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Country Program Evaluation

Brazil

2007-2010

Inter-American Development Bank
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Contents

Acronyms

Banobras	Banco Nacional de Obras y Servicios Públicos in Mexico
BNDES	National Bank for Economic and Social Development
CEF	Caixa Economica Federal
CPE	Country Program Evaluation
FINDETER	Financiera de Desarrollo Territorial in Colombia
FNDR	National Fund for Regional Development
FRL	Fiscal Responsibility Law
NSG	Non-sovereign loans
NGOs	Non-governmental organizations
OVE	Office of Evaluation and Oversight
PAC	Plan to Accelerate Growth
PIU	Project Implementation Unit
PTI	Poverty Targeted Investment
SEAIN	Secretaria Assuntos Internacionais
SCF	Structure and Corporate Finance Department
SEQ	Social Equity Enhancement
SFC	Secretaria Federal de Controle
SMEs	Small and Medium-sized enterprises

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Brazil is the largest country in Latin America and the world's fifth largest country, both by geographical area and by population with over 193 million people.
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Executive Summary

The previous Country Program Evaluation (RE-335) was discussed with the country authorities in early 2009 and by the Board in September 2009. It evaluated the two most recent Country Strategies, 2000-2003 and 2004-2007, in anticipation of a new strategy. However, since then no new strategy document has been produced, only updates extending the 2004 strategy to the end of 2010. Currently the Bank is preparing a Country Strategy Document for Brazil for the period 2011-2014.

Summary

The evaluation concludes that:

- The program was relevant. Faced with declining federal demand, the Bank was able to maintain its relevance in the country due to the change in its operational model.
- However, there were issues regarding operational efficiency and development effectiveness partly due to the operational model.

This Country Program Evaluation (CPE) covers the period 2007 to 2010. It draws lessons from past Bank activities, with an emphasis on the interface between the Bank and Brazil, as an input for the future country program. It also reviews relevant issues that were raised in the previous CPE in light of developments since 2007, including the consolidation of a new Bank business model in the country, the Bank's initiation of a new capital increase with specific priorities and targets, and the inauguration of a new President, Dilma Rousseff, in January 2011.

Between 2007 and 2010, the Bank's portfolio increased by 49% in terms of the number of projects and by 79% in terms of the dollar value of the outstanding loan balance. The Bank's average annual approvals and disbursements in the period represented 0.15% of Brazilian GDP, but accounted for 21% of total Bank lending and 16% of the total number of projects during this period. This asymmetrical relationship has implied that the Bank has had to search for niches in the country over and above that of pure financing. Thus, a new business model with Brazil emerged in 2006 and was consolidated over the period. While the business model has not been formalized in any specific Bank documents, it can be deduced from the pattern of approvals. The model rests on three types of clients: (a) sub-national governments; (b) the National Bank for Economic and Social Development *(BNDES)* and (c) the private sector. The Bank's business model in Brazil is unique. However, it may be a harbinger of a profile of interventions in other borrowing countries as their sub-national governments become eligible for foreign borrowing and as the Bank's supply of lending to the private sector increases.

The analysis carried out in the CPE with respect to the evaluative criteria of relevance, efficiency and efficacy leads to the following conclusions. While relevance of programming intent could not be evaluated in the absence of a new country strategy document since 2004, the composition of approvals was relevant. The diversification of clients embodied in the new business model allowed the Bank to maintain its relevance to the country in the face of declining demand for federal projects and the small amount of resources relative to the size of the Brazil's economy. The program was relevant with respect to country ownership and the country's development challenges as outlined in its flagship development program, Plan to Accelerate Growth *(PAC)*. Interviews with government officials reveal high country ownership. The data shows that the Bank is a responsive development partner as it has adjusted its portfolio towards "bricks and mortar", credit, and institutional strengthening projects, while moving away from country-wide programs and structural reforms featured in the portfolio prior to 2007.

However, the CPE found worrying trends in terms of operational efficiency in the delivery of services to Brazil. Preparation time and cost measures have generally worsened and compare badly with other "A" countries. This is a result of a number of factors. The first is the higher proportion of lending to sub-national governments in the portfolio, given that operational efficiency indicators for state and municipality projects are more akin to B and C&D countries' averages. The second is the relative lack of standardisation of umbrella operations to sub-regional governments; this is especially true in the case of *Procidades*, the pilot Bank initiative mainly composed of infrastructure for municipal governments. Third, there is insufficient use of local partners in the delivery and supervision of projects. Fourth, there is an almost exclusive use of the investment lending instrument, and within investment lending, limited adoption of country systems. The World Bank, in contrast, has used policy-based loans and adopted the sector-wide approach, SWAp, modality for investment loans. Thus, in the World Bank's case, over half of the value of its portfolio is effectively budget support.

In terms of efficacy, i.e., development effectiveness, the Bank's portfolio shows an improvement in the clarity of measurable expected results of projects and the greater use of *ex ante* cost benefit calculations. There is no commensurate improvement in the measurement of actual development results. For a large number of active and closed projects no data were or are being collected to document development results. However, where there are data, it shows the Bank is often achieving development results according to existing PCRs. The results of the Bank's technical cooperation are also unknown. The absence of a tracking system for outputs and the lack of a dissemination system to facilitate third party access to those outputs reduce the value of knowledge generated. This shortcoming is not unique to the Brazilian portfolio but a common finding by OVE in its CPEs. However, unlike many countries, Brazil has high institutional capacity in this area.

Finally, the CPE identified two recent developments that need to be taken into account in the next country strategy document. First, the Bank needs to discuss with Government authorities how to better align sector interventions with those proposed under IDB-9, including poverty and equity, climate and environment, and regional integration. IDB-9 also specifies operational efficiency and development effectiveness targets, themes that echo the Paris Declaration. Given the weight of Brazil in the Bank's portfolio, the Bank is more likely to meet its regional targets if they are incorporated into the upcoming strategy. Second, the administration in Brazil has emphasized the elimination of extreme poverty as a new government priority, an area in which this evaluation has found the Bank's portfolio wanting.

The findings of the evaluation suggest that the Bank consider a number of options which, without eviscerating the functional partnership and business model developed with the Brazilian authorities, may enhance relevance, efficiency and efficacy of its future portfolio.

- **The Bank, in its new country strategy document, should ensure the appropriate focus in the program by specifying *ex ante* criteria it will use to consider the mix of operations, including the strategic orientation that will guide the choice of non-sovereign loans**. In order to enhance relevance, the Bank needs to consider pro-poor, regional integration and climate change projects that are currently under-represented in the Brazilian portfolio. The criteria could be based on geographical targeting or on the Bank's own PTI/SEQ classification of projects. The Bank's "bricks and mortar", credit, and institutional strengthening projects, the mainstay of the Bank's intervention in Brazil, if targeted to poor regions would support the pro-poor bias specified in IDB-9 while also contributing to Government priorities (Brazil without Misery and *PAC II*). In the area of regional integration, another IDB-9 priority, the Bank could enhance its collaboration with *BNDES*, which is beginning to expand its coverage to other countries in the Region, under the auspices of programs such as the Initiative for the Integration of the Regional Infrastructure. Recent IDB private sector operations for green credit are an option for incorporating the private sector to address climate change in Brazil; working with the country's regional development banks may provide another option.

- **The new country strategy document should explicitly include the measures the Bank will adopt to improve operational efficiency**. Several non-mutually exclusive approaches could be considered: standardising its sub-national products carefully to obtain economies of scale in preparation; increasing collaboration with local partners that can strengthen the delivery and supervision of its projects; and adopting a different instrument and modality mix that may also help to improve efficiency. Given the similar business models of the IDB and the World Bank, a joint working group under the tutelage of the Ministry of Planning, would help in defining the rules of engagement. In order to correct the operational deficiencies found in umbrella operations, it is critical for the Bank to conduct an evaluation of the pilot program *Procidades*, as planned. Analyses of *Profisco*, a program for institutional strengthening in the fiscal area for states, and the

SME operations with *BNDES* could provide valuable inputs on possible trade-offs between operational efficiency and development effectiveness.

- **The new country program should include an action plan with time bound targets for improving the measurement and dissemination of development effectiveness**. In order to document the Bank's development effectiveness and generation of knowledge, it needs to effectively partner with local entities for data gathering and evaluation and to disseminate results to third parties. Given the country's human capital resources and capacity, the Bank could work with Brazilian institutions to create a system of *ex post* development effectiveness studies and disseminate findings through a depository of reports (studies and progress measurement) available to third parties.

Management Comments

Before responding to the three main recommendations of the OVE Country Program Evaluation, it is worth noting that Brazil's new business model reflects advances as a medium-income country, with plenty of market access, sound macroeconomic policies and declining appetite for IDB funding at the federal level. In this context, Brazil is becoming a client with increased appetite for sub-national financing, and knowledge transfer and dissemination.

Adaptation to Brazil's new business model was accompanied by corporate decisions to increase the effectiveness of the Bank's actions, to pursue evaluable results, and to cultivate greater rapprochement with customer expectations. The institutional profile encountered among the new sub-national borrowers has revealed several key circumstances: (i) the deficiency and inexperience of the agencies to prepare and oversee operations with multilateral financing, (ii) increased demand for training in relevant technical matters, as well as in relatively basic administrative and financial matters, which were of critical importance to successful project implementation, (iii) increased cost of preparing and monitoring projects, as a result of institutional weakness and the vast geographic dispersion, and (iv) an unfounded assumption within the Bank that strong institutions were guaranteed at all levels in Brazil, which turns out is not the case when dealing with some states and municipalities and, therefore, that operational indicators for "A" countries are not always appropriate.

The following table presents a summary of OVE's recommendations and Management responses.

OVE Recommendations and Management's Response

OVE Recommendations in the Country Program Evaluation	Administration's Response and Link to Country Strategy 2011-2014
Recommendation 1: Focus on the program, setting ex-ante criteria to decide on the mix of operations, including the strategic orientation that will guide the choice of non- sovereign loans. Recommendation includes considering operations targeted at the poor that foster regional integration and are aimed at intervening in the climate change agenda.	**Partially agree.** Given the diversity of sub-national actors that comprise the universe of borrowers, whose demand is screened by the federal government, it is not possible to define ex-ante criteria to decide on the mix of operations. In addition, the pent-up demand for investment projects in Brazil already requires significant coordination and prioritization effort at the federal level. In view of the restrictions currently affecting the funding envelope, it would be risky to present additional operations that could impact negatively on annual disbursements or compete with ongoing operations. It is important to highlight, as well, that the methodology developed by VPC, agreed with the Board of Executive Directors and applied to all countries, explicitly separates strategic intent from programming decisions. While the county strategy does indicate the priority areas and strategic objectives that will be pursued during a pre-defined period (many of which are closely aligned to OVE recommendations), the mix of operations is a programming decision that requires both the commitment by the Government and a definition of the budget and financial capacity of the Bank. As such, these decisions will be taken on an annual basis during the Bank's programming exercise. The strategy does, however, assign high priority to operations targeting the poor, due to the primary focus on the Northeast and the emphasis on strategic interventions in the education, social protection and health sectors. Likewise, it highlights the growing importance of addressing climate change as both an area in itself and as a cross-cutting element present in the indicators and targets of other strategic sectors. The strategy defines a cross-sectional space for the generation and funding of regional integration projects. Finally, the strategic sectors highlighted in the strategy will provide guidance to defining non-sovereign loans. Programming of non-sovereign operations follows a different path outside the prioritization and analysis performed by the ministries of Planning and Finance.
Recommendation 2: Explicitly include measures that will be taken to improve operational efficiency. Measures that could be included are: standardizing the products of sub-national operations; (ii) working with local partners to improve the service provision; and (iii) establishing a working group with the World Bank, coordinated by the Ministry of Planning. In addition, carry out evaluations of PROCIDADES and analysis of PROFISCO and BNDES to provide inputs on trade-offs between operational efficiency and development effectiveness.	**Partially agree.** The strategy focuses on efforts to enhance the performance of subnational activities, using economies of scale resulting from standardized work with the councils of sectoral secretariats such as Finance, Planning and Environment, and building on advances in standardization achieved by PROFISCO. The councils of sectoral secretariats are an effective medium for working with local partners. COFIEX, as the agency charged with planning external resources to support the government, defines the distribution of debt among multilateral agencies according to both the value added of each one and client preferences. Formation of the working groups, the evaluations and analyses recommended by OVE will be undertaken.
Recommendation 3: Include an action plan to improve measurement and dissemination of development effectiveness.	**Agree.** The results matrix reflects the multiple sectoral analyses and contains the relevant indicators related to country and Bank priorities. SPD review and validation of the results matrix showed a strong degree of evaluability, which will guide the efforts to improve measurement and dissemination.

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Map of Brazilian states and main cities.
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1 Introduction and Context

The previous Country Program Evaluation (RE-335) was discussed with the country authorities in early 2009 and by the Board in September 2009. It evaluated the two most recent Country Strategies, 2000-2003 and 2004-2007,[1] in anticipation of a new strategy. However, since then no new strategy has been produced; the 2004 strategy was extended to the end of 2010. Currently the Bank is preparing a Country Strategy Document for Brazil for the period 2011-2014.

Summary

The country program evaluation covers the period 2007-2010, and draws lessons for the future Bank strategy. It also considers aspects of the previous evaluation in light of the major events that occurred since 2007:

- Change in the operational model of the country
- Portfolio growth
- Beginning of the new capital increase in the Bank
- Election of the new Brazilian president, Dilma Rousseff, who took office in January 2011

This Country Program Evaluation (CPE) covers the period 2007 to 2010. It draws lessons from past Bank activities, with an emphasis on the interface between the Bank and Brazil, as an input for the future country program. It also reviews relevant issues that were raised in the previous CPE under the light of developments since 2007. Three developments are important to note.

The first major development is a change in the business model, accompanied by a growing portfolio. During the period 2007-2010 the size of the portfolio increased by 49% in terms of the number of projects and by 79% in terms of the dollar value of the outstanding project balance.[2] The increase reflects the approval of 102 projects for approximately US$10 billion, while 57 projects were closed. A new business model with Brazil, initiated in 2006, was consolidated over the period.[3] Specifically, the Bank shifted from a business model characterised mainly by lending to the federal

1 Most of the data used in the CPE (RE-335, July 2010) ended in 2007; the year 2008 was incorporated primarily in the macroeconomic section, leading to disagreement with Bank management about the reference period.

2 Note that in this CPE "projects" refers to loans using ordinary capital while "operations" refers to projects as well as technical cooperation and MIF projects, both loans and grants. The outstanding project balance was US$2.85 billion in December 2006 and increased to US$5.13 billion by December 2010, while the number of active projects increased from 68 to 101. These numbers include sovereign and non-sovereign projects (including TTFPs) using as a source the PISTA system. Project approvals during 2007-2010 were US$10,130 billion (i.e. 102 projects), compared to US$4.1 billion (i.e. 43 projects) in the previous four year period (2003-2006). The total operation approvals during 2007-2010 was US$10,260 billion (257 operations), based on OVEDA.

3 The CPE begins in 2007 precisely to capture the changing business model.

government to lending directly to sub-national governments, and consolidating its relationships with the National Bank for Economic and Social Development *(BNDES)* and the private sector.

The CPE analyzes whether the issues identified in the previous evaluation have improved or worsened in light of the growing portfolio and the new business model.

The second important development since 2007 is the Bank's initiation of a new capital increase. IDB-9 sets out targets to be achieved by 2015, in terms of sectoral priorities and improvements in both operational efficiency and development effectiveness.[4] Such targets are set at the regional level, not for specific countries. However, given that Brazil is the Bank's largest client, the probability of achieving the Bank-wide targets will be enhanced to the degree that the Brazilian portfolio is in line with those targets. Thus, IDB-9 provides a convenient framework to examine the status of the current portfolio and the challenges for the coming program cycle. IDB-9's three sets of targets, corporate sector priorities, operational efficiency, and development effectiveness, closely correspond to the country program's evaluative criteria of relevance, efficiency and efficacy.

The third development is the inauguration of President Rousseff in January 2011 for a four-year term. The Bank's new program needs to incorporate the new administration's priorities. The formal four year development plan is programmed to be approved by the end of 2011, but one important priority has already emerged in her discourse, the elimination of extreme poverty,[5] a goal shared by the Bank.

During the period covered in this CPE the government's flagship development program was the Program to Accelerate Growth *(PAC)*, which covered 2007-2010 and is used as a benchmark for relevance. For the coming programming cycle *PAC II*, which covers the period 2010 through 2014, will be the relevant benchmark.[6] In addition, it should be noted that investment is needed to up-

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4 See: "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank," AB-2764 (May 2010).

5 The program Brazil without Misery (*Brasil Sem Miséria)* was launched by President Rousseff in June 2011. The program's objective is to remove 16.2 million people from extreme poverty in four years, with an estimated annual cost of R$20 billion. It targets families with *per capita* income below R$70 per month. It includes activities such as cash transfers, social inclusion programs and access to public services such as education, health, social assistance, electricity, water and housing. In cooperation with states, municipalities, the private sector and NGOs, the plan is to create new programs and expand and integrate the existing ones. See: http://www.brasilsemmiseria.gov.br/conheca-o-plano/

6 *PAC II* proposes investments of R$631.6 billion divided into six major areas: energy, including both elec-

grade infrastructure for two international sports events (the World Cup in 2014 and the Olympics in 2016) as well as exploration of new oil fields.

The previous CPE raised a number of issues, not all of which were accepted by Management.[7] Some disagreements are no longer relevant and are now only of historical interest. Management did not agree with the reference period of the CPE, the evaluation's speculation of the potential impact of the international crisis on the Brazilian portfolio, and the assertion that the Bank's realignment had initially produced negative effects on country dialogue. Other disagreements, such as the strategy's inability to anticipate results and the low predictability of the program, cannot be re-examined in the absence of a new strategy document.

There was also disagreement on the CPE's findings on project cycle delays relative to the Bank average and the role of both the Fiscal Responsibility Law and IDB's institutional constraints as contributing factors. Management requested a second look at the law as well as an additional exercise comparing Brazil to other large federative countries such as Mexico and Argentina, which are carried out in the current document. Moreover, Management proposed specific measures to shorten project cycles, which are also examined.

There was less disagreement with respect to development effectiveness. The Administration accepted the need to increase the measurement of development effects of individual projects but argued that broad measures of development, included in the country strategy's document result matrix, are not relevant given the marginal contribution of the Bank to the achievement of economic and social objectives. There was also agreement on the need to expand the use of country systems, the need to align non-sovereign guarantee operations with country programming, and the need for the articulation of knowledge generation through technical cooperation. These issues are addressed in this document.

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tric power generation and oil and gas exploration (R$466 billion); urban renewal (R$57 billion); urban and rural social programs (R$23 billion); housing (R$278 billion); water, sanitation and electrification (R$31 billion); and transportation (R$105 billion).

7 The CPE recommendations are presented in Annex I. Management's response is contained in document RE-355-1 (September 2009). It is important to note that Management did not concentrate on the recommendations themselves, but rather on the findings of the document.

2

Stage II of the Fernão Dias Highway Widening Program in Pouso Alegre, Minas Gerais.
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2 Country Context

A Country Program Evaluation typically includes a description of the macroeconomic evolution of the economy and its major development challenges, in order to contextualise and obtain evaluative benchmarks for the Bank's intervention, in terms of programming intent and delivery.

Although analyses of macroeconomic conditions and country-wide development and reform challenges are important inputs for a CPE, this must be qualified in the Brazilian case. First, as shown in this CPE the Bank has focused on "bricks and mortar" and "institutional strengthening" and has not been engaged in policy reforms in the country. Second, not only does the size of the economy make the Bank's financing insignificant in terms of economy-wide measures, but financing has been acyclical. Third, the new business model based on lending to sub-national governments implies that it has to address highly diverse, regionally-specific development challenges, which do not necessarily correspond to national developments. Fourth, lending to sub-national governments requires that they are in compliance with the country's Fiscal Responsibility Law.

Summary

- The period from 2007-2010 was characterized by a continuation of:
  - High economic growth;
  - Lower inflation;
  - Reduction in poverty and income inequality.
- At the sub-national level (26 states, the Federal District, and 5,565 municipalities), Brazil is characterized by high inequality at the regional level.
- In addition to the obstacles posed by the size and heterogeneity of Brazil, the Bank's operating model implies difficulties in the design and execution of operations

Brazil is the largest country in South America, occupying almost half of the South American continent, and the fourth largest in terms of coterminous area in the world. It borders every other South American nation except Chile and Ecuador. Brazil's economy is the largest in the Region, accounting for 45% of regional GDP. It is the main trading partner for a number of countries in the Region and absorbs about a quarter of the exports of Argentina, Bolivia, Uruguay and Paraguay. It is also an increasing source of outward direct foreign investment for a number of countries in the region. Thus, Brazil represents a key actor in terms of regional integration amongst the Bank's borrowers.

The 2007-2010 period in Brazil was characterised by a continuation of high economic growth that began in 2004, with only a shallow recession in 2009 (GDP fell by 0.7%), a fall in inflation since 2002, and the reduction of poverty (from 2003 onwards) and

Brazil's ranks 49.3 in the Gini coefficient index; the richest 10% receive 42.7% of the nation's income and the poorest 10% receive less than 1.2%.

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income inequality (starting in 2001) to historical lows. The country is well on the way to reach the Millennium Goals (see Chart II.1 and Table II.1 in Annex). This performance was a result of prudent macroeconomic policies, a generally favourable external environment and an emphasis on social policies. According to the IMF, perspectives for 2011 to 2015 are positive. Economic growth of 7.5% in 2010 is expected to converge to about 4% p.a., and inflation is forecast to decline to 4.5% p.a. The current account of the balance of payments, which had turned into a deficit in 2008, is expected to grow, as are official foreign reserves. This scenario assumes that the favourable external environment, particularly the commodity boom, will continue.[8]

At the subnational level, the focus of the business model, Brazil is divided into 26 states plus the Federal District and 5,565 municipalities, characterized by wide regional inequalities. The GDP per capita of Brazilian states run the gamut of all the Bank's borrowing members, as shown in Table 1 below. The relatively poor regions as measured by GDP per capita are the North (US$1,944) and Northeast (US$2,431) while the richest are the Center-West (US$6,020), Southeast (US$5,322) and the South (US$4,913). Thus, within one country, the Bank faces the same challenges it confronts amongst its borrowers.

Nonetheless, there are indications of a convergence as the poorer states grew at a higher rate than the richer states in recent years. A similar general pattern can be seen for education (proportion of the population with at least eight years of education), poverty, and the proportion of the population covered by potable water and sewerage systems. The changes have implied a fall in inequality (measured either by the GINI coefficient or the Theil index) for all the indicators. However, inequality within states remains a challenge

8 See Brazil-Staff Report for the 2011 Article IV Consultation, SM/11/152, and July 1, 2011.

Table 1. Regional Inequality within Brazil and Comparison with other Countries in the Region

IDB Borrowing Countries		Brazilian States and Regions					
Country	GDP per capita* (2008)	State	GDP per capita* (2008)	Human Development Index** (2007)	Poverty Intensity** (2006)	Average annual growth*** GDP per capita (2007-2008)	Region (GDP per capita)
Trinidad and Tobago	$10.909	Distrito Federal	$12.171	0,74	4,2	3,3%	Center-West (US$6,020)
Dominican Republic	$3.623	Goiás	$3.409	0,71	6,1	6,3%	
Belize	$3.691	Mato Grosso do Sul	$3.756	0,68	6,3	8,2%	
Brazil	$4.469	Mato Grosso	$4.746	0,68	6,0	12,6%	
Paraguay	$1.516	Alagoas	$1.649	0,55	13,0	2,8%	Northeast (US$2,431)
Guatemala	$1.893	Bahia	$2.218	0,61	10,7	2,9%	
Guatemala	$1.893	Ceará	$1.883	0,65	11,4	4,9%	
Paraguay	$1.516	Maranhão	$1.616	0,59	13,2	7,2%	
Ecuador	$1.784	Paraíba	$1.818	0,60	11,3	4,3%	
Guatemala	$1.893	Pernambuco	$2.135	0,65	11,2	3,9%	
Honduras	$1.436	Piauí	$1.422	0,60	12,8	5,5%	
Guatemala	$1.893	Rio Grande do Norte	$2.171	0,65	10,3	3,1%	
Suriname	$2.623	Sergipe	$2.589	0,63	10,8	6,3%	
Suriname	$2.623	Acre	$2.620	0,61	8,6	11,1%	North (US$1,944)
Belize	$3.691	Amazonas	$3.710	0,62	7,8	1,8%	
Peru	$2.921	Amapá	$2.921	0,57	6,7	6,5%	
Guatemala	$1.893	Pará	$2.116	0,60	8,7	5,7%	
Colombia	$3.121	Rondônia	$3.170	0,61	8,0	11,8%	
Colombia	$3.121	Roraima	$3.136	0,63	9,7	6,8%	
El Salvador	$2.672	Tocantins	$2.706	0,64	9,6	11,5%	
Costa Rica	$5.187	Espírito Santo	$5.356	0,75	6,7	7,8%	Southeast (US$5,322)
Jamaica	$3.824	Minas Gerais	$3.768	0,78	6,0	6,1%	
Panama	$5.688	Rio de Janeiro	$5.724	0,80	4,4	3,2%	
Mexico	$6.592	São Paulo	$6.474	0,87	3,5	4,7%	
Brazil	$4.469	Paraná	$4.481	0,82	5,2	6,3%	South (US$4,913)
Costa Rica	$5.187	Rio Grande do Sul	$4.865	0,76	5,0	6,0%	
Panama	$5.688	Santa Catarina	$5.392	0,79	2,8	6,6%	

Memorandum to Table 1: Change in inequality between Brazilian states

Inequality Coefficient	GDP per capita		Life Expectancy		% pop 8 or + years of education		Household income, per capita		Percentage of population covered by water supply networks		Percentage of population covered by sewerage network	
	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
GINI	0.294	0.283	0.020	0.018	0.113	0.093	0.199	0.189	0.105	0.082	0.249	0.177
THEIL	0.149	0.138	0.001	0.001	0.020	0.014	0.064	0.061	0.020	0.013	0.104	0.051

Source: IMF statistics; * IPEA and the World Bank (constant 2000 US$); ** FIRJAN system and FIRJAN Municipal Development Index; *** IPEA (poor families in 100 people).
See: http://www.firjan.org.br/data/pages/40288094212F790101213013CD7D651D.htm;and http://www.ipea.gov.br/portal/

and there are large differences in GDP per capita, the Human Development Index, the institutional capacity index of individual municipalities within the individual states (see Table II.2 in Annex).[9]

In addition to the challenges posed by Brazil's size and heterogeneity, the Bank's business model implies challenges in both the design and delivery of its operations lending to sub-national governments is conditional on eligibility under the Fiscal Responsibility Law. Brazil enacted a Fiscal Responsibility Law (FRL) in 2000, which covered all three levels of government (federal, states, and municipalities).[10] This contributed to the reduction of fiscal disequilibrium in sub-national governments that had been an important source of

9 This index was constructed by OVE using principal component analysis for indicators in the areas of institutional, legal--regulatory and education level of public employees. The data is from the IBGE survey *Pesquisa de Informações Básicas Municipais 2009*.

10 The Fiscal Responsibility Law (LRF) established a framework of fiscal planning, execution, and transparency at the federal, state, and municipal levels. The LRF requires fiscal administration reports at four-month intervals, with data on budget execution and compliance with the LRF. LRF sets ceilings on personnel spending at 50% of Federal Government spending and 60% of state and local government spending. If these limits are breached in any given four-month period, the lapse must be redressed within the following eight months. In terms of public debt, the LRF and complementary legislation set a ceiling of 120% of current revenue at the national and state levels. If this ceiling is breached, the debt has to be brought back within the ceiling over the following 12 months, and no form of borrowing is permitted until that happens. There is also a "golden rule" provision, stating that net borrowing cannot exceed the volume of capital spending. Lending between the national, state, and municipal governments are prohibited. The LRF contains two escape clauses that suspend the debt ceiling: (i) the case of a Congressional declaration of a state of national calamity or state of siege, and (ii) in the case of an economic recession, defined as a growth rate of less than 1% of GDP over a period of one year. In the latter case, the period

instability in earlier periods.[11] The number of states violating the FRL threshold fell from 14% in 2000 to 6% by 2008, although under bilateral agreements between individual states and the Federal government most states are required to reduce debt levels below those defined by the FRL. The debt to revenue ratio of municipalities has generally fallen and the few that breached the threshold have adjusted. The primary fiscal balance of municipalities has hovered around 0.1% of GDP and of states plus municipalities about 1% of GDP during the 2007 to 2009 period. According to the international Budget Partnership 2008 Open Budget Index, Brazil scores 74% for openness in its budget process, i.e. in the "substantial" category of budget openness.

for redressing a breach in the debt ceiling is doubled to two years. The escape clauses also apply to the limits on personnel spending.

11 For a history see F. Cazeiro Lopreato, *"O Colapso das Finanças Estaduais e a Crisis da Federação"* (2002). http://www.iececon.net/arquivos/publicacoes_44_1427145249.pdf for an evaluation of the Law's impact on fiscal accounts see: Chapter VI of Brazil: Selected Issues, SM/10/169, IMF, July 2010.

3

From the pattern of approvals, it can be deduced that the Bank's lending strategy rested on three types of clients: (a) sub-national governments; (b) the National Bank for Economic and Social Development (BNDES) and (c) the private sector.

(C) IDB, 2010

3 Relevance

Relevance, in terms of both programming intent and actual delivery, refers to the degree to which the Bank's country program is consistent with the needs of the country as well as the Government's strategies and priorities for addressing these needs. The Bank's institutional priorities, reflecting its strategic goals, comparative advantages, and performance targets can also be used as an evaluative benchmark, since the country program should reflect a consensus between demand and supply.

As in the case of several countries in the Region, relevance in terms of programming intent cannot be evaluated since there was no new Board-approved country document for the period under consideration. Updates were produced for several of the countries, including Brazil,[12] as the Bank continued to debate the format of country strategies. In this context, the Report of the Chairperson of the Programming Committee of the Board: *"expressed some concerns with respect to issues such as the criteria for setting the effective periods of the updates; the update of strategies that expired long ago during this transition period and their extended effective period; consideration of country systems, with the matter of procurement still pending; evaluability of the updates; and due consideration of risk areas as well as significant changes that may have occurred during the period that had elapsed since the expiration of the previous strategies. In addition, it noted that "OVE indicated that it had been duly informed, that the updates as such were not evaluable, and that it would be necessary to determine whether the original strategy and update taken together would be."* [13]

Summary

During the evaluation period:

- The volume of the IDB's portfolio in Brazil increased significantly;
- A new business model was consolidated in the country. According to this model, funding is concentrated on three clients:
  1. Sub-national governments
  2. The National Bank of Economic and Social Development
  3. The private sector

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12 The 2008 update (GN-2477-2) essentially contained a Bank-wide update of projects in the pipeline for 2008 (see GN-2477-2). The 2010 update (GN-2570), included Argentina, Brazil, Dominican Republic, Jamaica, Mexico, Trinidad and Tobago, Uruguay, and Venezuela.

13 GN-2570-2 (June 2010), http://sec.iadb.org/Site/Documents/DOC_Detail.aspx?pSecRegN=GN-2570-2.

Poverty in Brazil stems more from the existence of high inequalities than low level of average income. Like in other countries, education is the best tool for improving social mobility.

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The concerns raised by the Programming Committee were realised, at least for the Brazilian case. Although the original strategy document was approved seven years ago and the Bank's business model for Brazil had been changing since 2006, the updates did not include revisions of the priority areas or sectors nor of the results framework, nor did they mention the new business model. Thus relevance of intent cannot be judged, only relevance of delivery.

Between 2007 and 2010 the Bank approved approximately US$10 billion in new lending. All projects were deemed consistent with the four priority areas identified in the 2004 Strategy: (a) productivity and infrastructure, according priority to small and medium-sized enterprises (SMEs) and to the use of public-private partnership models in new investments; (b) poverty, equity, and human capital formation, with emphasis on income-distribution programs as a short-term measure for poverty alleviation and education and health programs as sustainable measures for enhancing equity; (c) living conditions and efficiency in cities, integrating actions for reducing poverty in urban areas through improvements in habitability, efficiency, and environmental quality in cities; and (d) modernization of the State and institutional strengthening, with emphasis on the sub-national areas of government.[14] These areas were defined broadly enough to accommodate a wide variety of programs.

14 GN-2327-1. 2004.

Table 2. IDB's Financing Importance for Brazil

INDICATORS	UNIT	2007	2008	2009	2010	Average
Brazil Approvals / Total IDB Approvals	(in percent of IDB Approvals)	18%	28%	19%	18%	21%
Brazil Disbursement / Total IDB Disbursements	(in percent of IDB Disbursements)	26%	18%	22%	21%	22%
Total Approvals / GDP	(in percent of GDP)	0,12%	0,19%	0,18%	0,11%	0,15%
Total Disbursement / GDP	(in percent of GDP)	0,14%	0,10%	0,18%	0,11%	0,13%
Total Approvals in PAC sectors / PAC	(in percent of PAC)	12%	25%	16%	6%	14,91%
Total Disbursement in PAC sectors / PAC	(in percent of PAC)	13%	16%	14%	5%	11,73%
Total Federal Approvals / Total Primary Expenditure Federal Government	(in percent of Total Primary Expenditure Federal Government)	0,01%	0,03%	0,06%	-	0,03%
Total Federal Disbursements / Total Primary Expenditure Federal Government	(in percent of Total Primary Expenditure Federal Government)	0,04%	0,03%	0,01%	0,01%	0,02%
Total State and Municipality Approvals / Total Primary Expenditure States and Municipalities	(in percent of Total Primary Expenditure States and Municipalities)	0,07%	0,79%	0,80%	0,89%	0,64%
Total State and Municipality Disbursements / Total Primary Expenditure States and Municipalities	(in percent of Total Primary Expenditure States and Municipalities	0,21%	0,16%	0,46%	0,33%	0,29%
Total State and Municipality Approvals / Transfers from the federal government	(in percent of Transfers from the federal government)	0,26%	2,70%	2,98%	3,25%	2,30%
Total State and Municipality Disbursements / Transfers from the federal government	(in percent of Transfers from the federal government	0,75%	0,56%	1,73%	1,19%	1,06%
Total Development Banks Approvals /Federal government transfers to public financial institutions	(in percent of Loans to public financial institutions)	72,7%	6,0%	1,9%	nr	26,87%
Total Development Banks Disbursements / transfers to public financial institutions	(in percent of Loans to public financial institutions)	68,7%	0,9%	2,0%	1,7%	18,33%
Approvals to BNDES to BNDES loans	(in percent of BNDES's loan disbursements)	3%	2%	1%	nr	2%
Disbursements to BNDES loans	(in percent of BNDES loan disbursements)	2,84%	0,30%	1,51%	nr	2%
Approvals To BNDES to BNDES SME credit	(in percent of BNDES loans to MPMES R$ billion)	6,25%	4,55%	4,17%	nr	4,99%
Disbursements to BNDES SME credit	(in percent of BNDES loans to MPMES R$ billion)	5,91%	0,70%	4,29%	nr	3,63%

Source: Bank's data warehouse, IMF's Article IV (2010), Annual Reports (BNDES)

Historically, the Bank has been the largest external development agency in Brazil, although it was surpassed by the World Bank during this period. However, both institutions remain small actors in terms of overall development financing in Brazil, and the country is in the driver's seat. The Bank's average annual approvals and disbursements were 0.15% and 0.13% of GDP (see Table 2 below). In contrast, from the point of view of the Bank, Brazil is the largest borrower: it accounted for 21% of total Bank lending and 17% of the total number of projects from 2007 to 2010. This asymmetrical relation has implied that the Bank has had to search for niches in the country over and above that of pure financing. These niches, more than the specific priority areas identified in the strategy, best describe the actions of the Bank between 2007 and 2010.

A. The Bank's Niche: The Business Model

The niches are embodied in a business model, evolving since 2006 at the request of the Government, led by the Ministry of Planning, Budget and Management. While the business model has not been formalized in any specific Bank documents, it can be deduced from the pattern of approvals.The model rests on three types of clients: (a) subnational governments; (b) the National Bank for Economic and Social Development *(BNDES)* and (c) the private sector. This diversification of clients has allowed the Bank to maintain its relevance to the country in the face of declining demand for federal projects and the small amount of Bank resources relative to the size of the country.

Table 3. Financing Stocks and Flows by Borrower

Borrower	Stock 2006		Approvals 2007-2010		Stock 2010	
	Number (%)	Available Balance (%)	Number (%)	Original Approved (%)	Number (%)	Available Balance (%)
Development Banks	4%	13%	3%	30%	1%	1%
States	32%	24%	41%	41%	59%	49%
Federal Government	34%	30%	6%	3%	10%	11%
Municipalities	10%	13%	22%	9%	18%	26%
NSG	19%	19%	28%	17%	12%	14%
TOTAL (Number, US$ million)	**68**	**2857**	**102**	**10130**	**101**	**5073**

Source IDB's data warehouse

The consolidation of the business model is shown in Table 3. From 2007 to 2010 the dollar value of approvals was US$10.130 billion (102 projects) distributed as follows: Sub-nationals with 50% (63% of the number of loans), divided between states with

41% (41%) and municipalities 9% (22%); BNDES with 30% (3%), and the private sector with 17% (28%). The residual of 3% (6%) represented direct loans to the Federal Government. The difference in dollar value and number reflects differences in the average size of the projects. Table 3 also shows the evolution and consolidation of the model in terms of the outstanding portfolio: comparing December 2006 to December 2010, the US$ value of the stock of federal loans decreased from 30% to 11% while the stock of loans to sub-national entities increased from 37% to 74%.[15]

Sub-national governments. Average annual approvals and disbursements by the Bank to sub-national governments represented about 0.64% and 0.29% of states' and municipalities' primary expenditure. Direct lending to sub-national governments, both states and municipalities, has taken place either through umbrella operations which can be applied to a number of entities, such as *Profisco* and *Procidades,*[16] or through ad hoc specific operations, and is a unique feature of the Bank's business model in Brazil. In other countries in which the Bank works with sub-national entities, lending is usually carried out through existing systems of fiscal transfers. For example, in Mexico, sub-national projects have been traditionally carried out through a budget line item (Branch 33) while Banobras, a second-tier federal public bank, transfers as grants and/or on-lends to sub national governments. In Chile, the Bank reaches sub-national entities through the country's National Fund for Regional Development *(FNDR)*, while in Colombia the Financiera de Desarrollo Territorial *(FINDETER)* on lends to sub-nationals. These models, based on lending to a national entity that on-lends to sub-national governments is not feasible in Brazil, since the country's Fiscal Responsibility Law prohibits credit operations between different levels of governments. The portfolio in Argentina is perhaps the most similar to the Brazilian model. From 2007 to 2010 the Bank approved projects with four provinces; however, these represented only 8% and 11.4% of the total approvals in terms of number and dollar value, respectively. The Argentinean portfolio remains dominated by loans to the Federal government.

BNDES. Lending to the National Bank for Economic and Social Development, *BNDES,* a second tier public development bank, has been a mainstay of the Bank in Brazil. Over the period 2007-2010 Bank approvals (disbursements) of US$3 billion represented 2% (2%) of total *BNDES* lending, but accounted for almost one third of the total dollar value of Bank approvals to Brazil. In fact lending to *BNDES* has represented 26% of total cumulative lending to Brazil since 1995 (fluctuating between 22% and 30% for every four-year period since 1995). In no other country does one single borrower represent such a large proportion of total lending to that country. These loans were designed to

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15 Between 2007 and 2010, the category "Development Banks" included only the BNDES. However, the outstanding stocks in 2006 and 2010 include a loan to Banco do Nordeste (BR- 0323, Prodetur II), a tourism loan for the Northeast Region) that was approved in 2002 for a value of US$240 million. The available balance in December 2010 was US$43 million.

16 *Profisco* was approved as a Conditional Credit Line (CCLIP) in November 2008 to improve tax and expenditure systems through direct loans to states. *Procidades* was approved in 2006 as a mechanism to finance municipal development projects through direct lending in local currency.

co-finance *BNDES* existing credit line to small and medium, and in the last loan, micro enterprises. In 2009 alone, *BNDES* lent about US$96 billion, including US$13.6 billion in 387,000 individual operations to SMEs. Hence, Bank lending to *BNDES* is a very cost effective means to reach a large number of these enterprises. On a less systematic basis, in the past the IDB provided loans to Northeast Bank (Banco do Nordeste, BNB), which covers areas with a high prevalence of poverty. [17]

Private sector. Operations with BNDES provide indirect support to the private sector. The Bank also lends directly to the private sector through non-sovereign loans (NSG). As in the case of the public sector, the Bank accounts for a very small part of financing to the private sector, but from the point of view of the Bank, Brazil's private sector is an important client. Specifically, the country accounted for 28% of total dollar value of approvals and 20% of the number of projects from 2007 to 2010.[18] The previous CPE identified the need to align the NSG program with national priorities. Management agreed, "*…pointing out that the programming work in Brazil has already been improved to encompass a more integrated approach, focusing on Bank's group interventions.*"[19] However, the incorporation of NSG into the country program document and its strategic alignment with country priorities remains at odds with the Structure and Corporate Finance Department's (SCF) ad hoc and opportunistic way to generate business. This modus operandi is inconsistent with presenting a list of potential projects over the programming cycle, but it could change. First, the future will likely involve the development of an inventory of infrastructure projects, particularly potential public-private partnerships related to the World Cup (in 2014). This creates the opportunity for the sovereign and non-sovereign arms of the Bank to define a strategic orientation for NSG lending, aligned with national priorities without explicit listing of individual projects. Second, Brazil's share of non-sovereign loans to the private sector (NSG) may have to take into account the changes that IDB-9 imposes, especially the emphasis placed on lending to C&D countries.[20]

17 There are four large development banks in Brazil, in addition to BNDES: Banco da Amazonia and Banco do Nordeste both sub- regional banks; and two others whose field of operations is national: Banco do Brasil and Caixa Economica Federal (CEF). BNDES, BB and CEF together supply 42% of all credit operations of the 50 largest banks.

18 These figures include private sector investment, private sector PST (TFFPs) and private sector supplementary loans.

19 RE-355-1, paragraph 2.19.

20 Under IDB-8 (1994), the Bank launched the private non-sovereign window with a 5% of commitment limit, in 1998 the ceiling was changed to 5% of outstanding loan balance (excluding emergency loans), and in 2001 the ceiling was raised to 10% of the aggregate outstanding amount of loans and guarantees (excluding emergency loans). IDB-9 proposes replacing gradually the existing limit to one where risk capital requirements for NSG operations will not exceed 20% of Bank equity.

B. Sector and Borrower

This section looks at the relevance of delivery with respect to Brazil's Program to Accelerate Growth (PAC), pro-poor targeting and IDB-9, by looking at sectors and borrowers. According to the sectoral classification used by the Bank (see Table III.2 in Annex), five sectors accounted for 81% of US$ value of approvals over the period: BNDES (30%), transportation (19%); potable water and sanitation (13%); public management (10%), and energy (9%). Thus, overall the Bank's business in Brazil has been largely concentrated in infrastructure and credit to small and medium enterprises through *BNDES*. The sectoral classification is closely related to the type of borrower: transportation loans were made to states (82%) and the private sector (13%) with the remaining 5% going to the Federal Government. Potable water and sanitation loans were made to the states (73%), municipalities (19%) and private sector (8%). Public management was largely directed at the states through *Profisco* (81%) with the rest to the Federal Government. Ninety-nine percent of energy loans went to the private sector (see Table III.3 in Annex).

Given the importance of non-sovereign loans in approvals, it is important to bring out their sectoral distribution: energy (52%), loans to commercial banks (20%), and transportation (15%). Together these represented 87% of private dollar approvals (see Tables III.4 and III.5 in Annex).

The sector distribution of the loans approved between 2007 and 2010, combining both the sovereign and non-sovereign portfolio, can be compared with the country's own priorities, expressed in the Plan to Accelerate Growth (PAC). The PAC, approved at the end of 2006, is an investment program designed to overcome bottlenecks to growth, increase productivity, and reduce regional and social disparities through strategic investments. It also includes policy and institutional measures designed to improve the investment climate, promote access to credit, and reduce the fiscal burden. As shown in Table III.6 in Annex, PAC's planned investments for 2007-2010 in the value of R$504 billion were distributed among three key areas: logistical infrastructure, including roads, ports, and airports (12%); energy (54%) and social and urban infrastructure (34%). The corresponding Bank portfolio, in contrast, was distributed in the following manner; transportation (19%), energy (9%) and social, urban infrastructure, including water and sanitation (22%). Thus, with the exception of the energy sector, the Bank's sectoral focus has been consistent with PAC priorities; its approvals and disbursements in these priority sectors represented an average of 15% and 11% of the Federal Government's expenditure on PAC, respectively.

The sectoral composition of the portfolio is not particularly useful in judging the relevance of the Bank's delivery with regards to pro-poor interventions, an objective shared by the Bank and the country. For example, the Bank's project Proacesso (BR-L1027)

The IDB financed the widening of the Fernão Dias highway between the states of São Paulo and Minas Gerais.
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is classified as an infrastructure-transport project, which finances the construction and rehabilitation of roads in poor municipalities in the north of the State of Minas Gerais. To the extent that these roads increase access to markets and jobs, the resulting increase in household income may have sustained poverty reduction effects. In fact, under the PAC the government emphasizes the role of infrastructure in decreasing inequality and poverty.

The Banks pro-poor classification of projects into Poverty Targeted Investment (PTI) and Social Equity Enhancement (SEQ) provides a better measure of projects' intent regarding poverty and equity. Comparing the 2006 and 2010 portfolios, the US$ value of pro-poor projects fell from 54% in 2006 to 46% by 2010. Approximately 88% of the municipal projects, 49% of states' projects, 2% for Federal and 0% private borrowers are classified as PTI/SEQ (see Table III.7 in Annex).

PTI lending can go to states and the private sector as well as to municipalities. An example is the project Proares, a PTI classified project, where the borrower is the State of Ceará. This project finances improvements in municipal social services, particularly for youth in poor municipalities. Capital Investments CELPA is a PTI-classified project to a private concessionaire for the distribution of electricity in the State of Pará. One of the project's objectives was to expand access to electricity in rural areas as part of the federal government program "Light for Everyone" (Luz para Todos). Another alternative is for the Bank to work through regional development banks that cover poorer areas of the country, such as Banco da Amazonia and Banco do Nordeste.

The portfolio's sectoral distribution can also be compared with IDB-9 priorities to judge relevance. IDB-9 sets targets for lending volumes for poverty reduction and equity enhancement, climate change, and regional integration, as well as target outputs for the Bank's contribution to Regional Development Goals in priority areas. Given Brazil's weight in the Bank's portfolio, regional targets are more likely to be met if the priority areas are incorporated in Brazil's upcoming strategy. While the targets refer to future approvals, not to the existing stock, a rough reclassification of existing stock of active projects as of December 2010 reveals the challenge facing the Bank in its next programming cycle: poverty and equity account for 3% of the portfolio; climate and environment 13%; and regional integration 0% (see Table III.8 in Annex).[21]

There are new opportunities to meet these IDB-9 challenges. The Bank has been gaining experience in non-sovereign lending for green credit, an option to explore for private sector non-sovereign loan projects but possibly also of interest to the country's development banks.[22] In the area of regional integration, BNDES, which currently lends approximately US$35 million a year, has recently begun to expand its services in other countries. This suggests a potential opportunity for the IDB to collaborate with BNDES in the area of regional integration under the auspices of programs such as the Initiative for the Integration of the Regional Infrastructure in South America (IIRSA).

C. Lending Instruments

Relevance can also be judged by appropriate use of lending instruments. During this period, the Bank concentrated on loans to state and commercial banks that re-lend to private borrowers, "bricks and mortar", and institutional strengthening. Despite these differences, the Bank relied almost exclusively on investment loans. There was only one policy-based loan to the State of Bahia. This contrasts markedly with the instruments used by the World Bank, as discussed in a later section.

The type of investment loans utilized reflected the Bank's business model with the country. Specifically, among sovereign loans there was an increase in umbrella operations (global multiple works, CCLIP, and sector facilities) which together represented 47% of the dollar value of approvals. Taking into account loans that closed during this period, the stock of umbrella operations increased from 7% in number in 2006 to 31% in 2010 (see Table III.9 in Annex).

While the business model in Brazil contrasts sharply with the Bank's typical approach in other countries, the corporate modus operandi, i.e. use of its own systems for sovereign loans, is still largely practiced in Brazil[23]. The business model combined with the modus operandi has contributed towards low operational efficiency, as described in the next chapter.

21 Using the indicative classification in Table III.2 titled The Bank's Strategic Priorities and its Relation to Ongoing Activities and Business Areas.

22 For an example see the project BESI Lending Facility (RG-L1038, July 2011), a project which is part of an indicative target of green lending of US$10 billion by 2015. In recent years there have been six "green" loans for a total of US$120 million.

23 Note the Bank's non-sovereign loans use the country's private sector system

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The Brazilian government sees housing construction as a priority for driving economic growth and is focusing its efforts on the second stage of a subsidized program for low=income families.
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4 Operational Efficiency in Delivery

Operational efficiency is concerned with the Bank's delivery of services to its clients. The previous CPE argued that delays in both preparation and disbursement periods, compared to Bank averages, were a distinctive feature of doing business in Brazil. It also noted the slow progress in adopting country systems. Both of these represent priorities under IDB-9.

Summary

Indicators of operational efficiency (time and cost) worsened and compared negatively with other countries in Group A. This is largely due to:

- The highest proportion of financing was given to subnational governments. Efficiency indicators for state and municipal projects are more similar to the averages of B, C and D countries;
- Little standardization of "umbrella" programs (e.g. Procidades);
- Almost exclusive use of investment loans;
- Limited adoption of national systems.

A. Portfolio Performance

Delays in project preparation have generally worsened relative to other countries, as shown in Table 4 below. Project preparation time in Brazil (from pipeline to approval) increased from an average of 20.3 months (2000-2006) to 21 months (2007-2010), while the Bank average declined from 18.6 to 17.6 months. The reduction in the average for A countries, suggested by Management to be a more relevant comparator group, was even more marked, declining from 18.3 to 15.9 months and thus widening the gap with Brazil. The time between approval and eligibility as well as the time between eligibility to first disbursement were reduced in Brazil, but remained above both the Bank average and the A countries' average.

Preparation costs per US$ million approved decreased from US$2,522 (2000-2006) to US$1,956 (2007-2010), but remained above the average for A countries. Execution costs per million disbursed increased significantly between the two periods, from US$939 to US$1,570, while the average for A countries declined from US$992 to US$885. In other words, the increasing gap is due to a combination of improved performance in other countries and a worsening in the Brazilian portfolio.

These indicators should be treated with caution as measures of operational inefficiency of the Bank in Brazil. Longer periods and higher costs were to be expected given the Bank's new business model in the country, emphasizing direct lending to sub-national entities. Such a model involves smaller size loans; lending to authorities with little to no experience working with the Bank; having counterparts with generally weaker institutional

Table 4. Operational Efficiency Indicators

Aggregate		2000-2006					2007-2010				
Index	**Description**	**Brazil**	A Countries*	B Countries	C&D countries	Bank	**Brazil**	A Countries*	B Countries	C&D countries	Bank
Preparation Time											
	From pipeline to approval (months)	**20.3**	18.3	16.8	18.9	18.6	**21.0**	15.9	16.2	17.4	17.6
	From Approval to first elegibility (months)	**15.2**	10.3	8.8	12.4	11.7	**11.6**	8.7	6.1	8.8	8.9
	From first elegibility to first disbursement (months)	**3.3**	1.7	1.7	0.9	1.3	**1.6**	1.2	0.8	1.1	1.2
Cost											
	Preparation cost (per US$ million approved)	**2,522**	1,634	3,155	6,204	3,306	**1,965**	972	2,367	4,162	2,198
	Execution cost (per US$ million disbursed)	**930**	992	1.893	7,585	2,481	**1,570**	885	3,110	5,568	2,378
	By Borrower	2007-2010			0,59	13,2		7,2%			

Index	**Description**	Federal*	States	Municip.
Preparation Time				
	From pipeline to approval (months)	18.4	20.2	25.2
	From Approval to first elegibility (months)	14.6	10.5	13.6
	From first elegibility to first disbursement (months)	5.6	0.8	0.6
Cost				
	Preparation cost (per US$ million approved)	546	2,179	6,238
	Execution cost (per US$ million disbursed)	551	2,375	7,140

Notes: Only loans. Excluding: Emergency Loan, Private Sector Loan, Project Preparation Facilities.; A* Countries: Argentina, Mexico, and Venezuela. Federal;* denotes that it includes BNDES. Information of Preparation Costs since 2003. Information of Execution Costs since 2002. Source: Bank's data warehouse capacity than the federal government; and having to fulfil the requirements of the Fiscal Responsibility Law. While compliance with the law represents an incentive for good fiscal management at the sub-national level, it increases preparation time, uncertainty and costs. Sub-national entities must demonstrate compliance with the law at two different points in time: initially when presenting a proposal to the agency in the Ministry of Planning (SEAIN/COFIEX) responsible for authorizing its presentation to the Bank and again once technical preparation is complete and prior to official negotiations with the Bank. Municipalities often lack knowledge about the documentation and processes required for compliance.

As expected, preparation time from pipeline to approval, the period most affected by country requirements, was longer for state (20.2 months) and municipal (25.2) projects than for federal ones (18.4 months). However, the major effect of the consolidation of the business model was on costs. Loans to sub-national entities are on average smaller (see Table IV.2 in Annex).[24] Preparation costs for state and municipality projects were US$2,179 and US$6,238 per million dollar disbursed respectively, compared to US$546 for federal loans Execution costs were US$2,375 and US$7,140 compared to US$551 for federal loans (see Table IV.3 in Annex). These figures suggest that the relevant comparators for the Brazilian portfolio are not other A countries, but B countries for state level loans and C&D countries for municipal level loans, in which case the Brazilian portfolio is more in line with costs and times.

The expectation that umbrella type sub-national projects, such as *Procidades* and *Profisco,* would be more time and cost effective has not been uniformly borne out. In the case of *Procidades,* preparation times were slightly shorter than for municipal projects as a whole, but preparation costs per US$ million approved were 25% higher. In the case of *Profisco,* preparation times were significantly shorter than for state projects as a whole, but execution costs per US$ million approved were double (see Table IV.3 in Annex).

Management's response to the previous CPE's findings of low operational efficiency noted that the Bank was already taking a proactive role on several fronts, including *"streamlining project preparation to assure timeliness, as in the pilot Procidades program."*[25] The pilot, in the amount of US$800 million and a maximum individual loan size of US$50 million, was approved in October 2006 and praised as a new way of doing business: responsibility for the individual projects was to be decentralised to country office in its entirety, and project preparation and supervision were to be outsourced to local actors. A service contract was signed with the federal public bank *Caixa Economica Federal (CEF)* in September 2007 to support the Bank in monitoring, supervision and processing of disbursements. An analysis of the pilot shows that while full decentralisation to the Country office took place, the outsourcing of preparation and supervision of projects did not. The agreement

24 The business model also implied a reduction in the size of loans, which fell from the average of US$107 million in 2006-2007 to US$99 million in the period 2007 to 2010. The overall fall reflects a fall in the average size of loans to Federal Government and municipalities that was partially compensated by increases in the average sizes of loans to development banks, states, and non-sovereign loans (see Table IV.2 in Annex).

25 RE-355-2 (2009), p. 4.

Procidades finances activities and projects of the Municipality of Passo Fundo Integrated Development Program. The Program is under four main components: i) local economic development; ii) district improvement; iii) transport and urban and rural road system; and iv) institutional strengthening.

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with *CEF* failed given the limited financial resources and small scale the Bank could bring to the task. Moreover, while the original designed envisioned a high degree of standardization despite potentially heterogeneous clients, in practice individual projects have been highly complex and diverse negating the realisation of economies of scale.

The Bank has ended up *de facto* treating individual projects of *Procidades* as traditional investment projects, resulting in a wide divergence between the targets set in the pilot and achievements (see Table IV.4 in Annex).[26] Despite high demand, in the period 2007-2010 only 14 projects were approved for a total amount of US$322 million, less than half of the target set for 2009, 34 projects and US$800 million, respectively. Preparation time between Bank receipt of the proposal approved by *SEAIN* and loan approval was 31.7 months, compared to the target of 22 months; an additional 12 months elapsed between approval and eligibility for disbursements. Of the total time taken from loan demand by sub-regional governments to *SEAIN* to the first eligibility by the Bank, about 50% of the total time corresponds to processing time by the Brazilian government.

Profisco was approved in 2008 for the amount of US500 million, with individual projects designed to be between US$35 million and US$50 million, a maximum similar to that of *Procidades*. *Profisco* is essentially an institutional strengthening project in the areas of fiscal management, so individual projects are relatively more homogenous, resulting in comparatively better operational efficiency indicators than *Procidades*.

26 For expectations of *Procidades* see: Annex III, Efficiency-Effectiveness Indicator System, in Lending Facility for Financing Brazil's municipalities, *Procidades*, BR-L1043.

B. Use of Country Systems

The Bank has made a commitment to increasingly adopt country systems instead of relying on its own systems: In 2005 the Bank became a signatory of the Paris Declaration and in 2009 and 2010 the Bank approved strategy guideline to do so. In 2011, the Bank reiterated its commitments and included indicators in the IDB-9 Results Framework. However, progress in the adoption of local financial management and auditing and procurement systems has generally been slow, reflecting the difficulty in achieving a consensus, establishing standards, implementing a program of technical assistance to improve local systems, and more generally the difficulty of overturning a practice that has been the norm of the Bank since its creation.

The adoption of country systems for auditing and procurement in Brazil is even more complex than in other countries, given the model of direct lending to sub-national governments. As long as local laws are not inconsistent with the national law, states and municipalities are allowed to have their own legal-regulatory frameworks and corresponding responsible entities. In the case of loans to the federal government, the Bank has long accepted the financial management system for accounting, the Federal Secretary of Control (*Secretaria Federal de Controle* (*SFC*)) for external auditing, and the local federal procurement system for goods and services. At the sub-national level the picture is quite different. Among active state projects, only 4% use local systems for financial management and 43% use the state's auditor; in 43% of the projects the states use the federal procurement system accepted by the Bank. For municipal projects, no local systems are recognized (see Table IV.5 in Annex). The picture will likely worsen with a growing pipeline of projects in weaker state and municipal entities. However, there are also opportunities for progress: in 2009 the Fiscal Responsibility Law was amended to promote fiscal transparency and regular reporting of accounts, based on a model used by the State of Rio de Janeiro. The Bank could work with authorities to provide technical assistance to improve local systems, especially at the state level.

A more general measure of the Bank's reliance on its own processes is the continued use of separate Project Implementation Units *(PIU)* rather than mainstreaming execution in the operational units of existing agencies (e.g., sectoral ministries). *PIUs* represent parallel institutions designed to improve efficiency and ensure that Bank's procedures are being followed. Recognition that these parallel structures should be the exception rather than the rule, despite their short-term advantages, is reflected in both the Paris Declaration and IDB-9. However, in the case of Brazil little progress has been made; among the projects active at the end of 2010, a PIU exists in 91% of federal projects, 90% of state level projects, and 73% of municipal level projects. Thus, *PIUs* remain the norm rather than the exception (see Table IV.5 in Annex).

TABLE 5. World Bank's Approvals by Lending Instrument

By Instrument		Approvals 2007-2010			
		Number	Number (%)	Amount ($US million)	Amount (%)
Investment	Adaptable Program Loan	18	23.4 %	1,105	9.9 %
	Financial Intermediary Loan	1	1.3 %	50	0.4 %
	Sector Investment and Maintenance Loan	1	1.3 %	167	1,5 %
	Specific Investment Loan / *	37	48.1 %	5,788	51.3 %
	Technical Assistance Loan	7	9.1 %	28	0,2 %
Development Policy Lending	Development Policy Lending	5	6.5 %	4,125	36,6 %
Not Available		8	10.4 %	25	0.2 %
TOTAL		**77**	**100 %**	**11,287**	**100 %**

/* Of specific investment loans 5 (valued at US$1,891) used the SWAP modality

C. Other Official External Financing Agencies

The other main external financing agencies are the Andean Development Corporation and the World Bank. There appears to be no formal mechanisms of coordination among the three agencies. Informal collaboration takes place sporadically and on an *ad hoc* basis. The World Bank and the IDB share the emphasis on sub-national lending but engage independently in the same areas of intervention. [27]

Over the period 2007-2010, the World Bank approved US$11,278 million (77 operations), a million more than the IDB. States and municipalities received 76% of the total dollar approvals, a figure similar to the Bank's 50% (see Table IV.6 in Annex). The two Banks approved concurrent operations in 18 states (see Table IV.7 in Annex). The two Banks operated in different municipalities (the two exceptions are the municipalities of Rio de Janeiro and Curitiba), and while the IDB approved 22 loans, the World Bank approved 12 loans to municipalities.

One difference between the two Banks is the choice of lending instruments, and within the lending instrument category, the modality, as shown in Table 5 below. These choices have implications for the operational efficiency. The World Bank's Development Policy Lending instrument, which allows for fast disbursement, represented almost 37% of the total dollar lending (applied to five operations), compared to the IDB's 4% (one loan). Moreover, the

27 See: Country Partnership Strategy: Brazil 2008-2011, Report N. 42677BR.

28 For an evaluation of WB's use of Swaps in Brazil see "Sector Wide Approaches in Brazil", by R. Batley *et al*, 2007, ODI.

World Bank used the SWAp (sector wide approach) in five of its investment loans, valued at US$1,891 million (i.e. 17% of total approvals or 33% of investment loan approvals). In these cases, the World Bank pooled its resources with those of the borrower, effectively providing budget support with low transaction costs, primarily at the state level. The IDB did not use the SWAp option.[28] The World Bank's portfolio is more in line with the Paris Declaration's emphasis on greater use of budgetary support and country systems than the IDB's portfolio.

As both Banks consolidated their lending to sub-national entities, a joint working group with the Ministry of Planning, Budget and Management was formed in 2007-2008. The group was charged with developing procedures to streamline the processing of operations. While some recommendations to improve the use of country systems were implemented, they proved insufficient as can be seen in the worsening of the portfolio process indicators. After four years of experience with the new business

model, a renewal of the joint working group, under the tutelage of both the Ministry of Planning and Budget (the IDB Governor) and the Ministry of Finance (the World Bank Governor), to revisit operational constraints may have high payoffs.

D. Adequacy of Resources

To the extent that the Bank continues to follow the existing business model and its *modus operandi,* operational experience is likely to worsen. The Bank currently faces excess demand for sub-national loans. There are at least three possible choices the Bank could consider. First, it could carry on with the existing *modus operandi.* In order to prevent deterioration in the quality of services provided to sub-national clients, this option would require an increase in the budget dedicated to the preparation and supervision of the Brazilian portfolio, over and above that implied by that existing budgetary allocation model used by the Bank.[29] The recent increasing backlog of the stock of operations at the preparation stage suggests that this is rather urgent. A second option would entail greater standardization of products in order to obtain economies of scale in preparation, while simultaneously searching for local partners to carry out financial accounting, auditing and procurement and thus reduce supervision costs. This should be accompanied by a program of technical assistance to strengthen country systems at the state and municipal levels, consistent with the Paris Declaration and IDB-9 objectives. The third option is to change the instrument mix from investment loans to PBLs and within investment loans to use the SWAp option.

29 *De facto* the Bank follows a unitary proportion with respect to size of the portfolio in the country.

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An IDB-funded urban development project in Olinda, Recife.
© Willie Heinz, 2003

5 Efficacy: Development Effectiveness & Knowledge

The Bank attempts to demonstrate the development effectiveness of a country program by measuring results using either a top down approach -based on the results matrix contained in the Country Strategy Document- or a bottom up approach -based on the results framework of individual projects. Evaluations generate knowledge about what works and what does not. Another source of knowledge is the technical assistance program. The previous CPE found the Bank wanting regarding development effectiveness from both perspectives as well as regarding knowledge generation.

Country strategies typically have to include a result matrix that includes proposed projects in each programmed priority area and development indicators close to the proposed interventions but also aligned to country priorities. This matrix is used in CPEs to evaluate if the specified indicators show improvement as part of the development effectiveness criterion. The negative findings in the previous CPE were rejected by the Administration, which argued that as a niche player in a large economy the Bank has little influence on changes in broad economic and social indicators of the country. And as noted earlier, while the 2004 country strategy document was updated and extended to the end of 2010, the results framework was not changed. Thus a top down assessment cannot be carried out.

Summary

In terms of development effectiveness, the Bank's portfolio demonstrates:

- Increased Ex-Ante Evaluability of projects
- Increased use of cost-benefit analysis
- However, there is no noticeable similar improvement in Ex-Post Evaluability. This deficiency is not unique in IDB's portfolio in Brazil. Nevertheless, unlike many countries, Brazil has a high degree of institutional capacity in this area.

A. Development Effectiveness: Bottom Up Approach

Measuring development effectiveness through a bottom up approach requires *ex ante* evaluability (projects clearly set out measurable expected development results) and *ex post* evaluability (projects have baseline information and current values for indicators). Results, including progress during execution, can then be measured as the difference between baseline and final or current values). It is important to note, however, that information presented in this section is drawn from the Bank's Monitoring and Evaluation system (PPMRs and PMRs for active projects and PCRs for closed projects). This information has not been validated by OVE.

Between 2007 and 2010, 102 new projects were approved and 57 projects completed, and each of the groups is discussed in turn.[30] Though it is beyond the scope of the CPE to evaluate progress and results for the entire set.[31] The analyses of *ex ante* and *ex post* evaluability presented in this chapter are used to show whether the Bank is able to document project results. It is also important to note that over the same period the Bank's self-evaluation system has begun to take shape, and the new PMRs and PCRs are still being rolled out. As the system evolves, it will gradually produce project information, which can be validated by OVE.

Most of the closed projects were approved before 2007, while most of those approved between 2007 and 2010 remain active, lacking PCRs. The latter is the appropriate set to assess the new business model with Brazil as well as the adequacy of the Bank's monitoring system (PMRs). As shown in Chart 1, the *ex ante* evaluability of this set of projects shows significant improvement since the introduction of the Development Effectiveness Matrix in projects; the improvement appears to have reached a plateau, but at a high level.[32] Simultaneously, the proportion of projects with *ex ante* costs benefit analysis has steadily increased. However, as shown in Chart 2, the *ex post* evaluability of projects is poor and may be actually deteriorating.[33] This decline is shared by projects with the Federal Government, sub-national governments (both state and municipalities) and to a lesser degree by loans to development banks (see Table V.2 in Annex).

Among the 49 sovereign projects approved between 2007 and 2009,[34] 10 contain baselines and information on progress in reaching outcomes, seven of them with sub-national governments (5 with states and 2 with municipalities). Two of the 10 projects were classified as PTI (with *BNDES*), but they do not contain information of *de facto* targeting efficiency.[35] Four of the 10 are already closed and discussed in the next section. The remaining six, include two municipal water projects, three Profisco projects with the states of Minas Gerais, Ceará and Pará, and the third phase of a highway rehabilitation project in the State of São Paulo. All show progress relative to baselines, though progress is uneven across indicators in the same project (see Chart V.3 in Annex).

The low number of projects that collect information on progress indicates a serious problem with the Bank's monitoring system, which should be corrected while the projects are still in execution. In addition, the new business model, with its emphasis on umbrella operations that cover several projects, provides a great opportunity to learn valuable lessons that can often not be identified from a single loan. An external evaluation of *Procidades* after 10 projects were approved is contemplated in the pilot, but it has not been initiated.

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30 A significant part of the approval and closed portfolio consists of non-sovereign loans. This paper focuses primarily on sovereign loans, given the limited information available on private sector lending. The individual project completion reports (XPSRs) are not publicly available and references to individual companies are subject to confidentiality agreements.

31 The previous CPE (2000-2008) analyzed approximately 35 projects.

32 The information in the ex ante chart is based on all projects that were approved during 2005-2010 (81) while the *ex post* chart is based on 60 projects approved 2005-2009. The *ex ante* completeness index is defined as the number of individual outcome indicators that have baseline, medium term and target values of all specified outcomes The *ex ante* minimum evaluability index is defined if the project has at least one indicator with baseline and target value. Source: Loan documents

It is critical to the effort to correct the operational deficiencies found in the program. A similar evaluation of *Profisco* and operations with *BNDES* for the financing of small and medium enterprises are strongly recommended.

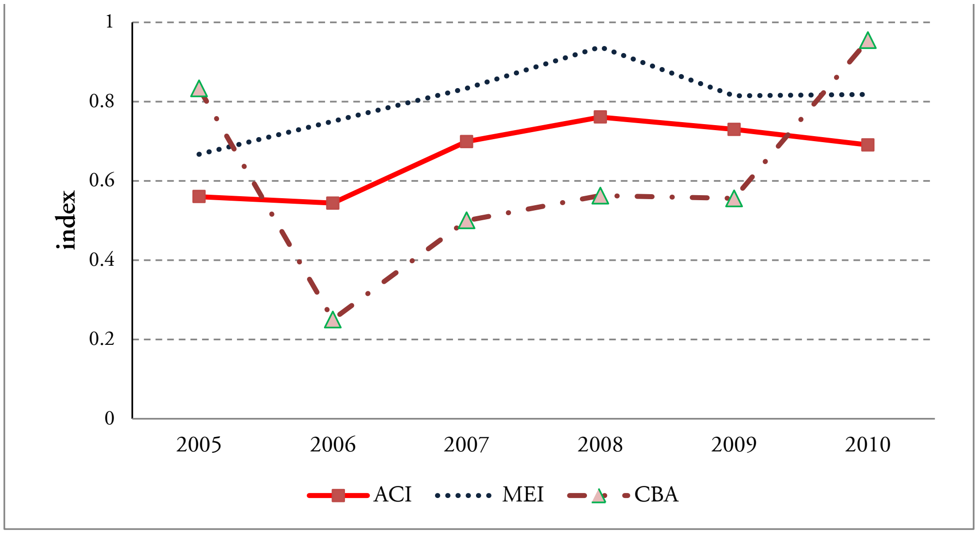


Chart 1.
Ex Ante Evaluability of Projects by Approval Year (2005-2010)

Source: OVE using project loan documents. Note the *ex ante* completeness index, ECI, is defined as the number of individual indicators that have baseline, medium-term and target values of all specified outcomes The *ex ante* minimum evaluability index, MEI, is defined if the project has at least one indicator with baseline and target value. Both indices range from unity (fully evaluable) to zero (not evaluable). The charts show average yearly values.

Among the 57 projects that closed between 2007 and 2010, some date back to the 1990s when the Bank first introduced logical frameworks for Monitoring and Evaluation in 1995 (see Table V.3 in Annex).[36] In general, independently of the borrower and sector, the older projects lack a clear differentiation between outcomes and outputs; few indicators are SMART; and most projects lack baseline information and data collection mechanisms. Many older projects were retrofitted, as the Bank's systems were evolving, especially PCRs. There is now a general recognition that PCRs provide very limited information and a new instrument is being rolled out. In fact the ex post evaluability of the closed projects is low (see TableV.4 in Annex).

A revision of the PCRs of projects closed over the period, but not validated by OVE, shows the following. Seven loans were completed in the area of Public and Fiscal Management, amounting to almost US$1 billion or 10% of the total value of projects completed in the period. Six out of the seven have PCRs.

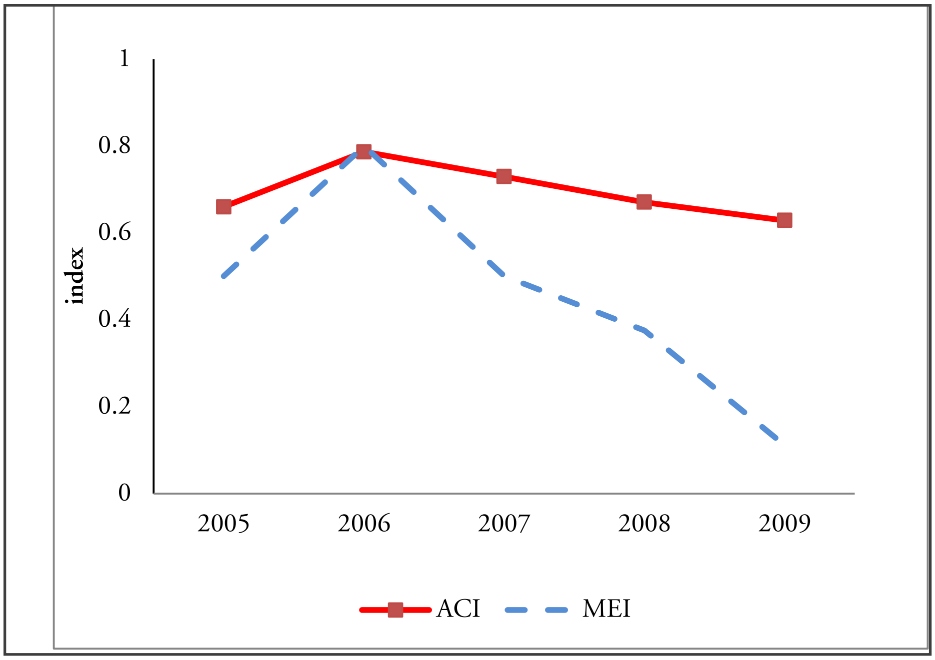
33 The *ex post* completeness index is defined as the number of specified individual outcome indicators that have baseline and recent values. The *ex post* minimum evaluability index is based on if for at least one outcome there is information of the baseline and recent value. All indices range from zero (no evaluability) to a maximum of unity (full evaluability). The charts show average values.

34 Projects approved in 2010 were not considered; given their recent approval, there is little information available in Project Performance Monitoring Reports (PPMR) and Project Monitoring Reports (PMR).

35 Note: The ATE-II Energy Transmission Line (BR-L1028) was not classified as a PTI project in its loan document but was in its PCR. 36 Among closed projects, 17 projects were approved in the 1990s, 6 between 2006 and 2007, and 30 (of which 12 were private sector operations) between 2007 and 2010. There is a large age variance across borrowers. The average age of the projects at the municipality level is 12 years;

36 Among closed projects, 17 projects were approved in the 1990s, 6 between 2006 and 2007, and 30 (of which 12 were private sector operations) between 2007 and 2010. There is a large age variance across borrowers. The average age of the projects at the municipality level is 12 years; Federal, 11 years; state, 8 years, development banks, 4 years ;and private sector loans, 3 years. Age structure by sectors is the following: 10 to

Chart 2.
Ex Post Evaluability of Projects by Approval Year (2005-2009)



Source: OVE based on projects' PMRs and PCRs. The ex post completeness index (ACI) is defined as the number of specified individual outcome indicators that have baseline and recent values. The ex post minimum evaluability index (MEI) is equal to unity if for at least one outcome there is information on the baseline and recent value. All indices range from zero (no evaluability) to a maximum of unity (full evaluability). The charts show average values.

Two of the projects were designed to improve efficiency, effectiveness and transparency of public revenues at the state level (BR-0372 in São Paulo, approved in 2004 and closed in 2010 and BR-L1201 in Bahia, active from 2008 to 2009). In both cases, most of indicators for efficiency, efficacy and transparency were related to the Fiscal Responsibility Law and thus had some common indicators: revenue, primary surplus, debt (stock and service), investment to expenditure (although neither project invoked the golden rule regarding debt and investment), compliance with the law's requirement of presenting four month data and to making public fiscal information) (see Chart V.4 in Annex). The São Paulo project had 24 indicators, nine of which were qualitative or did not have baseline values. The Bahia project had 47 indicators, of which 27 were qualitative or did not have baseline values. Most of the indicators show improvement hence the projects can be said to have had positive development results according to their PCRs.

The other projects in the sector were at the federal level; each had different objectives, but all consisted primarily of institutional strengthening activities. They included strengthening of fiscal administration in selected states (BR-0171, active from 1996 to 2007)

11 years for tourism, social inclusion, urban development and rural development, between 7 to 9 years for transportation, water and sanitation, public and fiscal management.

a precursor of the *Profisco* projects, modernization of the Federal Comptroller's Office (BR-0365, active from 2002 to 2008), strengthening public capacity for human resources and logistical administration (BR-0220, active from 1997 to 2008) and establishing, strengthening, and interconnecting a network for public policy research (BR-0175). Most of the indicators of the projects consisted of qualitative measures, which are difficult to validate. The exception is the Modernization of the Comptroller's Office which specified quantitative indicators to measure its objective of improving the efficiency and efficacy of the office's activities. Practically all individual indicators show improvement although perhaps the most important, i.e., compliance rate of its recommendations, only improved marginally.

Six Social Inclusion projects were completed, amounting to US$1.5 billion or 13% of the projects completed in the period. The conditional cash transfer program, *Bolsa-Familia* (BR-L1004, active from 2004 to 2010), represented two-thirds of the total in this sector in dollar terms. Since it used the SWAp modality, pooling resources with the Federal government and the World Bank, results were defined for the entire program, not the Bank share. The project had 20 indicators including poverty, inequality, school attendance and years of schooling. Most were realised (see Chart V.2 I in Annex). The impact of the program on the reduction of poverty and inequality has been widely demonstrated in several studies.

The remaining social inclusion projects focused on education and training. A secondary education project in the State of Paraná (BR-0167, active from 1996 to 2007) met targets related to the expansion of coverage, but no changes in the aggregate level of repetition, approval and evasion was observed for the state. The Federal Middle Education Expansion and Improvement Program (BR-0300, active from 1999-2007) had identical results according to its PCR. The Professional Education Sector Reform (BR-0247, active from 1997 to 2008) had no baseline and no systematic monitoring process. PROFAE (BR-0305, active from 1999 to 2010) a large, innovative project to professionalize auxiliary nursing personnel throughout the country in order to improve the quality of care in public health facilities units has been the subject of external studies The PCR acknowledges that there was no systematic survey to measure the satisfaction of patients, but other development indicators show improvements in the aggregate number of qualified professionals. Diversity in the University (BR-0364, active from 2002 to 2008) was another innovative program, designed to promote minority access to the tertiary level. There was no baseline and there is no official information on number of students entering and completing a college degree.

In the Urban Development sector five projects valued at US$400 million were completed and all have PCRs. Most of the resources in this sector (76%) were aimed at improving the quality of life of families living in tenements in São Paulo (BR-0242, active from 1997 to 2007) and poor municipalities in the State of Rio de Janeiro (BR0298 active from 2001 to 2010) (see Chart V.6 in Annex). The São Paulo project outcome of increased satisfaction with municipal services' target was reportedly surpassed. The Rio project set targets for number of housing solutions, which were reportedly achieved. A similar project at the federal level (BR-0273, active from 1998 to 2008) benefited 84 municipalities. It set out eight numerical indicators (amongst which are: number of urbanisation projects, number of houses built, number of improved housing, and the number of completed legalisation of property). All reported positive results. Yet another project in the State of Pará (BR0357, active from 2002 to 2010) focused on both infrastructure and municipal management. These projects preceded Procidades and provided input to the design of the facility. Most outputs were delivered, but few outcomes were contemplated. Finally, a project (BR-0261, active from 1999 to 2010) aimed at the preservation of cultural and historical sites across the country. It set indicators, including sites protected and conservation funds for each site created, which were met according to the PCR.

Six loans were completed in the Transportation sector, for a total of US$686 million, but only two have PCRs (BR-0278 in the State of Bahia, active from 1998 to 2008, and BR-0355, active from 2002 to 2008, in the State of Santa Catarina). Both road programs were successfully completed. Both had the typical indicators of cost (separately for cars buses, and trucks), while the Santa Catarina project also included the number of municipalities with increased access and specified catchment area (see Chart V.7 in Annex). Neither project calculated ex post rates of return.

In the Energy sector, there was only one sovereign loan to the State of Minas Gerais (BR-L1028, active from 2009 to 2010), to increase rural electrification. The objectives were: increase electricity consumption, the number of large agricultural producers connected to the network as well as the number of semi-urban consumers (as part of the Federal Government's Luz para Todos Program) and new rural consumers (as part of the Federal Government's Clarear Program) connected. The targets were met according to the PCR. However, this was a one-tranche Performance-Driven Loan and outcomes were met prior to the disbursement.

In the Development Bank sector five operations closed valued at US$4,150 million, 39% of the total value of closed projects.[37] Four were loans to *BNDES* through the CCLIP instrument and one loan was to the *Banco do Nordeste*, as a global credit operation in the tourism sector. There are three PCRs available for the *BNDES* operations: BR-0358 (active from 2004 to 2007), BR-L1054 (active from 2007 to 2008), and BR-L1178 (active from 2008 to 2009). The number of intermediary financial institutions participating in each project was respectively 62, 52 and 42 (see Chart V.8 in Annex). In general, the development indicators show improvements in three indicators: increase in the number of jobs in sub borrowers participating in the program, increase in the gross annual sales of sub borrowers participating in the program during the review period and increase in the average survival time of enterprises participating in the program. The PCR for the operation with *Banco do Nordeste* (active from 2001 to 2009) notes that this was a troubled project partly due to a lack of commitment and experience of the borrower. No objective was realised.

37 Note that public development banks have increased their participation in the credit market. In 2005 public banks had

B. Knowledge and Technical Cooperation

Analytical work can be an effective vehicle for policy dialogue with governments. For the Bank it is a critical means through which it deepens its country knowledge such that it can better calibrate its country program and projects. In a country like Brazil the TC program can also generate knowledge that the Bank can share with other Bank clients. TCs can also play a critical role in promoting institutional capacity building and act as a supplement to the Bank's budget for service delivery.

From 2007 to 2010 the Bank approved over US$101 million in non-reimbursable technical cooperation and MIF grants, involving 143 different operations (see Table V.5 in Annex). In terms of the sectoral distribution of the total dollar value of non-MIF TCs, the largest sector was transportation (25%) followed by urban development (23%) with fiscal management and social inclusion each with 13%. The other sectors received less than 10% each. In terms of borrower type the largest proportion went to the Federal Government (51%) followed by states with 31% and municipalities with 9%. The 10% residual went to NGOs and academic centers. OVE reviewed the universe of non-MIF TCs documents and classified them in terms of objectives (see Table V.6 in Annex): 33% (28% of the dollar value) was for analytical work; 30% (42% dollar value) was for institutional strengthening; and 23% (21% dollar value) was for project preparation; the residual 14% (9%) is mainly used for training.

Unfortunately, beyond the number, US$ value, source of funds and distribution by sector and beneficiary, the Bank's monitoring and evaluation system lacks comprehensive classification, tracking, and dissemination information. This is not unique to Brazil, but a Bank-wide problem. As noted by the Bank in its review of TCs: *"The lack of clarity of the taxonomy … of a proper classification and of a repository for these products [TCs] limits the extent to which knowledge generated and lessons learnt can be applied by the countries, as it reduces the visibility of whatever is produced, both internally and externally"*.[38] The Bank is not documenting its generation of knowledge.

This situation of a lack of capacity to systematically demonstrate development effectiveness in both projects and knowledge is not unique to the Brazilian portfolio but is a common finding by OVE of country portfolios. However, in the case of Brazil, the new administration has declared the importance for her government to measure results.[39] Further, unlike many of the Bank's borrowers, Brazil has a high level of human capital, the institutional base and the statistical gathering capacity in place to produce evaluations that can be shared with other countries in the Region. This presents an opportunity for the Bank to engage with new partners in the country engaged in knowledge generation.

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38 Review of the Bank's Non-Reimbursable Technical Cooperation Products, April 27, 2011, paragraph 2.1.

39 For information on the newly created entity responsible to implement this agenda, *Conselho de Desenvolvimento Economico e Social*, see: http://www.cdes.gov.br/noticia/21555/governo-cria-camara-de-politicas-de-gestao-desempenho-e-competitividade.html. The Bank, through PRODEV, is currently processing a technical cooperation with this entity.

6

Aerial view of the bay and city of Rio de Janeiro.
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6 Conclusions and Recommendations

The analysis carried out in the CPE with respect to the evaluative criteria of relevance, efficiency and efficacy leads to the following conclusions. First, the relevance of the program was substantial. The diversification of clients embodied in the new business model allowed the Bank to maintain its relevance to the country in the face of declining demand for federal projects and the small amount of resources relative to the size of the Brazil's economy. The program was relevant with respect to country ownership and the country's development challenges as outlined in its flagship development program, Plan to Accelerate Growth (*PAC*). Interviews with government officials reveal high country ownership.

Second, the CPE found worrying trends in terms of operational efficiency in the delivery of services to Brazil. Preparation time and cost measures have generally worsened and compare badly with other A countries. This is largely due to the higher proportion of lending to sub-national governments in the portfolio, given that operational efficiency indicators for state and municipality projects are more akin to B and C&D countries' averages. *Procidades*, the pilot Bank initiative for municipal governments designed to streamline project preparation to assure timeliness, has failed to meet its targets. In addition, there is an almost exclusive use of the investment lending instrument and within investment lending limited adoption of country systems.

Third, in terms of efficacy, i.e., development effectiveness, the Bank's portfolio shows an improvement in the clarity of measurable expected results of projects and the greater use of *ex ante* cost benefit calculations. However, there is no commensurate improvement in the measurement of actual development results. The shortcomings are not unique to the Brazilian portfolio but a common finding by OVE in its CPEs. However, unlike many countries, Brazil has high institutional capacity in this area.

Finally, the CPE identified two recent developments that need to be discussed in the preparation of the next country strategy document. First, there is a need to discuss the sectoral priorities proposed under IDB-9 with the Government of Brazil, including poverty and equity, climate and environment, and regional integration, as well as the operational efficiency and development effectiveness targets, themes that echo the Paris Declaration. Second, the administration in Brazil has emphasized the reduction of extreme poverty as a government priority, an area in which this evaluation has found the Bank's portfolio wanting.

The findings of the evaluation lead to the following recommendations:

- **The Bank, in its new country strategy document, should ensure the appropriate focus in the program by specifying *ex ante* criteria it will use to consider the mix of operations, including the strategic orientation that will guide the choice on non-sovereign loans**. In order to enhance relevance, the Bank needs to consider pro-poor, regional integration and climate change projects that are currently under-represented in the Brazilian portfolio. The criteria could be based on geographical targeting or on the Bank's own PTI/SEQ classification of projects. The Bank's "bricks and mortar", credit, and institutional strengthening projects, the mainstay of the Bank's intervention in Brazil, if targeted to poor regions would support the pro-poor bias specified in IDB-9 while also contributing to Government priorities (Brazil without Misery and *PAC II*). In the area of regional integration, another IDB-9 priority, the Bank could enhance its collaboration with *BNDES*, which is beginning to expand its coverage to other countries in the Region, under the auspices of programs such as the Initiative for the Integration of the Regional Infrastructure. Recent Bank's private sector operations for green credit are an option for incorporating the private sector to address climate change in Brazil; working with the country's regional development banks may provide another option.

- **The new country strategy document should explicitly include the measures the Bank will adopt to improve operational efficiency**. Several non-mutually exclusive approaches could be considered: standardising its sub-national products carefully to obtain economies of scale in preparation; increasing collaboration with local partners that can strengthen the delivery and supervision of its projects; and adopting a different instrument and modality mix that may also help to improve efficiency. Given the similar business models of the IDB and the World Bank, a joint working group under the tutelage of the Ministry of Planning, would help in defining the rules of engagement. In order to correct the operational deficiencies found in umbrella operations, it is critical for the Bank to conduct an evaluation of the pilot program *Procidades*, as planned. Analyses of *Profisco*, a program for institutional strengthening in the fiscal are for states, and the SME operations with *BNDES* could provide valuable inputs on possible trade-offs between operational efficiency and development effectiveness.

- **The new country program should include an action plan with time bound targets for improving the measurement and dissemination of development effectiveness.** In order to document the Bank's development effectiveness and generation of knowledge, it needs to effectively partner with local entities for data gathering and evaluation and to disseminate results to third parties. Given the country's human capital resources and capacity, the Bank could work with Brazilian institutions to create a system of *ex post* development effectiveness studies and disseminate findings through a depository of reports (studies and progress measurement) available to third parties.

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