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BRAZIL

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

(BR-L1374)

LOAN PROPOSAL

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1.	Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38184795
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3.	Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37728344
OPTIONAL	
1.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720850
2.	Program economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37727692
3.	Estimate of the state's GDP http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720787
4.	Alagoas in figures (2012 Report) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720661
5.	Input-output matrix of the states of the Northeast region http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37719559
6.	<i>Reform Priorities for Subnational Revenues in Brazil</i> (IDB Document 2012) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720704
7.	<i>The Political Economy of Fiscal Reform in Brazil</i> (IDB Document 2010) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720686
8.	Evaluation of the structure and performance of the Brazilian tax system (IDB Document 2013) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720737
9.	Technical note on State Treasury Superintendency (STE) standardization procedures http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720825
10.	Technical note on inspection procedures http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720803
11.	Tax efficiency of the states http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720680
12.	Technical note on public expenditure management http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720817
13.	Technical note on government procurement http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720833

14. The “*Alagoas Tem Pressa*” program
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37728056>
15. Diagnostic of the tourism sector in Alagoas. April 2013
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720249>
16. Report on the road transportation infrastructure sector. April 2013
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720246>
17. Status of sanitation services in Alagoas. March 2013
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720244>
18. Evaluation of the Northeast Region Tourism Development Program (PRODETUR Nordeste)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37719555>
19. Alagoas debt sustainability analysis
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37720510>
20. Strategic Tourism Development Plan in Alagoas
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21. Fiscal Restructuring and Adjustment Program in the State of Alagoas (2011-2013)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38164656>

ABBREVIATIONS

AL	State of Alagoas
FPE	Fundo de Participação dos Estados [States Revenue Sharing Fund]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre Circulação de Mercadorias e Prestação de Serviços [Goods and services sales tax]
INSS	Instituto Nacional de Segurança Social [National Social Security Institute]
IPCA	Índice de Preços ao Consumidor Amplo [Expanded consumer price index] (official inflation)
IPEA	Instituto de Pesquisa Económica Aplicada [Institute of Applied Economic Research]
NE	Northeast region
PBL	Policy-based loan
PDITS	Plano de Desenvolvimento Integrado do Turismo Sustentável [Integrated Sustainable Tourism Development Plan]
PEDT	Plano Estratégico de Desenvolvimento Turístico [Strategic Tourism Development Plan]
PPA	Plano Plurianual [Multiyear plan]
PPP	Public-private partnership
PRODETUR/NE	Northeast Region Tourism Development Program
PROFISCO	Program to Support the Management and Integration of Tax Administrations in Brazil
R\$	Brazilian reais
RMM	Região Metropolitana de Maceió [metropolitan region of Maceió]
SEFAZ/AL	Secretaria da Fazenda do Estado de Alagoas [Alagoas State Finance Department]
SEPLANDE	Secretaria de Estado do Planejamento e do Desenvolvimento Econômico do Estado de Alagoas [Alagoas State Planning and Economic Development Department]
SETUR	Secretaria de Turismo [State Tourism Department]

PROJECT SUMMARY

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

Financial Terms and Conditions					
Borrower: State of Alagoas Guarantor: Federative Republic of Brazil Executing agency: State of Alagoas, through its Finance Department (SEFAZ/AL)			Flexible Financing Facility*		
			Amortization period:		20 years
			Original weighted average life:		12.5 years
			Disbursement period:		2 years
			Grace period:		5 years
Source	Amount (US\$)	Inspection and supervision fee:		**	
IDB: Ordinary Capital	250,000,000	Interest rate:		London Interbank Offered Rate (LIBOR)	
Local	0	Credit fee:		**	
Total	250,000,000	Currency:		U.S. dollars from the Bank's Ordinary Capital	
Project at a Glance					
Objective and description: The program's 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, the program 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 its capacity to create jobs and generate income (paragraph 1.24). This operation is a policy-based loan for US\$250 million, to be disbursed in two tranches: the first for US\$87,222,625.40 and the second for US\$162,777,374.60 (paragraph 2.1). The operation stems from the reallocation program (document FN-672-1) associated with the prepayment made by Brazil; accordingly the amortization schedule cannot be altered and will consist of equal, consecutive, semiannual payments once the grace period has expired.					
Special contractual clauses: Disbursements will be contingent on fulfillment by the borrower of the conditions set in the Policy Matrix (see Annex II).					
Exceptions to Bank policies: None.					
Project consistent with country strategy: <div style="display: flex; justify-content: space-around; width: 100%;"> Yes <input checked="" type="checkbox"/> [X] No <input type="checkbox"/> [] </div>					
Project qualifies as: <div style="display: flex; justify-content: space-around; width: 100%;"> SEQ <input type="checkbox"/> [] PTI <input type="checkbox"/> [] Sector <input type="checkbox"/> [] Geographic <input type="checkbox"/> [] Headcount <input type="checkbox"/> [] </div>					

* The loan will benefit from the options offered under the Flexible Financing Facility (document FN-655-1), including currency and interest rate conversions, except for the flexibility to change the amortization schedule, which will consist of equal, consecutive, semiannual installments at the end of the grace period.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, rationale

- 1.1 **Macroeconomic situation of Brazil.** The Brazilian economy grew by 0.9% in 2012, with inflation ending the year above the target set by the central bank.¹ The strong performance of the balance of payments helped cushion the effects of an adverse external scenario, by maintaining a robust level of international reserves.² Fiscal outturns deteriorated in the latter months of 2012, owing to growth slowdown and the tax exemptions granted to stimulate economic activity³— both of which had impacts on state and municipal revenues. Market projections for GDP growth in 2013 have been downgraded to around 3%, while inflation is expected to remain slightly above the central bank target.⁴
- 1.2 **Socioeconomic context of the state of Alagoas (AL).** Located in Brazil's Northeast region, with an area of 27,800 km² (0.3% of Brazilian territory) and about 3.2 million inhabitants (1.6% of the country's population), Alagoas has the second poorest economy of Brazil's 26 states and Federal District. Its GDP in 2012 amounted to US\$12.3 billion (R\$24.7 billion), equivalent to 0.7% of national GDP ([Optional electronic link #3](#)), and the structure of its economy is dominated by government services.⁵ In all, 16.4% of its population lives in extreme poverty (compared to a national average of 6.3%); the state's per capita income is US\$4,000 per year (38% of the Brazilian average); and its human development index (HDI) is the country's lowest at 0.677.
- 1.3 Data from the Brazilian Institute of Geography and Statistics (IBGE) and the Alagoas State Planning and Economic Development Department (SEPLANDE) show that the economic activities that contribute most to generating income and employment include commerce, which accounts for 16% of both jobs and income; agriculture, accounting for 7% of income and 26% of employment; manufacturing, with 9% of income and 7% of employment; construction, 7% and 6%, respectively; and tourism-related activities, which overall provide 22% of income and 10% of employment ([Optional electronic link #4](#)).
- 1.4 The state's tourism sector has been performing strongly in recent years, confirming its potential to contribute to economic development. The food and lodging subsectors, linked to typical tourism activities, accounted for 41.5% of the formal

¹ Inflation in 2012 was 5.84% (Extended Consumer Price Index (IPCA) / IBGE), and the inflation target set by the Central Bank for 2012 was 4.5% ± 2.0%.

² US\$378.6 billion according to the Central Bank of Brazil.

³ The cuts in federal taxes on production and reduction of social contributions levied on wages amounted to R\$46 billion (US\$23 billion) in 2012.

⁴ Central Bank inflation projections: 2013 = 5% and 2014 = 5.1%.

⁵ In 2010, the delivery of public services, including education and health, was jointly responsible for 28% of value added and 17% of total jobs created in the state.

jobs created by the services sector in 2011, and 2.4% of GDP in 2009.⁶ The lodging sector also has a greater capacity to create direct, indirect, and induced jobs, than the average of all economic sectors;⁷ and it is one of the 10 sectors with the greatest tax-generating capacity.⁸

- 1.5 Tourism in Alagoas shows good growth prospects for the following reasons: (i) the average expenditure per domestic journey (national), at US\$1,115, is much higher than that of the country as a whole (US\$610) or of the Northeast region (US\$695); (ii) the state capital, Maceió, is well positioned as one of the 15 destinations that domestic tourists most want to visit (particularly higher-income individuals); (iii) between 2002 and 2010, formal employment in typical tourism activities in Alagoas grew by 7.8%, compared to 5.5% in the Northeast region and 4.6% in Brazil as a whole; and (iv) between 2007 and 2012, the number of guests staying in tourism lodging in Maceió grew by 56.9%, and the hotel bed occupancy rate in the capital rose from 62% to 69.7%. Moreover, the forthcoming 2014 Soccer World Cup and 2016 Olympic Games to be held in Brazil will create opportunities to capture new demand segments, once investments by the state government are in execution aimed at supporting tourism activity and complementing this operation.
- 1.6 Despite the good indicators and outlook noted above, the development of tourist activity in Alagoas faces challenges that hinder its full exploitation as an engine of growth and poverty alleviation. These include: (i) the state's low level of fiscal sustainability, which limits its capacity to make investments; and (ii) shortcomings in the planning and monitoring of public programs and policies, and in public-private collaboration to develop projects to expand transportation, basic sanitation, and solid waste management infrastructure, which is needed to launch new tourism areas on a sustainable basis.

B. Fiscal sustainability

- 1.7 Between 2003 and 2012, tax revenue grew by almost 2% of GDP,⁹ driven by revenue from the goods and services sales tax (ICMS),¹⁰ which increased from 7.0% to 8.5% of GDP in the same period. Although ICMS revenue has been growing over the last few years, annual revenue per capita (roughly US\$380 in 2012) remains quite low compared to other states. Despite the growth in tax revenue, Alagoas relies heavily on federal transfers, which provided 58% of its total

⁶ Alagoas Statistical Yearbook 2011 (pp. 251 and 517). Formal employment refers to the lodging and food subsector.

⁷ Coefficient of total job creation for every R\$1 million of final demand in the lodging sector: 177 jobs compared to an average of 160.

⁸ Input-output tables of the states of the Northeast region ([Optional electronic link #5](#)).

⁹ In Alagoas it increased on average from 7.9% to 9.7% of GDP, and in the Northeast region it grew from 8.6% to 9.2% of GDP.

¹⁰ The ICMS accounted for 87.7% of total tax revenue in Alagoas in the period 2010-2012.

income in 2012,¹¹ and, in particular, on the States Revenue Sharing Fund (FPE) which accounted for 77%. The size of the FPE shrank from 9.3% of GDP in 2011 to 9% in 2012, as a result of the slowing Brazilian economy and the tax incentives granted by the federal government ([Optional electronic link #6](#)). This reduction highlights the importance of boosting economic activities that create jobs and generate income, thereby increasing the state's own sources of tax revenue, particularly the ICMS.

- 1.8 Public expenditure has remained virtually constant over the last few years at close to 21% of GDP.¹² Payroll expenses, which accounted for 50.5% of total expenditure in 2012, shrank from 11.2% to 10.6% of GDP between 2007 and 2012;¹³ while public investment grew from 0.9% of GDP in 2007 to 2.5% in 2012, basically as a result of the special transfers that Alagoas received to cope with natural disasters.¹⁴ Not counting these special transfers, investment expenses would be around 0.7% of GDP,¹⁵ which is below the 2% average for the Northeast region in 2011.

Table 1: Main Fiscal Indicators
(Percentage of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total income	20.3	20.1	20.9	20.4	21.1	22.0	21.2	22.3	20.7	21.3
Tax revenue	7.9	8.3	8.8	9.3	9.1	9.4	9.3	9.3	9.7	9.8
ICMS	7.0	7.4	7.7	8.2	7.9	8.2	8.0	8.3	8.4	8.5
Current transfers	8.6	9.5	11.8	11.4	12.0	13.1	12.0	12.2	12.5	12.3
FPE	8.1	7.7	8.8	8.8	9.0	10.0	8.9	8.3	9.3	9.0
Other current income	2.6	1.8	1.5	1.5	2.0	1.8	1.8	1.2	1.1	0.9
Total expenditure	-	20.5	22.1	20.6	20.2	22.2	23.8	23.1	21.5	22.8
Payroll	-	9.2	10.6	10.8	11.2	11.9	12.1	10.1	10.3	10.6
Other current expenses	-	5.6	4.1	4.0	3.0	3.4	3.6	4.7	4.1	4.4
Investments	-	1.6	2.7	1.4	0.9	1.9	2.7	3.5	2.1	2.6
Investments excl. capital transfers	-	-	-	-	0.4	0.7	0.7	0.7	0.6	0.7

- 1.9 Between 2003 and 2012, Alagoas maintained a primary surplus averaging 1.8% of GDP, which enabled it to reduce its public debt/GDP ratio from a peak of 41.5% in 2002 to 27% in 2012. Relative to net current income (NCI), the debt shrank from 2.4 times in 2005 to 1.8 times in 2012, which is within the limits set by the Fiscal

¹¹ Federal transfers represent 17% of the total current income of the 26 states and Federal District, and are less than 20% of total income in half of the states. In 2010, 42% of Alagoas' income came from federal transfers, and in 2011 the figure was 44% (making it the seventh most dependent state).

¹² Public expenditure represented an average of 20.5% of GDP in the Northeast region, and 17% of GDP in Brazil as a whole.

¹³ In the Northeast it grew from 8.8% to 9.4% of GDP, and in Brazil as whole it grew from 5.8% to 8.3% of GDP.

¹⁴ The 2010 floods and the drought of 2012-2013.

¹⁵ Of these investments, just 0.6% of GDP was funded from internally generated resources on average between 2011 and 2012, not counting other capital transfers received.

Responsibility Law (LRF).¹⁶ This positive result was based on an increase in tax revenues and the containment of public expenditure;¹⁷ and the fiscal effort of the last decade made it possible to increase short-term borrowing to finance investments, as agreed upon with the National Treasury Department (STN). Nonetheless, from 2015 onwards, Alagoas needs larger primary balances to keep its debt on a sustainable path.¹⁸

- 1.10 Although the state's public finances posted relatively stable results between 2003 and 2011, Alagoas still faces fiscal challenges in terms of both tax revenue and public expenditure management to be able to finance the most dynamic sectors of its economy, including tourism.
- 1.11 **Internally generated revenue** ([Optional electronic links #7](#) and [#8](#)). A recent study on tax efficiency estimates a high (15%) inefficiency coefficient for the state in terms of collecting tax revenue,¹⁹ for the following reasons: (i) the poor results of the fiscal actions undertaken, owing to a failure to standardize criteria for analyzing the tax behavior of taxpayers, and their deviations from potential tax revenue;²⁰ (ii) the large number of taxpayers displaying signs of tax irregularities who go unpenalized, as a result of low inspection capacity²¹ and the lack of suitable correction procedures;²² (iii) the high number of court cases related to tax irregularities that are ruled void or inadmissible owing to the lack of consistency in such cases;²³ (iv) the ineffectiveness of revenue targets owing to deficiencies in tax planning action,²⁴ stemming from a failure to systematically analyze tax data and the absence of a results-based management model to monitor income; and (v) the high stock of registered tax claims and the deficit in recovering them, owing to a lack of uniformity in judicial procedures and in the analysis of the case sample.

¹⁶ Net current income is measured in terms of real net incomes, defined as tax revenues (including federal government transfers), less legally stipulated transfers to the municípios and the pension contributions of state workers.

¹⁷ Public expenditure has remained constant in recent years at around 21% of GDP.

¹⁸ In 2006, the debt represented 38% of state GDP; in 2007 it was 35%; in 2008, 36%; in 2009, 32%; in 2010, 31%; in 2011, 29%, and in 2012, 28.4% of state GDP ([Optional electronic link #9](#)).

¹⁹ The study applies a weighted stochastic frontier model, with potential revenue calculated on the basis of the sector structure of the GDP of each state and their relative performance. Alagoas is collecting 15% less revenue than its estimated potential, ranking it 14th among the 26 states and Federal District (Table 2, Appendix A).

²⁰ Just 15% of the ICMS tax claims entered annually through tax assessment, debt confession, and spontaneous filing, is recovered (Sources: SRE-SEFAZ/AL reports).

²¹ Just 2.6% of taxpayers were inspected in 2011, and they were not selected using prioritization criteria.

²² Of the 1,846 inspections undertaken in 2011, only 846 obtained positive results (45%), and 32% of the cases tried were considered void or inadmissible.

²³ In 2012, the recovery of ICMS tax claims registered as active debt was just R\$7.47 million. Source: PGE/AL reports.

²⁴ Of the 15 sectors monitored, only three produced positive results ([Optional electronic link #10](#)).

- 1.12 **Public expenditure.** The efficiency of public expenditure management has been undermined by: (i) difficulties in measuring and assessing the actions of the State Treasury, the insufficiency of processes implemented to monitor and evaluate their results, and the lack of methodologies for analyzing the performance of its operating procedures;²⁵ (ii) the low level of control and monitoring of the physical-financial implementation of state agreements, owing to unreliable information and the unsuitability of the financial-accounting control system;²⁶ (iii) shortcomings in the monitoring and control of current expenses (except payroll) and a lack of commitments by the different areas to optimize expenditures in these categories, which makes it difficult to adopt measures to curtail them;²⁷ (iv) the low level of efficiency and control of the public procurement and contracting process, owing to a lack of coordination among the various state agencies involved in the procurement of off-the-shelf goods and services, and inadequate access to registered prices for off-the-shelf procurements;²⁸ and (v) the low rate of recovery of contributions made by state civil servants to the General Social Security Regime, owing to the lack of documentation to be presented to the National Social Security Institute (INSS).²⁹

C. Planning and monitoring of public programs, policies, and projects

- 1.13 In addition to the fiscal shortcomings that limit resources for investment, Alagoas also suffers from deficiencies in the planning and monitoring of public programs and policies, as well as in strategic projects, which has an adverse effect on the management of public investments. Such deficiencies generally include: (i) lack of legal formalization to institutionalize and guarantee the continuity of the results-based public administration program entitled *Alagoas Tem Pressa* [Alagoas Can't Wait]³⁰ ([Optional electronic link #14](#)); (ii) difficulties in developing and enforcing budgetary planning instruments;³¹ (iii) inefficient generation and consolidation of

²⁵ The State Treasury Superintendency has no operating process that is monitored with indicators ([Optional electronic link #11](#)).

²⁶ Sixteen agreements and their related active contracts totaling US\$900 million do not have monitored targets.

²⁷ A preliminary analysis of expenses related to state services identified potential areas for saving, such as electricity consumption, which amounted to US\$14 million in 2012 ([Optional electronic link #12](#)).

²⁸ Of a total of 1,818 items, 906 are available in the price lists of other agencies that could be used in these procurements (in most cases with lower prices). Consequently, 48.4% of government procurements for off-the-shelf goods and services are done through direct contracting (without a bidding process) ([Optional electronic link #13](#)).

²⁹ In Brazil, there is a general pension regime for private sector workers, managed by the INSS, and another specific scheme for civil servants, managed by each level of government. The amounts that civil servants currently working in the State of Alagoas contributed to the INSS before entering public service, have to be transferred from the INSS to the State when they retire; nonetheless, this does not happen without an adequate and well-documented administrative process. In 2012, US\$11.2 million (R\$22.5 million) was recovered, and it is estimated that more timely and better documented processes could double this amount.

³⁰ The program tracks and monitors 52 strategic sector development projects, included in the multiyear investment plan, but it does not have an established legal base.

³¹ There are frequent delays in the preparation of the Multiyear Plan Law and the Budgetary Framework Law.

the state's socioeconomic and geographic data, because information sources are scattered across various agencies;³² (iv) shortcomings in the control and monitoring of contracted credit operations;³³ (v) SEPLANDE operating processes that are inefficient and undocumented;³⁴ and (vi) the absence of information for citizens that is structured and complies with the Federal Access to Information Law, owing to the absence of uniform standard procedures.³⁵

- 1.14 In the specific case of tourism, the fact that strategic planning instruments in Alagoas are in their infancy hinders the implementation of new tourism projects (outside Maceió, the state's leading tourist destination), and provision of the transportation, basic sanitation, and solid waste management infrastructure needed to expand tourism into new areas on a sustainable basis.
- 1.15 **Incipient strategic planning in the tourism sector.** Despite a number of previous tourism planning initiatives,³⁶ Alagoas does not yet have a robust strategic vision that identifies the types of tourism that are best suited to the state as a whole. This stems from scant dissemination of tourism planning instruments and shortcomings in the data available for the analysis and measurement of tourist activity. This information is currently dispersed among various sources and based on heterogeneous methodologies of data capture and analysis that do not fulfill international recommendations.³⁷ The lack of strategic direction has resulted in tourism development that is highly concentrated geographically, with a poorly diversified supply of services, as shown by the available indicators ([Optional electronic link #15](#)): (i) 51% of current hotel capacity, and 87.2%³⁸ of new hotel beds created between 2007 and 2012 are in Maceió (the capital, which is the state's entry point and leading destination); (ii) 59% of employment in the lodging and food sector³⁹ is concentrated in just two municípios: Maceió and Maragogi; and (iii) state tourism development is centered on its coastline, with just 15.9% of hotel bed capacity located in inland areas,⁴⁰ which makes it difficult to spread the benefits

³² Of the 40 information sources in 2011, none was available on the State portal; and there are only three information management tools, with an average of 1,500 hits per month.

³³ Just 2% of the total amount of credit operations are monitored by SEPLANDE, and there is no operating procedures manual.

³⁴ Only seven of the 10 critical SEPLANDE processes are certified.

³⁵ Only one of the 54 portals of State agencies displays the information fully structured according to the Access to Information Law; and the central transparency portal only had 3,176 hits in 2012. (<http://www.portaltransparenciaruthcardoso.al.gov.br>).

³⁶ Under PRODETUR, the State of Alagoas implemented the Integrated Sustainable Tourism Development Plan (PDITS) of the Costa dos Corais tourism hub. The State has previous tourism plans, under which progress was made on tourism zoning in the state, but these were not sufficiently disseminated, and they lack market data and specific orientations on destinations and priority types of tourism.

³⁷ International recommendations on tourism statistics issued by the World Tourism Organisation (2008).

³⁸ The percentage represents the relative weight in relation to the total number of new hotel beds.

³⁹ Demographic census 2010.

⁴⁰ Indicators published by the State Tourism Department (SETUR).

of tourism into new geographic areas involving new local stakeholders. This development is based on a traditional sun-and-sand model (which exploits comparative rather than competitive advantages); and there is a heavy presence of second homes,⁴¹ which have weaker effects in terms of tourist destination differentiation and on the state's development than other forms of tourism development (the real estate and rental sector in Alagoas generates less tax revenue and wages than the hotel sector).⁴²

- 1.16 **Lack of integrated land management instruments and adequate investment levels.** Alagoas does not have integrated land management plans that ensure the protection of natural resources and the improvement of road, basic sanitation, and solid waste management infrastructure systems, either to meet the incremental demand from tourists or to guarantee the conservation of natural heritage and ease the pressure on existing services exerted by that additional demand. In fact, tourism companies cite infrastructure shortcomings among the main difficulties in expanding their activities.⁴³
- 1.17 The quality of the road network is one of the main obstacles to guaranteeing access to and efficient connectivity between tourism areas ([Optional electronic link #16](#)): (i) the paved road network is discontinuous; and the fact that all tourist traffic arriving at the international airport has to traverse Maceió to reach other tourist destinations adds at least two hours to average travel times to places outside the capital; (ii) the access roads to beaches close to the capital have capacity problems which result in long traffic jams; (iii) 66% of the paved roads giving access to the beaches are either in fair, poor, or very poor condition owing to the lack of an efficient maintenance system, which means that, apart from traffic delays, tourist journeys are also uncomfortable; and (iv) the road accident mortality rate, including the state and federal networks, is over 10 deaths per 100,000 inhabitants (in the State of Minas Gerais the figure is 5 per 100,000 inhabitants); and 38.5% of all road accidents occur on the two roads serving the main tourism hubs (AL101S and AL101N), which represent 20% of the total kilometers of the state network.
- 1.18 In the case of basic sanitation and solid waste management, system coverage rates⁴⁴ are below the respective national averages: water and sewerage coverage in Alagoas is 68.7% and 16.0% respectively, compared to 81% and 46.2% in Brazil as a whole ([Optional electronic link #17](#)). In the case of solid waste, only the metropolitan region of Maceió (RMM) has an adequate final disposal solution.
- 1.19 **Incipient public-private collaboration.** There is also a need to strengthen and formalize public-private collaboration, both to promote investment in new areas and tourism types, through innovative mechanisms such as public-private partnerships (PPPs), and to strengthen social inclusion in the tourism value chain. The Regional

⁴¹ Report on second homes, the Brazilian Tourism Institute (EMBRATUR), 2008.

⁴² Input-output matrix of the states of the Northeast region.

⁴³ See the *Costa dos Corais* PDITS.

⁴⁴ National Sanitation Information System (SNIS).

Tourism Boards provide a vehicle for dialogue between the large tourist associations/companies and public agencies. Nonetheless, these collaborative efforts need to be extended to small-scale tourism enterprises, in a context in which there are structural problems of both business and labor informality that hinder innovation and human capital development. According to IPEA data,⁴⁵ in Alagoas there are three informal workers for every formal worker in the sector, so mechanisms need to be found to bring the largest possible proportion of the tourism business and labor universe into the formal sector.

- 1.20 **The Bank's strategy in the sectors.** In fiscal terms, over the last 15 years, the Bank has been one of Brazil's key partners in decentralizing and modernizing fiscal management tools, having successfully implemented several operations at the three levels of government. The Bank has been leading a major sector dialogue with the country's fiscal authorities, through loan operations,⁴⁶ technical cooperation programs, and national seminars and studies,⁴⁷ which have fostered greater harmonization and integration between Brazil's various tax administrations. The Bank is also in the final phase of preparing operation BR-L1230, Alagoas Finance Management Development Project (PROFISCO/AL), for US\$7 million. Many of the fiscal policy actions envisioned in the present operation stem from the needs identified in BR-L1230 and lessons learned from other fiscal support programs already implemented in other Brazilian states (PROFISCO credit lines or other policy-based loans).⁴⁸
- 1.21 In terms of tourism sector development, this operation draws on the results obtained and lessons learned with two consecutive loans financed by the Bank for the tourism development of the Northeast region (PRODETUR/NE).⁴⁹ An external ex post evaluation of the implementation of PRODETUR/NE I ([Optional electronic link #18](#)) revealed the potential of tourism to leverage the region's economic development.⁵⁰ The study concluded that the program, which cost a total of US\$700 million, of which US\$400 million was financed by the Bank, had helped

⁴⁵ Tourism sector labor market information system, May 2008. IPEA.

⁴⁶ National Fiscal Administration Program for Brazilian States – PNAFE (loan 980/OC-BR), approved in 1996; Program to Support the Management and Integration of Tax Administrations in Brazil – PROFISCO (BR-X1005), approved in 2008; and the National Program to Support the Administrative and Fiscal Management of Brazilian Municípios – PNAFM (loan 1194/OC-BR) approved in 1999.

⁴⁷ See: (i) Tax Reform in Brazil – IDB 2003; (ii) [The Political Economy of Fiscal Reform in Brazil–IDB 2010](#); and (iii) Structural Reforms in Brazil - IDB 2012.

⁴⁸ Component 2 contains several norms and policies aligned with the investments of PROFISCO/AL to improve ICMS revenue and public financial management. Moreover, in the case of PBLs in Brazil, in 2012 one was approved in Bahia (BR-L1337) and another in Rio Grande do Sul (BR-L1361). Both contained similar fiscal policy commitments, which have been advancing well and were successfully fulfilled, enabling the corresponding disbursements to be made in 2012.

⁴⁹ PRODETUR/NE I (loan 841/OC-BR) approved in 1994; and PRODETUR/NE II (loan 1392/OC-BR) in 2002.

⁵⁰ Alagoas received 6.9% of the total amount of PRODETUR/NE I, of which 5.8% was destined entirely for Maceió, the state's current leading tourism destination.

attract US\$4 billion in private investment, create 1 million jobs, and increase tourist arrivals in the region from 6 million to 12 million visitors between 1994 and 2000. The PRODETUR experience also shows the importance of integrated coordination and planning of the action strategies of the different levels of government and public sectors, and of the private sector, to maximize the benefits of future investments and promote tourism activity that is sustainable and protects natural resources. The economic development policy management measures proposed in this operation aim to lay the foundation enabling the future investments that could arise from the improvement of the fiscal situation in Alagoas to effectively promote the transition from a tourism scenario that currently depends on just a few destinations and a single tourism type, towards planned and proactive development that gives rise to new destinations and demand segments, capable of speeding up the full exploitation of tourism as an engine of sustainable growth.

- 1.22 **Consistency with the country strategy.** The program contributes to the country strategy with Brazil (2012-2014) (document GN-2662-1), because it seeks to: (i) promote sustainable fiscal balance; (ii) improve the efficiency and quality of public expenditure; (iii) improve infrastructure conditions; and (iv) promote development through the private sector. It is also aligned with the Bank's strategic priorities defined in the Report on the Ninth General Increase in the Resources of the Bank (document AB-2764), by supporting the strengthening of public institutions for growth and social welfare and the upgrading of infrastructure for competitiveness and social welfare.
- 1.23 **Collaboration between divisions.** Given the complexity of the policy actions envisaged, this project has been designed jointly between the Fiscal and Municipal Management Division (IFD/FMM) and the Transport Division (INE/TSP), as a doublebooking, with collaboration also from the Water and Sanitation (INE/WSA) and Environment, Rural Development, and Disaster Risk Management (INE/RND) Divisions.

D. Objectives and components

- 1.24 **Objective.** The program's 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 its capacity to create jobs and generate income.

- 1.25 The program will benefit: (i) the government, by increasing the resources available for implementing its public policies; and (ii) the population at large, by contributing to tourism development and consequently to the state economy. The program's components are described in the next few paragraphs:
- 1.26 **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 stable macroeconomic context that is conducive to the achievement of the program's objectives; and (ii) the fulfillment of the fiscal targets agreed upon with the federal government under the current Fiscal Restructuring and Adjustment Program (PAF).
- 1.27 **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:
- 1.28 **Subcomponent 2.1. Tax framework.** This subcomponent aims to increase the revenue obtained by Alagoas by enhancing the process of inspection, constitution, and enforcement of tax claims, including policy actions aimed at: (i) creating an organizational unit specialized in the analysis and monitoring of fiscal action in the State Finance Department (SEFAZ/AL); (ii) diversifying procedures for resolving tax irregularities; (iii) systemizing procedures for undertaking fiscal action; (iv) implementing control of the administrative process; (v) implementing the results-based management model in the tax administration; and (vi) improving work processes in the State Attorney General's Department, which is responsible for the collection of tax claims.
- 1.29 **Subcomponent 2.2. Public expenditure quality.** This subcomponent aims to improve public expenditure management, by: (i) reviewing the processes of the State Treasury Superintendency, defining indicators and targets, and monitoring results; (ii) implementing a system for monitoring agreements and their contracts; (iii) implementing a public expenditure improvement program; (iv) expanding the use of the price list system for contracting off-the-shelf goods and services; and (v) enhancing procedures for recovering pension contributions made by Alagoas civil servants to the General Social Security Regime.
- 1.30 **Component 3. Management of public programs and policies.** This component will include strengthening of capacity to plan, set priorities and integrated targets, and monitor the results of public programs and policies for economic development, through the following subcomponents:
- 1.31 **Subcomponent 3.1. Planning and monitoring of public programs and policies.** This subcomponent aims to improve the management of public programs and policies, through: (i) greater formalization in the system for monitoring and tracking priority government projects by institutionalizing the *Alagoas Tem Pressa* program; and (ii) review and regulation of processes and deadlines for preparing the multiyear investment plan (PPA), the Annual Budget Law (LOA), and the Budgetary Framework Law (LDO); (iii) regulation of procedures for producing and

structuring the state's socioeconomic data on the portal *Alagoas em Dados e Informações* [Alagoas in figures and information]; (iv) implementation in SEPLANDE of a unit for monitoring execution of loan operations; (v) certification of the SEPLANDE quality management system's compliance with NBR ISO 9001:2008; and (vi) improvement of the transparency and institutionalization of procedures for making information generated or stored by the Alagoas government available to citizens.

- 1.32 **Subcomponent 3.2. Management of economic development policies.** This includes actions selected on the basis of the three structural challenges identified in the tourism sector (paragraphs 1.15, 1.16, and 1.19). In the first tranche, to make sure future new investments resulting from the improvement of the fiscal situation, can be undertaken within 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.
- 1.33 In the second tranche, the PEDT will be strengthened by preparing a diagnostic of the tourism statistics system and its corresponding action plan, to guarantee the quality of the information available based on the fulfillment of recommendations. It will also promote integrated land management of the new tourist areas identified in the PEDT, through: (i) the development of municipal tourism and land management plans; (ii) the definition of strategies for action in the road sector, relating to the expansion, improvement, rehabilitation, maintenance, and safety of roads for accessing the new tourist areas; (iii) the development of municipal sanitation plans and the corresponding concession contracts for water and sewerage services with the Alagoas Sanitation Company (CASAL) for the tourist municípios; and (iv) the development of the State Solid Waste Management Plan, which will make it possible to lay the foundation for promoting municipal consortia and develop integrated solutions for the collection and final disposal of solid waste.
- 1.34 Lastly, to strengthen the coordination of public- and private-sector objectives, in the second tranche the subcomponent will help strengthen the role of local tourism productive clusters (*arranjos produtivos locais* – APLs), by updating the census of tourism enterprises (both formal and informal) located in their areas of influence, to make it easier to adapt private initiative stimulus actions to the real needs of those companies; in addition, it will support the role of PPPs in infrastructure by regulating the Guarantees Fund for future PPPs in Alagoas.

E. Key indicators of the results matrix

- 1.35 To measure the medium-term impact of the policy measures and reforms envisioned for the program, a results matrix (Required electronic link #3) was prepared in conjunction with the borrower. These results will also be monitored and evaluated by common agreement with the borrower. The impacts and main outcomes expected from the program and its components for 2014-2015 are as follows:

- 1.36 **Increased public investments:** from 0.7% of the state's GDP (average 2011-2012) to 1.7% (average 2013-2014) not including capital transfers received.
- 1.37 **Increased investment in tourism areas:** (i) increase in the value of annual private investments in hotel projects (outside the RMM), from R\$95 million in 2013 to nearly R\$108 million in 2015; (ii) increase in the number of hotel beds in areas outside the RMM as evidence of the gradual diversification of destinations under the PEDT strategic vision (from 14,838 in 2013 to 16,138 in 2015); (iii) improvement of the conditions of roads giving access to the new tourist areas (proportion of roads in good or optimal condition rising from 12.9% to 84.6%); (iv) reduction in the annual number of accidents on roads giving access to the new tourist areas (from 537 accidents in 2010 to 454 in 2015); (v) increase in the coverage of water supply in Alagoas (from 64% to 82%) and sewerage services (from 14% to 30%); and (vi) increase in the number of municípios with adequate solid waste disposal arrangements (from 20 to 36).
- 1.38 **Effective tax revenue collection and public spending:** (i) real increase in ICMS revenue (of 3% as from 2013); (ii) reduction in current expenditure on provisions from 19.3% of total state expenditure (2011-2012) to 18.5% (2013-2014); and (iii) increase in the annual amount of contributions made to the General Social Security Regime recovered for the state (from R\$22.5 million to R\$50 million).

II. FINANCING STRUCTURE AND RISKS

A. Lending instruments

- 2.1 The program will be financed as a policy-based loan (PBL), pursuant to documents GN-2200-13 and CS-3633. The loan will be for US\$250 million, to be disbursed in two tranches: the first for US\$87,222,625.40 and the second for US\$162,777,374.60.⁵¹ The first tranche will be aimed basically at developing the structuring policies of the proposed reforms, while the second tranche will promote the implementation and/or regulation of those policies. The program will be financed out of the Bank's Ordinary Capital, under the terms of the new Flexible Financing Facility (document FN-665-1).

B. Environmental and social safeguard risks

- 2.2 According to Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703), this operation does not require environmental classification. The program does not involve negative socioenvironmental risks. Moreover, on 10 September 2013, the Bank approved a nonreimbursable technical cooperation operation (ATN/OC-14005-BR), which, among other things, will finance the strengthening of the capacity of state agencies on socioenvironmental issues related to transportation and sanitation projects.

⁵¹ The details of the policies and the means of verification proposed are set out in the Policy Matrix ([Annex II](#)). The policy measures proposed for both tranches are already at an advanced stage of implementation.

C. Fiduciary risks

- 2.3 The proposed lending instrument provides unrestricted funds for budgetary support assuming the existence of a responsible fiscal policy framework. The operation is considered low risk. Over the last 10 years, SEFAZ, the executing agency, has been engaged in a wide-ranging process of institutional strengthening, largely financed by the Bank, initially as part of the National Fiscal Administration Program for Brazilian States (PNAFE). Significant progress has been made in: (i) the administration of internally generated revenue, by implementing the tax collection automation process through the bank network and citizen service centers; (ii) expenditure management, by implementing systems⁵² that support the preparation and execution of the budget and the Internal Audit Coordination Unit (CAI); and (iii) monitoring and control of the results of the government's priority projects through the "*Alagoas Tem Pressa*" program.

D. Other key issues and risks

- 2.4 **Debt risk analysis** ([Optional electronic link #19](#)). The sustainability analysis assumes the following program results in its base-case scenario: (i) revenue grows by 0.2% of GDP by 2015; (ii) current expenditure decreases by 0.1% of GDP by 2015; (iii) investment expenditure increases by 2.5% of GDP in 2013, before dropping back to a level similar to its long-term average; and (iv) GDP growth will be 3% in 2013 and 4% from 2014 onwards. The growth in ICMS revenue and reduction in current expenditure as a percentage of GDP are expected to offset the reduction in the size of FPE in 2012 (0.3% of GDP).
- 2.5 This produces a primary deficit in 2013, before returning to an average surplus of 2.5% of GDP. This primary surplus is consistent with the fiscal effort made over the last five years, and makes it possible for the debt to continue trending downward, to reach a level of 15.4% of GDP and 86% of net current income in 2022. Under the base-case scenario, the debt path is sustainable.
- 2.6 With the aim of analyzing the debt's vulnerability to different adverse shocks, sensitivity analysis was performed, under the following scenarios: (i) primary surplus: the primary deficit remains at the 2013 level; (ii) permanent reduction in GDP growth: GDP and income growth decrease permanently by one standard deviation, but expenditure growth does not adjust downward; and (iii) exchange rate depreciation: the primary surplus is maintained as forecast in the program, but the exchange rate depreciates by 30% in 2013. The results of this exercise show that the debt is on a sustainable path, but it is essential that the planned primary deficit be temporary. The deficit planned for 2013, followed by primary surpluses in 2014 and beyond, make it possible to increase short-term investment and maintain long-term sustainability. Nonetheless, if the 2013 deficit proved permanent, debt levels would embark on an unsustainable medium-term dynamic.

⁵² Planning and Management System (SIPLAG) and Integrated Financial Management System of the States and Municípios (SIAFEM).

- 2.7 **Other risks.** The operation is rated low-risk, because it has broad political support and the state government has made a clear commitment with the federal government (through the Fiscal Restructuring and Adjustment Program) and with the Bank to implement all of the policy actions agreed upon in this operation, most of which are already at an advanced stage of implementation. Moreover, to minimize the risk of program resources being used to finance current expenditure, an independent audit will be commissioned after each disbursement.
- 2.8 **Economic analysis.** The economic analysis ([Optional electronic link #2](#)) performed is based on the economic fundamentals that motivate the proposed policy reforms; in other words, it analyzes the potential impact that the investments in infrastructure, facilitated by an improvement in the fiscal position (based on revenue growth) and better planning and management of public expenditure, will have on the state economy. After that, it analyzes the potential impact on the local economy of the development of tourism activity, made possible by infrastructure investments and better sector planning. This analysis is initially performed on the basis of sector multipliers generated from a social accounting matrix for the State of Alagoas, constructed specifically for the analysis of this program, based on a 2004 input-output matrix. The same analysis is then repeated using a computable general equilibrium model, which allows for price adjustments and models the long-term impact of infrastructure investments. The analysis makes it possible to identify the program's potential impact on state production and value-added, and the potential impact on employment and household income. The analysis simulates different scenarios, altering key variables such as the growth in ICMS revenue and variables associated with tourism activity, such as level of spending, length of stay, and number of visitors.
- 2.9 The simulation results show that when Alagoas uses the projected incremental ICMS revenue (3% up to 2015 and 1% between 2015 and 2019) to finance infrastructure investments, state GDP increases by R\$1,018.0 million by 2019, and value added grows by R\$565.4 million. In addition, over 24,000 jobs are created. In contrast, if Alagoas were to transfer these additional resources to the state's poorest households, the impact on production and value added would be R\$378.5 million and R\$241.1 million, respectively. The computable general equilibrium model has also been used to simulate the economic impact, in cost-benefit terms, of the growth of tourism activity arising from an increase in strategic investment in Alagoas (see Table 2), assuming that the State of Alagoas invests R\$50 million in a tourism development program.

Table 2. Impacts on the economy caused by tourism development in Alagoas

Scenarios/impacts	100,000 increase in visitors	0.3 day increasing length of stay	10% increase in spending	Joint scenarios
Net present value (US\$ million)	10.1	8.5	18.3	113.9
Internal rate of return	19.0	18.0	23.8	57.8
Jobs created by 2025	2,079	2,003	2,465	6,979

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation measures

- 3.1 **Borrower and executing agency.** The borrower in this program will be the State of Alagoas, and the guarantor will be the Federative Republic of Brazil. SEFAZ/AL will serve as executing agency with the following responsibilities: (i) coordinate with the other state departments involved in the operation⁵³ that are responsible for technical execution of Component 2; (ii) deliver the reports and evidence of fulfillment of the conditions of the operation, as well as any other reports that the Bank may request; (iii) support actions aimed at achieving the policy objectives defined in the program; and (iv) collect, file, and deliver to the Bank, all information, indicators, and parameters that help the borrower and the Bank to monitor, measure, and evaluate the program's results.
- 3.2 **Audit of disbursements.** These will be performed by an independent firm of auditors accepted by the Bank, in accordance with the terms of reference previously agreed on with the Bank. The audit report will be submitted 90 days after the release of each disbursement.

B. Summary of arrangements for monitoring and evaluating results

- 3.3 The project team will be responsible for tracking and monitoring the program, as specified in the monitoring and evaluation plan ([Optional electronic link #1](#)). With resources from technical cooperation operation ATN/OC-14005-BR consulting services will be hired for: (i) monitoring fulfillment of the political commitments; and (ii) an ex post impact evaluation of the program, applying the “synthetic control” methodology. The monitoring and evaluation plan ([Optional electronic link #1](#)) gives details of the characteristics of this methodology. The project completion report will be presented within three months of the second tranche of the operation being fully disbursed.

C. Policy letter

- 3.4 The Policy Matrix ([Annex II](#)) for the proposed operation is aligned with the Policy Letter ([Required electronic link #1](#)) sent by the Government of Alagoas.

⁵³ SETUR; Infrastructure Department (SEINFRA); Roads Department (DER/AL); Alagoas Sanitation Company (CASAL); and SEPLANDE.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending for poverty reduction and equity enhancement.		
Regional Development Goals	i) Incidence of waterborne diseases (per 100,000 inhabitants), ii) Paved road coverage (Km/Km2), iii) Ratio of actual to potencial tax revenue, and iv) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Households with new or upgraded water supply, ii) Households with new or upgraded sanitary connections, iii) Km of inter-urban roads build or maintained/upgraded, and iv) Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues).		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	i) Promote sustainable fiscal balance at the subnational level, ii) Improve the efficiency and quality of public expenditure, iii) improve infrastructure systems, and iv) Promote development through the private sector.	
Country Program Results Matrix	GN-2696	The intervention is not included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.9		10
3. Evidence-based Assessment & Solution	8.0	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	8.6	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B.13		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Fiscal Management: Budget and Internal audit.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation will provide evidence on the effectiveness of fiscal and expenditure policy reforms to increase tax collection and improved public expenditure in key sectors.	

This is a Policy Based Loan for the amount of up to US\$250 million, to be disbursed in two equal tranches of up to US\$125 million each. The objective is to contribute to fiscal sustainability and increase the levels and quality of investments, mainly those aimed towards promoting tourism activity, for the development of the State of Alagoas. The project document and its annexes provide a clear and complete justification for the project. Problems and their causes are clearly identified and discussed. The structure of the results matrix is satisfactory and demonstrates the vertical logic of the intervention.

The economic analysis undertaken utilizes a computable general equilibrium model to simulate the economic fundamentals that drive the policy reforms proposed, i.e. it simulates the potential impact of targeted infrastructure investments, made possible by an improvement in the fiscal situation and better planning and management of public spending, and its impacts on tourism and the economy of the State of Alagoas. The impact evaluation methodology is based on the construction of a synthetic control of Alagoas to assess the effect the policy reforms have on key metrics of the results framework.

The project documentation includes a risk matrix that identifies potential risks and mitigation measures, including metrics to monitor their timely implementation.

POLICY MATRIX AND MEANS OF VERIFICATION

PROGRAM OBJECTIVE	The program's 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. Its purpose is to increase the tourism sector's contribution to the Alagoas economy. To that end, the program 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 its capacity to create jobs and generate income.
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OBJECTIVE	ACTIONS PRECEDENT TO RELEASE OF THE FIRST TRANCHE	ACTIONS PRECEDENT TO RELEASE OF THE SECOND TRANCHE
COMPONENT 1. MACROECONOMIC STABILITY AND FISCAL SUSTAINABILITY		
Support government policies that promote medium- and long-term macroeconomic stability and fiscal sustainability.	(i) Maintenance of a State macroeconomic context that is conducive to achieving program objectives. <u>Means of verification:</u> Independent Macroeconomic Assessment (IMA) prepared by the Bank.	(ii) Maintenance of a State macroeconomic scenario that is conducive to achieving the program's objectives. <u>Means of verification:</u> IMA prepared by the Bank.
	(iii) Maintenance of the state's fiscal sustainability, through the fulfillment of fiscal targets I and II agreed on with the federal government under the current Fiscal Restructuring and Adjustment Program (PAF). <u>Means of verification:</u> 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.	(iv) Maintenance of the state's fiscal sustainability, through the fulfillment of fiscal targets I and II agreed on with the federal government under the current Fiscal Restructuring and Adjustment Program (PAF). <u>Means of verification:</u> 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.

OBJECTIVE	TRANCHE I	TRANCHE II
COMPONENT 2. TAX REVENUE AND PUBLIC EXPENDITURE		
Strengthen the fiscal management of the Alagoas State Finance Department (SEFAZ/AL), boosting tax revenues and enhancing public expenditure management.	2.1 Tax framework: Increase the state's revenue levels by improving taxpayer compliance and strengthening the tax claim inspection and enforcement process.	
	(i) Establishment of a new model for monitoring taxpayer compliance, based on the cross-referencing of tax data and intelligence. <u>Means of verification 1:</u> Delegated State Law restructuring SEFAZ/AL to create the tax data monitoring area, published in the Official State Gazette (DOE). <u>Means of verification 2:</u> State Government Decree approving new SEFAZ/AL internal regulations, published in the DOE.	(i) Implementation of tax data monitoring, based on the new taxpayer compliance monitoring model. <u>Means of verification 1:</u> SEFAZ/AL Operating Instruction making it compulsory to justify the selection of taxpayers for the fiscal planning stage, posted on the SEFAZ/AL intranet. <u>Means of verification 2:</u> 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.
	(ii) Regulation of the common or special tax administration process, whether or not litigious, including the registration, control and inspection, and spontaneous reporting of tax claims. <u>Means of verification:</u> Government Decree regulating the state-level tax administration process, published in the DOE.	(ii) Regulation in SEFAZ/AL of simple procedures for communication with taxpayers for whom discrepancies have been identified. <u>Means of verification:</u> SEFAZ/AL Regulatory Instruction, published in the DOE.
	(iii) Regulation of tax audit processes in SEFAZ/AL. <u>Means of verification:</u> SEFAZ/AL Operating Instruction regulating the fiscal action process, published on the SEFAZ/AL intranet.	(iii) Creation and regulation of the Fiscal Action Management Committee in SEFAZ/AL. <u>Means of verification:</u> SEFAZ/AL Ordinance ("Portaria") creating and regulating the Fiscal Action Management Committee, published in the DOE.

OBJECTIVE	TRANCHE I	TRANCHE II
	<p>(iv) Regulation of criteria for distributing cases in the SEFAZ/AL trial coordination unit.</p> <p><u>Means of verification:</u> SEFAZ/AL Regulatory Instruction defining criteria for the distribution of cases in the Trial Coordination Unit, published in the DOE.</p>	<p>(iv) Implementation of performance management control for officials responsible for decision-making in administrative processes (judges of first instance) in the tax administration process.</p> <p><u>Means of verification:</u> 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.</p>
	<p>(v) Regulation of a SEFAZ/AL results-based management model, including an agreement on revenue targets for the goods and services sales tax (ICMS) and the corresponding results monitoring.</p> <p><u>Means of verification:</u> SEFAZ/AL Operating Instruction defining the results-based management model and the ICMS revenue target agreement, posted on the SEFAZ/AL intranet.</p>	<p>(v) Implementation of the agreement on targets with systematic monitoring of ICMS revenue results.</p> <p><u>Means of verification:</u> Monthly ICMS revenue monitoring report, by segment, produced by SEFAZ/AL.</p>
	<p>(vi) Creation of work units in the State Attorney General's Department/Office of Attorney General of the Treasury (PGE/PFE), with a view to streamlining administrative activity to promote more effective recovery of tax claims.</p> <p><u>Means of verification:</u> PGE/PFE Ordinance creating activity hubs, published in the DOE.</p>	<p>(vi) Establishment of criteria and standardization of procedures for the work of prosecutors assigned in the PGE/PFE.</p> <p><u>Means of verification:</u> PGE/PFE Ordinance defining criteria for standardizing procedures for the work of prosecutors assigned in the PGE/PFE, published in the DOE.</p>
	<p>2.2 Public expenditure: Implementation of a regulatory framework to improve the coordination and operational efficiency of public expenditure through the following policy actions.</p>	
	<p>(i) Creation of the committee for the standardization of managerial process standards and the monitoring system in the State Treasury Superintendency (STE).</p> <p><u>Means of verification:</u> SEFAZ/AL Ordinance creating the committee for the standardization of managerial process standards, published in the DOE.</p>	<p>(i) Implementation of operational process standards and the monitoring system in the STE.</p> <p><u>Means of verification:</u> SEFAZ/AL Operating Instruction for implementation of the three operational process standards, posted on the SEFAZ/AL intranet.</p>

OBJECTIVE	TRANCHE I	TRANCHE II
	<p>(ii) Creation of a Joint Commission to prepare the functional specifications of the computerized agreement and contract monitoring system.</p> <p><u>Means of verification:</u> State Government Decree creating a Joint Commission for preparing the functional specifications of the computerized agreement and contract monitoring system, published in the DOE.</p>	<p>(ii) Definition of the objectives and requirements for the control and management of agreements and their contracts.</p> <p><u>Means of verification:</u> Report of the Joint Commission with the objectives and requirements for control and management of agreements and their contracts.</p>
	<p>(iii) Establishment of the public expenditure improvement program and creation of its Management Committee.</p> <p><u>Means of verification:</u> State Government Decree instituting the Public Expenditure Improvement Program and creation of its Management Committee, published in the DOE.</p>	<p>(iii) Implementation of the public expenditure improvement program.</p> <p><u>Means of verification:</u> 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.</p>
	<p>(iv) Regulation of the compulsory use of the price list system in state public procurement.</p> <p><u>Means of verification:</u> State Government Decree regulating the compulsory use of price lists in all items available on state price lists, published in the DOE.</p>	<p>(iv) Expansion of the use of the price list system in state public procurement.</p> <p><u>Means of verification:</u> Price lists published in the first half of 2013, complemented by the AMGESP report of the analysis of supply authorizations.</p>
	<p>(v) Regulation of the procedures of state action to recover pension contributions paid into the General Social Security Regime (RGPS) in favor of the State of Alagoas Pension System.</p> <p><u>Means of verification:</u> State Government Decree creating a permanent intersectoral commission to supervise the work of recovering pension contributions from the RGPS in favor of the State of Alagoas Pension System, published in the DOE.</p>	<p>(v) Implementation of procedures for recovering pension contributions from the RGPS in favor of the State of Alagoas Pension System.</p> <p><u>Means of verification:</u> Report of the State of Alagoas Civil Servants Pension Institute (“Alagoas Previdência”) indicating the increase in the amount recovered.</p>

OBJECTIVE	TRANCHE I	TRANCHE II
COMPONENT 3. MANAGEMENT OF PUBLIC PROGRAMS AND POLICIES		
Strengthen the planning, formulation, and monitoring of public policies for economic development, to improve investment management.	3.1 Planning and monitoring of public programs and policies: Improve the management of programs and policies.	
	(i) Creation of a budgetary source exclusively for the PROCONFIS-AL program. <u>Means of verification:</u> State Government Budget Decree or Annual Budget Law that includes a budget source exclusively for the program, published in the DOE.	(i) Creation of a budgetary source exclusively for the PROCONFIS-AL program. <u>Means of verification:</u> Annual Budget Law that includes a budget source exclusively for the program, published in the DOE.
	(ii) Regulation of the Alagoas Tem Pressa program. <u>Means of verification:</u> Draft law defining the functional structure for monitoring and control of the targets of the “Alagoas Tem Pressa” [Alagoas Can’t Wait] program, sent to the State Legislative Assembly, and its abstract published in the DOE.	(ii) Definition of the processes for monitoring and control of priority projects in the Alagoas Tem Pressa program. <u>Means of verification:</u> 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.
	(iii) Establishment of standards for preparing the Budgetary Guidelines Law (LDO) and the Annual Budget Law (LOA). <u>Means of verification:</u> SEPLANDE Regulatory Instruction formalizing the manual for preparing the LDO and the LOA, published in the DOE.	(iii) Establishment of standards for preparing the Multiyear Plan (PPA). <u>Means of verification:</u> SEPLANDE Regulatory Instruction formalizing the manual for preparing the PPA, published in the DOE.
	(iv) Creation and regulation of the State Socioeconomic and Geographic Data and Information Portal. <u>Means of verification:</u> SEPLANDE Ordinance approving the creation of the portal and the rules for updating its contents, published in the DOE.	(iv) Production and consolidation of the state’s socioeconomic data, by creating the portal. <u>Means of verification:</u> Consultancy report attesting to the production and consolidation of State socioeconomic data, by creating a portal.
	(v) Creation and regulation of a unit to monitor execution of credit operations in SEPLANDE. <u>Means of verification:</u> Decree creating the unit to monitor execution of credit operations, published in the DOE.	(v) Implementation of standard procedures for monitoring execution of credit operations. <u>Means of verification:</u> SEPLANDE Ordinance instituting the manual for monitoring execution of credit operations, published in the DOE.

OBJECTIVE	TRANCHE I	TRANCHE II
COMPONENT 3. MANAGEMENT OF PUBLIC PROGRAMS AND POLICIES		
	<p>(vi) Establishment of the SEPLANDE quality management system.</p> <p><u>Means of verification:</u> Certified by the NBR ISO 9001:2008 standard, including actions to promote industry, commerce, services, handicrafts, mining, and energy for the economic development of Alagoas.</p>	<p>(vi) Expansion of SEPLANDE quality management system, to incorporate new areas of that department.</p> <p><u>Means of verification:</u> Certified by the NBR ISO 9001:2008 standard, including the incorporation of a new SEPLANDE area.</p>
	<p>(vii) Regulation of the Federal Access to Information Law at the state government level.</p> <p><u>Means of verification:</u> State Government Decree regulating the Federal Access to Information Law, published in the DOE.</p>	<p>(vii) Implementation of the access to information policy in the state.</p> <p><u>Means of verification:</u> 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.</p>
	<p>3.2 Management of economic development policies: Support to enable investments arising from the improved fiscal situation to promote the development of the Alagoas tourism sector.</p>	
Strengthen the planning, formulation, and monitoring of public policies for economic development, to improve investment management.	<p>(i) Establishment of the Strategic Tourism Development Plan for Alagoas (2013-2023).</p> <p><u>Means of verification:</u> State Government Decree instituting the Strategic Tourism Development Plan for Alagoas (2013-2023), published in the DOE.</p>	<p>(i) Diagnostic of the State Tourism Statistics System and definition of the corresponding action plan.</p> <p><u>Means of verification:</u> Report of the Tourism Department (SETUR), containing the action plan for improving the State Tourism Statistics System, developed on the basis of international recommendations.</p> <p>(ii) Technical cooperation for developing tourism and land management plans in three tourist municípios (excluding those in the metropolitan region of Maceió--RMM)</p> <p><u>Means of verification:</u> 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.</p>

OBJECTIVE	TRANCHE I	TRANCHE II
COMPONENT 3. MANAGEMENT OF PUBLIC PROGRAMS AND POLICIES		
		<p>(iii) Preparation of a census of private firms operating in tourism productive clusters.</p> <p><u>Means of verification:</u> SETUR technical note containing the survey of private sector participation in tourism clusters.</p>
		<p>(iv) Establishment of the road sector strategy integrated and aligned with tourism sector development.</p> <p><u>Means of verification:</u> 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.</p>
	<p>(ii) Alignment of the Alagoas Water Company (CASAL) with the Federal Basic Sanitation Law and its regulations.</p> <p><u>Means of verification:</u> Program contracts (water and sewerage), as defined in the federal law, developed on the basis of the Municipal Sanitation Plans (ASMPs) in force in three municípios belonging to the new tourist zones (excluding RMM municípios).</p>	<p>(v) Expansion of the CASAL area of action to encompass municípios belonging to the new tourist zones (excluding RMM municípios).</p> <p><u>Means of verification:</u> Decision by the CASAL Board of Directors approving the intervention strategy in the tourist municípios of Alagoas, published in the DOE.</p>
	<p>(iii) Definition of criteria, scope, and timetable of the state's solid waste plan initiated.</p> <p><u>Means of verification:</u> Technical Note issued by the Department of the Environment and Water Resources, containing the object, schedule, and bidding documents for contracting a consulting firm to prepare the plan.</p>	<p>(vi) Implementation of the work plan for preparing the state's solid waste plan.</p> <p><u>Means of verification:</u> Invitation to public tender for contracting the firm responsible for preparing the plan, published in the DOE.</p>
		<p>(vii) Proposed regulation on the guarantee fund for public-private partnerships (PPPs).</p> <p><u>Means of verification:</u> Draft law regulating the PPP guarantee fund, sent to the State Legislative Assembly and its abstract published in the DOE.</p>