 The program was designed as a PBL to be disbursed in two tranches. The first tranche aims to develop the structuring policies of the proposed reforms, while the second aims to promote the implementation and/or regulation of those policies.
- 1.7 The Bank and the government have agreed that the program will be based on the structural policies of the components, for which the objectives and policy conditions to be met for release of the second tranche of the operation are detailed below:
- 1.8 **Component 1. Macroeconomic stability.** This component will support the fulfillment of Alagoas's fiscal responsibility and stability policies, through the following actions: (i) maintenance of a macroeconomic scenario in the State that is conducive to the achievement of the program's objectives; and (ii) maintenance of the State's fiscal sustainability through the fulfillment of fiscal targets I and II agreed upon with the federal government under the current Fiscal Restructuring and Adjustment Program (PAF).
- 1.9 **Component 2. Tax revenue and public expenditure.** This will involve strengthening the tax and revenue framework, as well as making public expenditure more efficient, through the following subcomponents:
 - a. **Subcomponent 2.1. Tax framework.** This subcomponent aims to increase the revenue obtained by the State of Alagoas by enhancing the process of inspection, constitution, and enforcement of tax claims. The following policy actions will be implemented to that end: (i) implementation of tax data monitoring, based on the new taxpayer compliance monitoring model; (ii) regulation, in SEFAZ/AL, of simple procedures for communication with taxpayers for whom discrepancies have been identified; (iii) creation and regulation of the Fiscal Action Management Committee in SEFAZ/AL; (iv) implementation of performance management control for officials responsible for decision-making on administrative processes (judges of first instance) in the tax administration process; (v) implementation of the agreement on targets with the systematic monitoring of ICMS revenue outcomes; and (vi) establishment of criteria and standardization of procedures

for the work of prosecutors assigned in the State General Prosecution Department (PGE) / State Tax Prosecution Department (PFE).

- b. **Subcomponent 2.2. Public expenditure quality.** This subcomponent aims to improve public expenditure management, through the following policy actions: (i) implementation of operational process standards and the monitoring system in the State Treasury Superintendency (STE); (ii) definition of the objectives and requirements for the control and management of agreements and their contracts; (iii) implementation of the public expenditure improvement program; (iv) expansion of the use of the price list system in state public procurement; and (v) implementation of procedures for recovering pension contributions from the General Social Security Regime (RGPS) in favor of the State of Alagoas pension regime.
- 1.10 **Component 3. Management of public programs and policies.** This component will include strengthening capacity to plan, set priorities and integrated targets, and monitor the results of public programs and policies for economic development, through the following subcomponents:
- a. **Subcomponent 3.1. Planning and monitoring of public programs and policies.** This subcomponent aims to improve the management of public programs and policies through the following policy actions: (i) creation of a budgetary source exclusively in the PROCONFIS-AL program; (ii) definition of the processes for monitoring and control of priority projects in the “Alagoas Tem Pressa” program; (iii) establishment of standards for preparing the multiyear plan (PPA); (iv) production and consolidation of the State’s socioeconomic data, by creating the portal; (v) implementation of standard procedures for monitoring execution of credit operations; (vi) expansion of the quality management system of the State of Alagoas Planning and Economic Development Department (SEPLANDE), to incorporate new areas of that department; and (vii) implementation of the access to information policy in the State.
 - b. **Subcomponent 3.2. Management of economic development policies.** This subcomponent includes actions selected on the basis of the three structural challenges identified in the tourism sector. In the second tranche, to ensure that future new investments arising from the improved fiscal situation can be undertaken in an appropriate strategic framework, support will be provided for implementing the Strategic Tourism Development Plan (PEDT 2013-2023), which will identify the new priority tourist areas and products. All of the above is supported by the following policy actions: (i) diagnostic of the State Tourism Statistics System and definition of the corresponding action plan; (ii) technical cooperation for developing local tourism and land management plans in three tourism municípios (excluding those in the Metropolitan Region of Maceió – RMM); (iii) preparation of a census of private firms operating in local tourism productive clusters (arranjos produtivas locais – APLs); (iv) establishment of the road sector strategy, integrated and aligned with

tourism sector development; (v) expansion of the area of action of the Alagoas Sanitation Company (CASAL) to municípios belonging to the new tourism zones (other than those in the RMM); (vi) implementation of the work plan for preparing the state's solid waste management plan (PERS); and (vii) a proposed regulation on the guarantee fund for public-private partnerships (PPPs).

II. ANALYSIS OF FULFILLMENT OF THE CONDITIONS PRECEDENT TO THE SECOND DISBURSEMENT SET FORTH IN THE GENERAL CONDITIONS OF THE LOAN CONTRACT

A. Analysis of fulfillment of the conditions precedent set forth in the General Conditions

2.1 The project team concluded that the borrower has fulfilled the conditions specified in Article 4.03 of the General Conditions of loan contract 3061/OC-BR, as described below:

2.2 **Article 4.03. Requirements for any disbursement.** For the Bank to make any disbursement:

(a) The borrower or executing agency, as the case may be, must submit a disbursement request, in writing or electronically and according to the format and conditions specified by the Bank; and it must provide the Bank with the relevant supporting documents and any other background information requested.

Condition fulfilled. The borrower submitted the disbursement request in writing for the second tranche of the loan, according to the conditions stipulated by the Bank ([Link 2](#)). The pertinent documents and other reports submitted by the borrower to the Bank have been reviewed and are considered adequate for fulfillment of the conditions precedent to the second disbursement.

(b) The borrower or executing agency, as the case may be, must have opened and maintain one or more bank accounts in a financial institution, to which the Bank will make the loan disbursements.

Condition fulfilled. The borrower has demonstrated that it has opened and maintained the bank account ([Link 3](#)), through analysis of the bank statements showing that the account is active and therefore the Bank can make the second disbursement of loan resources.

(c) Unless the Bank should decide otherwise, requests shall be presented no later than 30 days before the expiry of the original disbursement period or any extension thereto.

Condition fulfilled. The borrower submitted the disbursement request on 23 July 2014 ([Link 3](#)), which falls within the original disbursement period, as

said original disbursement period runs through 23 December 2015, in accordance with Clause 1.04 of the loan contract.

- (d) None of the circumstances described in Article 6.01 of the General Conditions may have occurred.

Condition fulfilled. The project team is not aware of any of the circumstances described in Article 6.01 of the General Conditions of the loan contract having occurred.

- (e) The guarantor, if any, shall not be more than 120 days past-due in any of its payment obligations with the Bank, in respect of any loan or guarantee.

Condition fulfilled. The project team is not aware of the guarantor being more than 120 days past-due in any of its payment obligations with the Bank, in respect of any loan or guarantee, as confirmed with the Bank's Finance Department (Treasury Division, TRY/FSV).

III. ANALYSIS OF FULFILLMENT OF THE SPECIAL CONDITIONS PRECEDENT TO THE SECOND DISBURSEMENT SET FORTH IN THE SPECIAL CONDITIONS OF LOAN CONTRACT 3061/OC-BR

- 3.1 **Clause 2.02.** In addition to the conditions precedent and requirements set forth in Article 4.03 of the General Conditions, loan disbursements are subject to fulfillment, to the Bank's satisfaction, of the following requirements specified in Clause 2.02 of the Special Conditions of loan contract 3061/OC-BR.

- (a) Maintenance of a stable macroeconomic context in the country that is conducive to achieving the program's objectives, which are consistent with the Policy Letter, pursuant to Clause 3.01 of the Special Conditions

Condition fulfilled. The Independent Assessment of Macroeconomic Conditions (IAMC)¹ prepared by the Bank (see paragraph 3.3).

- (b) Fulfillment of the conditions set forth in the Special Conditions for release of the corresponding loan tranche.

Condition fulfilled. The Bank verified fulfillment of all the special conditions precedent for the second disbursement of the loan, and considers them to have been fulfilled in their entirety, as described in Section III of the present document.

- (c) Maintenance of the special account in which the Bank will deposit the loan proceeds, mentioned in Article 4.01(c) of the General Conditions.

¹ In line with document AB-2990, approved by the Board of Governors of the Bank on 2 June 2014, the recommendations of which entered into force on 1 July 2014, this disbursement is supported by an Independent Assessment of Macroeconomic Conditions (IAMC). The IAMC replaced the Independent Macroeconomic Assessment (IMA) mentioned in the loan proposal approved by the Board of Executive Directors on 6 November 2013.

Condition fulfilled. The borrower demonstrated, through the bank statement, the existence of the special account designated for the deposit of the loan proceeds, indicating the number, branch, bank, and account holder ([Link 3](#)).

- (d) Continuity in fulfilling the policy measures applicable to tranches already released.

Condition fulfilled. The project team has verified the fulfillment of the policy measures that represented continuity in the policies applicable to the tranche already released and considers them met in full, as described in the analysis of fulfillment of Clause 2.04.

- 3.2 **Clause 2.04.** The project team concluded that the borrower has fulfilled the special conditions precedent to the second disbursement defined in Clause 2.04 of the Special Conditions of loan contract 3061/OC-BR, as described below:

A. Macroeconomic stability and fiscal sustainability

- 3.3 **Clause 2.04 (a)(i).** Maintenance of a macroeconomic scenario in the State that is conducive to achieving the program's objectives.

Means of verification. Independent Assessment of Macroeconomic Conditions (IAMC) prepared by the Bank (see footnote 1).

Condition fulfilled. According to the IAMC prepared by the Bank on 1 July 2014.

- 3.4 **Clause 2.04 (a)(ii).** Maintenance of the State's fiscal sustainability through the fulfillment of fiscal targets I and II agreed upon with the federal government under the current PAF.

Means of verification. Latest Special Report of the National Treasury Department (STN), complemented by the management report of the State Finance Department for the months not covered by the STN report, and considering the same information.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through a report issued by SEFAZ/AL reporting the fulfillment of fiscal targets I and II of the current PAF ([Link 4](#)).

B. Tax revenue and public expenditure

1. Tax framework

- 3.5 **Clause 2.04 (b)(A)(i).** Implementation of tax data monitoring based on the new taxpayer compliance monitoring model.

Means of verification 1. SEFAZ/AL Operating Instruction making it compulsory to justify the selection of taxpayers for the fiscal planning stage, posted on the SEFAZ/AL intranet.

Means of verification 2. SEFAZ/AL report on the first four months of 2013, identifying the number of taxpayers subject to tax data monitoring procedures and the number of taxpayers for whom discrepancies were identified.

Condition fulfilled. According to the minutes of the meeting of the Tax Data Monitoring Committee held on 23 May 2013, which referred to the meeting held between the Ministry of Finance and the various superintendents ([Link 5](#)), the borrower demonstrated fulfillment of these conditions through technical notes on the implementation and monitoring of tax data ([Link 6](#), [Link 7](#), [Link 8](#)). In addition, we received consolidated reports of the analysis of evidence issued by SEFAZ/AL ([Link 9](#), [Link 10](#), [Link 11](#), [Link 12](#) and [Link 13](#)), and Operating Instruction IO-0090 dated 3 June 2014, on the selection of taxpayers for the planning of fiscal action, which was presented and posted on the SEFAZ website on 6 June 2014 ([Link 14](#) and [Link 15](#)), and IO-0088 dated 1 October 2014, which addresses the fiscal procedures and actions envisaged ([Link 16](#)).

- 3.6 **Clause 2.04 (b)(A)(ii).** Regulation in SEFAZ/AL of simple procedures for communication with taxpayers for whom discrepancies have been identified.

Means of verification. SEFAZ/AL Regulatory Instruction, published in the Official State Gazette (DOE).

Condition fulfilled. The borrower demonstrated fulfillment of this condition through Decree 33.859 of 18 June 2014 on the simple procedures for communication with taxpayers for whom discrepancies have been identified, which were published in the DOE on 20 June 2014 ([Link 17](#)) and through SEFAZ/AL Regulatory Instruction 12/2014, which was published in the DOE on 23 June 2014 ([Link 18](#)).

- 3.7 **Clause 2.04 (b)(A)(iii).** Creation and regulation of the Fiscal Action Management Committee in SEFAZ/AL.

Means of verification. SEFAZ/AL Ordinance (“Portaria”) creating and regulating the Fiscal Action Management Committee, published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through Ordinance 371 of 4 October 2013, which was published in the DOE of 7 October 2013, Ordinance 164 of 11 June 2014 ([Link 19](#)), which was published in the DOE of 12 June 2014) ([Link 20](#)) and resolutions authorizing the creation and regulation of the Management Committee with technical status, published in the DOE of 7 October 2013 ([Link 21](#) and [Link 22](#)).

- 3.8 **Clause 2.04 (b)(A)(iv).** Implementation of performance management control for officials responsible for decision-making in administrative processes (judges of first instance) in the tax administrative process.

Means of verification. SEFAZ/AL Operating Instruction defining report templates for the performance management control of officials responsible for decision-making in administrative processes (judges of first instance) in the tax administration process, posted on the SEFAZ/AL intranet.

Condition fulfilled. Through Technical Note 001/2014-CJ-SEFAZ/AL dated 12 June 2014, the borrower notified the Bank of the measures adopted in the

coordination unit ([Link 23](#)), which were made official through Operating Instruction IO-0087 dated 11 June 2014 ([Link 24](#)).

- 3.9 **Clause 2.04 (b)(A)(v).** Implementation of the agreement on targets with systematic monitoring of ICMS revenue results.

Means of verification. Monthly ICMS revenue monitoring report, by segment, produced by SEFAZ/AL.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through technical notes addressing the following: (i) standardization of inspection and establishment of the tax claim at the state level, prepared by the Director of Tax Data Analysis and Monitoring (DAMIF) ([Link 25](#)); and (ii) implementation of the targets agreement and review of the results of ICMS revenue monitoring by segment, of June 2014 ([Link 26](#)). In addition, presentations made by SEFAZ/AL on the following were attached: (i) the monthly meeting to review results ([Link 27](#)); and results-based management and matrix management of revenues ([Link 28](#)). The monthly reports by segment that underlie this means of verification were presented in due time and manner: (i) economic analysis of ICMS revenue ([Link 29](#)); (ii) report on the analysis of discrepancies ([Link 30](#) and [Link 31](#)); and (iii) analysis of ICMS revenue by economic sector ([Link 32](#) and [Link 33](#)).

- 3.10 **Clause 2.04 (b)(A)(vi).** Establishment of criteria and standardization of procedures for the work of prosecutors assigned in the PGE/PFE.

Means of verification. PGE/PFE Ordinance, defining criteria for standardizing procedures for the work of prosecutors assigned in the PGE/PFE, published in the DOE.

Condition fulfilled. According to PGE/PFE Ordinance 102, published in the DOE of 13 June 2014, criteria are defined for standardizing procedures for the work of prosecutors assigned in the PGE/PFE ([Link 34](#)).

2. Public expenditure quality

- 3.11 **Clause 2.04 (b)(B)(i).** Implementation of operational process standards and the monitoring system in the STE.

Means of verification. SEFAZ/AL Operating Instruction for implementation of the three operational process standards, posted on the SEFAZ/AL intranet.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through Technical Note 003/2014 of 18 June 2014, addressed to the Bank, reporting the history of implementation of operational process standards and the monitoring system in the STE, together with publication of the following Operating Instructions ([Link 35](#)) defining procedures for: (i) standardizing documentation relating to processes for signing and monitoring the execution of agreements ([Link 36](#)); (ii) analyzing the accounting forms in respect of payments made by the management units (UG) ([Link 37](#)); (iii) making payments ([Link 38](#));

- transferring additional costs and financial resources ([Link 39](#)); and personnel management and assistance to municípios ([Link 40](#)).
- 3.12 **Clause 2.04 (b)(B)(ii).** Definition of the objectives and requirements for the control and management of agreements and their contracts.
- Means of verification. Report of the Joint Commission with the objectives and requirements for control and management of agreements and their contracts.
- Condition fulfilled. The borrower demonstrated fulfillment of this condition by submitting the report of the special commission on the preparation of terms of reference for obtaining management system agreements ([Link 41](#)).
- 3.13 **Clause 2.04 (b)(B)(iii).** Implementation of the public expenditure improvement program.
- Means of verification. Report of the Management Process Modernization Agency (AMGESP) on the contracts reviewed in 2013 and recommendations arising, in at least one type of service, validated by the Public Expenditure Improvement Program Management Committee.
- Condition fulfilled. The borrower demonstrated fulfillment of this condition through the minutes of the meeting of the Public Expenditure Improvement Program Management Committee held on 26 June 2014 ([Link 42](#)). It also presented the technical note on public expenditure management ([Link 43](#)), which provides guidelines for the procurement of services. On 31 March 2014, the State of Alagoas submitted a report summarizing expenses relating to services contracted, which calls for their reduction ([Link 44](#) and [Link 45](#)). The DOE of 3 September 2013 published Decree 27.853 indicating that expenditure reductions will be covered with ordinary resources of the State Treasury ([Link 46](#) and [Link 47](#)). In addition, as part of the means of verification, the borrower is also providing information for each service: (i) energy ([Link 48](#), [Link 49](#), [Link 50](#), [Link 51](#), [Link 52](#), [Link 53](#) and [Link 54](#)); (ii) sanitation ([Link 55](#) and [Link 56](#)); (iii) telephony ([Link 57](#)); and (iv) administrative services ([Link 58](#)).
- 3.14 **Clause 2.04 (b)(B)(iv).** Expansion of the use of the price list system in state public procurement.
- Means of verification. Price lists published in the first half of 2013, complemented by the AMGESP report of the analysis of supply authorizations.
- Condition fulfilled. The borrower demonstrated fulfillment of this condition through a technical note dated 16 June 2014, on the optimization of public expenditures through the use of price lists ([Link 59](#)) and a detailed record of expenses per month ([Link 60](#)). The price lists are also published in the DOE ([Link 61](#), [Link 62](#), [Link 63](#) and [Link 64](#)).
- 3.15 **Clause 2.04 (b)(B)(v).** Implementation of procedures for recovering pension contributions from the RGPS in favor of the State of Alagoas Pension System.

Means of verification. Report of the State of Alagoas Civil Servants Pension Institute (Alagoas Previdência) indicating the increase in the amount recovered.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through the report of the State of Alagoas Civil Servant Pension Institute, Alagoas Previdência, dated 28 February 2014, on financial compensation to the State of Alagoas Pension Fund, containing the summary of activities in 2013 ([Link 65](#)).

C. Management of public programs and policies

1. Planning and monitoring of public programs and policies

- 3.16 **Clause 2.04 (c)(A)(i).** Creation of a budgetary source exclusively for the PROCONFIS-AL program.

Means of verification. Annual Budget Law that includes a budget source exclusively for the program, published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through the Annual Budget Law (Law 7.579) of 27 January 2014 ([Link 66](#)), which was duly published in the DOE of 30 January 2014.

- 3.17 **Clause 2.04 (c)(A)(ii).** Definition of processes for the monitoring and control of priority projects in the “Alagoas Tem Pressa” program.

Means of verification. Ordinance of the State Economic Development and Planning Department (SEPLANDE), instituting the process for monitoring and control of the “Alagoas Tem Pressa” program, published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition by presenting the following manuals of the “Alagoas Tem Pressa” program: (i) operational management manual ([Link 67](#)); (ii) personnel management manual ([Link 68](#)); and (iii) quality management system manual ([Link 69](#)). The borrower also demonstrated fulfillment of this condition through SEPLANDE Regulatory Instruction 03 dated 10 June 2014, which was published in the DOE on 11 June 2014 ([Link 70](#)).

- 3.18 **Clause 2.04 (c)(A)(iii).** Establishment of standards for preparing the Multiyear Plan (PPA).

Means of verification. SEPLANDE Regulatory Instruction formalizing the manual for preparing the PPA, published in the DOE.

Condition fulfilled. SEPLANDE demonstrated fulfillment of this condition by presenting SEPLANDE Regulatory Instruction 02 dated 12 April 2013, which was published in the DOE on 23 April 2013 ([Link 71](#)).

- 3.19 **Clause 2.04 (c)(A)(iv).** Production and consolidation of the State’s socioeconomic data by creating the portal.

Means of verification. Consultancy report attesting to the production and consolidation of State socioeconomic data, by creating a portal.

Condition fulfilled. The borrower demonstrated fulfillment of this condition by presenting the consultancy report dated 27 June 2014, with screenshots describing the creation of the portal ([Link 72](#)).

- 3.20 **Clause 2.04 (c)(A)(v).** Implementation of standard procedures for monitoring execution of credit operations.

Means of verification. SEPLANDE Ordinance instituting the manual for monitoring the execution of credit operations, published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through SEPLANDE Regulatory Instruction 02 of 10 June 2014 published in the DOE on 11 June 2014 ([Link 73](#)). The borrower also presented the following management manuals: (i) administrative ([Link 74](#)); (ii) customer management ([Link 75](#)); (iii) finance and budget ([Link 76](#)); (iv) information and knowledge ([Link 77](#)); (v) operational management and economic development ([Link 78](#)); (vi) planning and budget ([Link 79](#)); (vii) personnel management ([Link 80](#)); and (viii) quality management system ([Link 81](#)).

- 3.21 **Clause 2.04 (c)(A)(vi).** Expansion of the SEPLANDE/AL quality management system, to incorporate new areas of that department.

Means of verification. Certified by the NBR ISO 9001:2008 standard, including the incorporation of at least one new SEPLANDE area.

Condition fulfilled. The borrower demonstrated fulfillment of this condition by presenting the NBR ISO 9001:2008 quality management system certificate ([Link 82](#) and [Link 83](#)).

- 3.22 **Clause 2.04 (c)(A)(vii).** Implementation of the access to information policy in the State.

Means of verification. Ordinance issued by the Office of the Comptroller General of the State of Alagoas, instituting guidelines for implementing the Citizen Information Service (SIC), published in the DOE.

Condition fulfilled. The State of Alagoas Comptroller General's Office, presented the guide for implementing the Citizen Information Service (SIC) ([Link 84](#)), which was approved through Ordinance 03/2014 and published in the DOE of 24 February 2014 ([Link 85](#)).

2. Management of economic development policies

- 3.23 **Clause 2.04 (c)(B)(i).** Diagnostic of the State Tourism Statistics System and definition of the corresponding action plan.

Means of verification. Report of the Tourism Department (SETUR), containing the action plan for improving the State Tourism Statistics System, developed on the basis of international recommendations.

Condition fulfilled. Fulfillment of this condition was demonstrated through the presentation by SETUR of the action plan to improve the State Tourism Statistics

- System ([Link 86](#)), based on the consultancy report containing a diagnostic of the State Tourism Statistics System ([Link 87](#)).
- 3.24 **Clause 2.04 (c)(B)(ii).** Technical cooperation for developing tourism and land management plans in three tourist municípios (excluding those in the metropolitan region of Maceió—RMM).
- Means of verification. Technical cooperation agreements between SETUR and three tourist municípios (excluding those in the RMM), to develop their respective land and tourism management plans, aligned with the State Tourism Plan.
- Condition fulfilled. The borrower demonstrated fulfillment of this condition by presenting technical cooperation agreements with the following municípios: (i) Penedo ([Link 88](#)); (ii) Barra de Santo Antônio ([Link 89](#)); and (iii) Barra de São Miguel ([Link 90](#)).
- 3.25 **Clause 2.04 (c)(B)(iii).** Preparation of a census of private firms operating in tourism productive clusters.
- Means of verification. SETUR technical note containing the survey of private sector participation in tourism clusters.
- Condition fulfilled. On 30 May 2014, SETUR presented the technical note on the survey of private sector participation in tourism clusters ([Link 91](#)) and, as support, it also presented information containing the map of tourism firms in the following regions: (i) São Francisco ([Link 92](#)); (ii) Lagos e Mares do Sul ([Link 93](#)); (iii) Costa dos Corais ([Link 94](#)); and Arapiraca ([Link 95](#)).
- 3.26 **Clause 2.04 (c)(B)(iv).** Establishment of the road sector strategy integrated and aligned with tourism sector development.
- Means of verification. Ordinance issued by the State Infrastructure Department, instituting the sector strategy, published in the DOE, including: (a) the road building projects prioritization strategy; (b) the multiyear road maintenance strategy; and (c) strategies to prioritize and coordinate road safety actions.
- Condition fulfilled. The borrower demonstrated fulfillment of this condition through Ordinance 426/2014 published in the DOE of 30 June 2014 ([Link 96](#)).
- 3.27 **Clause 2.04 (c)(B)(v).** Expansion of the CASAL area of action to encompass municípios belonging to the new tourist zones (excluding RMM municípios).
- Means of verification. Decision by the CASAL Board of Directors approving the intervention strategy in the tourist municípios of Alagoas, published in the DOE.
- Condition fulfilled. According to Resolution 04/2013 of the Board of Directors of the Alagoas Sanitation Company, this condition was approved ([Link 97](#)), as published in the DOE of 19 September 2013 ([Link 98](#)).
- 3.28 **Clause 2.04 (c)(B)(vi).** Implementation of the work plan for preparing the state's solid waste plan.

Means of verification. Invitation to public tender for contracting the firm responsible for preparing the plan, published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through the following documents: (i) authorization of the bidding procedure for the competitive tender for contracting the firm responsible for preparing the plan, which was published in the DOE of 20 September 2013 ([Link 99](#)); (ii) initial Ordinance issued by the office of the Environment and Water Resources Department (SEMARH) dated 31 October 2013 ([Link 100](#)) published in the DOE of 1 November 2013 ([Link 101](#)); and (iii) Contract 011/2013 signed between the SEMARH and the firm responsible for preparing the plan, on 30 October 2013, published in the DOE of 31 October 2013 ([Link 102](#)).

- 3.29 **Clause 2.04 (c)(B)(vii).** Proposed regulation on the guarantee fund for public-private partnerships (PPPs).

Means of verification. Draft law regulating the PPP guarantee fund, sent to the State Legislative Assembly and its abstract published in the DOE.

Condition fulfilled. The borrower demonstrated fulfillment of this condition through publication in the DOE of the Draft State Law submitted to the State Legislative Assembly via Message No. 26 from the Governor of the State of Alagoas, dated 4 June 2013, a summary of which was published in the DOE on 5 June 2013 ([Link 103](#)).

IV. RECOMMENDATIONS

- 4.1 Having analyzed the documentation submitted by the borrower to the Bank in support of its request for the release of the second tranche of loan 3061/OC-BR, the project team considers that the conditions precedent to all disbursements of the loan proceeds, set forth in Clause 2.02 of the Special Conditions of the loan contract, have been fulfilled, along with the special conditions precedent to release of the second tranche of the loan, set forth in Clause 2.04 of the Special Conditions of the loan contract signed by the borrower and the Bank on 23 December 2013. The project team also analyzed the documentation presented by the borrower to the Bank, and considered the conditions set forth in Article 4.03 of the General Conditions to have been fulfilled. Accordingly, approval of the release of the second tranche of the loan is recommended, pursuant to the provisions and authority defined in the Operations Administration Manual on Administration of Operations with Sovereign Guarantee – Policy-based Loans (OA-423.I.C).

ELECTRONIC LINKS DOCUMENTED IN THIS REPORT

Link 1	Policy Matrix and Means of Verification.
Link 2	Request for disbursement of the second tranche of the loan
Link 3	Proof that the special bank account has been opened and maintained
Link 4	SEFAZ/AL report notifying the fulfillment of fiscal targets I and II of the PAF.
Link 5	Minutes of the meeting of the Tax Data Monitoring Committee, dated 23 May 2013.
Link 6	Technical Note on the implementation and monitoring of tax data, of September 2012.
Link 7 Link 8	Technical Notes on the implementation and monitoring of tax data, both of June 2014.
Link 9 Link 10 Link 11 Link 12 Link 13	SEFAZ/AL reports consolidating evidence analyses.
Link 14	Operating Instruction IO-0090 dated 3 June 2014, on the selection of taxpayers for the planning of fiscal action.
Link 15	Publication of Operating Instruction IO-0090 on the SEFAZ website on 6 June 2014.
Link 16	Operating Instruction IO-0088 dated 1 October 2014, on fiscal action procedures.
Link 17	Decree 33.859 of 18 June 2014 on the simple procedures for communication with taxpayers for whom discrepancies have been detected.
Link 18	SEFAZ/AL Regulatory Instruction 12/2014, published in the DOE of 23 June 2014.
Link 19	Ordinance 371 of 4 October 2013.
Link 20	Publication in the DOE of Ordinance 371 of 4 October 2013.
Link 21	Resolutions authorizing the creation and regulation of the Management Committee with technical status.
Link 22	Publication of resolutions authorizing the creation and regulation of the Management Committee with technical status.
Link 23	Technical Note 001/2014-CJ-SEFAZ/AL dated 12 June 2014
Link 24	Officialization of Technical Note 001/2014-CJ-SEFAZ/AL through Operating Instruction IO-0087 dated 11 June 2014.
Link 25	Technical Note on the standardization of inspection and constitution of the tax claim.
Link 26	Technical Note on the implementation of the agreement on targets and review of the results of monitoring of ICMS revenue by segment, of June 2014.
Link 27	SEFAZ/AL presentations on the monthly meeting to review results.
Link 28	SEFAZ/AL presentations on results-based management and matrix management of revenues.
Link 29	Monthly report by segment on the economic analysis of ICMS revenue.
Link 30 Link 31	Monthly reports by segment on the analysis of discrepancies.
Link 32 Link 33	Monthly reports by segment on the analysis of ICMS revenue by economic sector.
Link 34	PGE/PFE Ordinance 102, published in the DOE of 13 June 2014.
Link 35	Technical Note 003/2014 of 18 June 2014.
Link 36	Operating Instruction defining the procedure for standardizing documentation in processes for signing and monitoring the execution of agreements.

Link 37	Operating Instruction defining the procedure for the analysis of spreadsheets for payments made by the management units (UGs).
Link 38	Operating Instruction defining procedures for making payments.
Link 39	Operating Instruction defining the procedure for transferring additional costs and financial resources.
Link 40	Operating Instruction defining the procedure for personnel management and assistance to municípios.
Link 41	Report of the special commission on the preparation of terms of reference to obtain management system agreements.
Link 42	Minutes of the meeting of the Public Expenditure Improvement Program Management Committee, of 26 June 2014.
Link 43	Technical Note on public expenditure management.
Link 44 Link 45	Reports of the State of Alagoas presented on 31 March 2014, summarizing expenses incurred on contracted services.
Link 46	Decree 27.853 indicating that expenditure reductions will be covered with ordinary resources from the State Treasury.
Link 47	Publication of Decree 27.853 in the DOE of 3 September 2013.
Link 48 Link 49 Link 50 Link 51 Link 52 Link 53 Link 54	Information on expenditure incurred by the State of Alagoas on energy.
Link 55 Link 56	Information on expenditure incurred by the State of Alagoas on sanitation.
Link 57	Information on expenditure incurred by the State of Alagoas on telephony.
Link 58	Information on expenditure incurred by the State of Alagoas on administrative services.
Link 59	Technical Note dated 16 June 2014, on the optimization of public expenditure through the use of price lists.
Link 60	Breakdown of expenditure of the State of Alagoas, by month.
Link 61 Link 62 Link 63 Link 64	Price lists published in the DOE.
Link 65	Report of the State of Alagoas Civil Servant Pensions Institute, Alagoas Previdência, dated 28 February 2014.
Link 66	Law 7.579, of 27 January 2014 on the annual budget.
Link 67	Operational management manual of the “Alagoas Tem Pressa” program.
Link 68	Personnel management manual of the “Alagoas Tem Pressa” program
Link 69	Quality management system manual of the “Alagoas Tem Pressa” program.
Link 70	SEPLANDE Regulatory Instruction 03 of 10 June 2014, published in the DOE of 11 June 2014.
Link 71	SEPLANDE Regulatory Instruction 02 of 12 April 2013, published in the DOE of 23 April 2013.
Link 72	Consultancy report with screenshots describing the creation of the portal.

Link 73	SEPLANDE Regulatory Instruction 02 of 10 June 2014, published in the DOE of 11 June 2014.
Link 74	Administrative management manual.
Link 75	Customer management manual.
Link 76	Financial and budgetary management manual.
Link 77	Information and knowledge management manual.
Link 78	Operational management and economic development manual.
Link 79	Planning and budget management manual.
Link 80	Personnel management manual.
Link 81	Quality management system manual.
Link 82 Link 83	Quality management system certificates NBR ISO 9001:2008.
Link 84	Guide to the implementation of the Citizen Information Service (SIC) of the State of Alagoas Comptroller General's Office.
Link 85	Ordinance 03/2014 published in the DOE of 24 February 2014.
Link 86	Plan of action to improve the SETUR State Tourism Statistics System.
Link 87	Consultancy report containing a diagnostic on the State Tourism Statistics System.
Link 88	Technical cooperation agreement for the município of Penedo.
Link 89	Technical cooperation agreement for the município of Barra de Santo Antônio.
Link 90	Technical cooperation agreement for the município of Barra de São Miguel.
Link 91	Technical Note on the SETUR survey of private sector participation in local tourism clusters, 30 May 2014.
Link 92	Map of tourism firms presented by SETUR for the São Francisco region.
Link 93	Map of tourism firms presented by SETUR for the Lagos e Mares do Sul region.
Link 94	Map of tourism firms presented by SETUR for the Costa dos Corais region.
Link 95	Map of tourism firms presented by SETUR for the Arapiraca region.
Link 96	Ordinance 426/2014 published in the DOE of 30 June 2014.
Link 97	Resolution 04/2013 of the CASAL Board of Directors.
Link 98	Publication of Resolution 04/2013 of the CASAL Board of Directors in the DOE of 19 September 2013.
Link 99	Publication in the DOE of authorization of the bidding procedure in the competitive tender for contracting the firm responsible for preparing the solid waste plan, of 20 September 2013.
Link 100	Initial Ordinance of the Office of the Environment and Water Resources Department (SEMARH), dated 31 October 2013.
Link 101	Publication in the DOE of the initial Ordinance of the SEMARH office, on 1 November 2013.
Link 102	Publication in the DOE dated 31 October 2013 of Contract 011/2013 signed between SEMARH and the firm contracted to prepare the solid waste plan, 30 October 2013.
Link 103	Publication in the DOE of 5 June 2013 of the Draft State Law sent to the State Legislative Assembly via Message No. 26 of the Governor of Alagoas of 4 June 2013.