



**Office of Evaluation and Oversight, OVE  
Inter-American Development Bank**

1300 New York Ave. N.W., Washington, D.C. 20577

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***RE-298***

***Country Program  
Evaluation (CPE)  
Brazil 1993-2003***

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Officially distributed to the Board of Executive Directors on June 30 ,2004

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## Acronyms

BN	<i>Banco do Nordeste</i>
BNDES	<i>Banco Nacional de Desenvolvimento Econômico e Social</i>
CAESB	<i>Companhia de Saneamento do Distrito Federal</i>
CNT	<i>Confederação Nacional do Transporte</i>
CP	Country Paper
EFAS	External Financial Audits
EMBI	JP Morgan's Emerging Markets Bond Index
FNMA	<i>Fundo Nacional do Meio Ambiente</i>
FV	Financial visit
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i>
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IPEA	<i>Instituto de Pesquisa Econômica Aplicada</i>
IPHAN	<i>Instituto do Patrimônio Histórico e Artístico Nacional</i>
MARE	<i>Ministério de Administração e Reforma do Estado</i>
MIF	Multilateral Investment Fund
OPRCOS	Operational Cost Data System
PAIS	Project Alert Identification System
PBL	Policy-based loan
PCR	Project Completion Report
PETROBRAS	<i>Petróleo Brasileiro S.A.</i>
PNAD	<i>Pesquisa Nacional por Amostra de Domicílios</i>
PNAFE	National Fiscal Administration Program for the Brazilian States
PNAFM	Program to Support the Administrative and Fiscal Management of Brazilian Municipalities
PPA	<i>Plano Plurianual</i>
PPMR	Project Performance Monitoring Report
PRI	Private Sector Department
PROARES	Social Reform Program
PRODETUR	<i>Programa de Desenvolvimento do Turismo</i>
PROEM	Secondary Education Improvement Program in the State of Paraná
PROEP	Vocational Education Reform Program
PROFAE	Project for the Professionalization of Nursing Personnel
PROPREV	Pension System Management Modernization Project
REFORSUS	<i>Reforço à Reorganização do Sistema Único de Saúde</i>
TC	Technical Cooperation
TV	Technical visit
TRS	Time Reporting System

## Country Program Evaluation Brazil, 1993-2003

### Executive Summary

June 30, 2004

Brazil has the largest economy in the region, possesses a strong public sector, and has been engaging in an impressive, home-grown, process of reform to address many of its economic, social, and governance challenges. It has a robust process for selecting and prioritizing development projects at both the national and subnational level, built around a formal multiyear development plan, the *Plano plurianual* (PPA). The IDB is, on the whole, a small actor in this large country, and is a taker of priorities rather than a maker.

This leads to a situation unique within the IDB as far as programming at the country level is concerned; the IDB operates in a context where prioritization and ownership by the government are axiomatic. The Bank's program, in other words, is relevant by definition to the concerns of the government, implying that the critical evaluative distinction is not relevance, but value-added. The challenge for the Bank is how to organize a work program that maximizes value-added in an environment of limited fiscal space.

The evaluation finds with respect to programming that the Bank, appropriately, takes strategic themes from the PPA. It also finds (i) that there is limited evidence of analytical work to deepen the Bank's understanding of the problems facing the country or the causal links that connect proposed interventions to problems; (ii) that program-level goals are stated as broad generalities, without specific indicators, targets or baselines against which to assess progress; (iii) that Bank strategies focus on loans exclusively, rather than providing an integrated treatment of the full range of instruments; and (iv) that there is little formal reflection on the Bank's comparative advantage in supporting Brazil's development process.

Programming at the country level does not appear to be determinative of actual Bank activity. There is a relatively loose fit between projects included in Country Papers and those eventually carried out, and the predictive power of programming has been limited, particularly in the second of three programming cycles covered in this report. The Bank's actual program is created annually, on a project-by-project basis. This appears to have been satisfactory to Brazil but it lowered the utility of programming to both the country and the Bank. Programming did not articulate the Bank's intent except in exceedingly general, unverifiable terms. In keeping with Bank practice at the time, measurable goals were not specified at the level of the program, and programming did not spell out rationales for what was being proposed. Key dimensions such as the reasons and strategy for shifting the program's mix of operations between the national and subnational levels, and strategies to address execution problems, were not explained. Evaluating the Bank's programming in Brazil must recognize the project-by-project character of the program and the fact that the Bank's intent in development terms must be sought in the specifics of each intervention. This is addressed in Annex 1 of the report, devoted to the discussion of results.

Between 1993 and 2003, the Bank approved 89 loans for US\$16.6 billion and disbursed US\$15.2 billion, making it the largest lending program of the Bank for the period. While Brazil is large for the Bank, the Bank is small in Brazil, as mentioned, with disbursements averaging 1% of federal government expenditures throughout the period and 11% of disbursements by BNDES.

The Country Papers (reflecting PPAs) articulated four broad thematic areas: competitiveness and growth; the reduction of poverty and inequality through social services and protection; state reform and modernization; and improvements in the environment and the management of natural resources. These areas can be further subdivided into twelve specific sectors as discussed in

Annex 1. The allocation of activity between federal authorities and subnational entities was an important dimension of the program. Thirty-seven percent of all loan operations and 53% of disbursements were carried out at the federal level during the period reviewed. Bank engagement at local level was highest early in the period, fell during the middle years, and rose again at the end, but (as indicated above) there is no explicit articulation of programmatic intent that can explain or justify this pattern. Technical cooperation was used extensively, primarily to address concerns in the social, environmental and microfinance areas.

The IDB made a relatively small contribution in the area of diagnostics and analysis of the problems being addressed. Most of the Bank's knowledge contributions focused on modifying elements of projects designed by sponsors and on improving the suitability of projects to meet Bank policies and procedures. However, the Bank fulfilled a recurring function at the design stage that in essence consisted of asking questions in the dialogue with the sponsors that are believed in many instances to have led to better projects. It is through this function that the Bank improved public investment at the project level in Brazil.

The analysis of program delivery produced some surprising results. Despite strong project development and screening in Brazil, preparation times were actually slightly longer than Bank averages, while disbursement performance was only slightly better than Bank norms. This pattern is less than what one would expect in a country with a relatively mature institutional structure and responsible public authorities at all levels. Disbursement performance has deteriorated in recent years as fiscal constraints at all levels of government have become more severe. At the same time, Bank administrative costs per dollar approved were lower than either Bank or Region I averages. Project monitoring instruments generally did a poor job in collecting and reporting data on the achievement of promised outcomes, resulting in low ex-post evaluability scores for the portfolio as a whole.

In explaining disbursement problems, Bank PPMRs consistently cite five factors: capacity constraints in executing agencies; shortfalls in counterpart funding; lack of commitment from borrower/executing agency; coordination problems in country; and procurement problems. In its largely single-minded focus on borrower responsibility for execution problems, the list is almost identical to the explanations offered in PPMRs for other Bank borrowers. By generally avoiding reflection on the ways the Bank itself may be contributing to execution problems, this assessment misses an opportunity to improve the partnership between Brazilian agencies and the Bank in pursuit of a common development agenda. Brazilian authorities interviewed for the evaluation attributed a significant portion of the problem to rigidities or inappropriate policies within the Bank, and indicated a longstanding desire for lending instruments that could lead to more efficient execution.

Results of the Bank's activities should in principle be discussed at both the program level and the project level, and at each level it should be possible to distinguish between the production of outputs and the production of outcomes. At program level, however, the programming process described above generated few goals for the program as a whole at either the output or the outcome level. Two partial exceptions include the stated outcome intention to improve Brazilian competitiveness by reducing the *custo Brasil*, and the stated intent to "improve the efficiency of delivery of social services." The Bank mounted several projects over the period toward the achievement of each of these objectives, with less than fully documented results. *Custo Brasil* was never quantified in any Bank document, despite frequent references to the concept, but Brazil's international competitiveness ranking (on the World Economic Forum measures) did not improve over the period. Quantitative data regarding social service efficiency are not available, but the evaluation found plausible evidence in a number of the Bank's social services and social

protection operations that the Bank helped lay the foundation for future measurement of the efficiency and effectiveness of the delivery of social services.

Evaluative findings on results are primarily at the project level. Across the twelve sectors, the evaluation found generally good performance in the delivery of promised outputs, and a generally high level of satisfaction on the part of project sponsors. At the level of outcomes, however, empirical confirmation for results in most projects was generally absent. OVE reviewed a sample of 46 loans, and found specification of 284 specific outcome indicators in the project documents. Updated information on progress on these outcome indicators was available for only 9 of the 284. In a number of cases, OVE found that executing agencies and/or the Country Office had better information on outcomes, and this information enabled the evaluation to offer some comment on achievements despite the absence of information in the Bank's reporting system.

With respect to outcome findings:

- The credit programs for micro, small and medium-sized firms commit large sums to global lines that have a dimension of balance of payments support, are not the subject of evaluation, are made available unaccompanied by measures to help promote financial intermediation, and appear to favor larger rather than micro and smaller firms without an explanation in Bank documents as to the intent in this respect. The programs (intermediated through BNDES) do not track loan outcomes, but a survey conducted by the Bank's Country Office found significant reported employment gains and other advantages in beneficiary firms.
- In transport, projects successfully built both private toll roads and public highways (federal and state). But maintenance issues have not been resolved in the public roads projects, compromising the sustainable flow of benefits from these operations. The investment needs in roads in Brazil are such that the Bank cannot be more than a marginal player even at the level of most states, which suggests that it should approach with care the question of leverage and the sustainability of institutional and financial arrangements for construction, upgrading and maintenance. It emerges from the evaluation, however, that these strategic considerations have received relatively little attention, the bulk of the effort being devoted to physical realizations. The Bank's urban transport in Curitiba is considered a model for such programs by observers, but data were available on only two of the nine outcome objectives specified in the project.
- In energy, substantial generation and transmission capacity was added by Bank projects, and the Bank responded quickly to the energy emergency in 2001. Subsequent developments in the sector have called into question the viability of some Bank-supported projects, but conditions in the market are evolving and a more definitive judgment must be deferred.
- In health, a key loan dropped its initial reform objectives and became essentially an investment loan for capital equipment in the public health service, while a nurse-training program helped establish a baseline assessment of competencies, which can allow future measurement of nursing quality and productivity. Key issues outstanding with respect to the first loan include the sustainability of the investments in light of budget constraints, and slippages with respect to the conceptualization and introduction of policy changes. The second loan strengthened local capacity for nurse-training by establishing a presence in each of the states, but limited autonomy at the local level for supervision, evaluation, and adaptation of the pedagogic program could weaken ownership and compromise outcomes.
- In education, the Bank played a leading role in the design of a major reform of secondary education, which has proved very difficult to implement. Efficiency gains contemplated from separating professional from secondary education have not materialized, and Bank projects in this area are "on alert" for poor disbursement performance. Part of the explanation is that

state governments, who must implement the reforms, have not apparently been convinced of the full measure of benefits of the reform model proposed by the Bank.

- Urban development is widely seen as a key outcome achievement of the Bank in Brazil, based largely on the well-known favela bairro program in Rio de Janeiro. The evaluation found that the Rio program was highly successful at producing planned outputs, and popular with residents, but that firm indicators of the long-term sustainability of benefits remain elusive. More importantly, the Rio project was only one of eight sponsored by the Bank in urban development, and some of the other projects were less successful. Finally, there is little formal evidence that the Bank has learned from the Rio project how to expand this model and replicate it elsewhere in Brazil.
- Social protection projects have demonstrated substantial achievements at the outcome level, including a reduction of malnutrition and improvements in the school attendance of at-risk youth. A Bank project pioneered the establishment of a monitoring system for targeted social assistance programs, and implemented a data system that has the potential for substantially increasing the efficiency of targeting of social services and transfer programs. The project helped demonstrate the feasibility of targeting and the rationale for it in the context of Brazil's persistent inequality and the need for effective social policies that make a difference in a context of tight fiscal constraints.
- Support for fiscal management allowed the Bank to accompany Brazil in its ambitious overhaul of federal and state fiscal relations. Although the initiative was Brazilian, the Bank helped support improved revenue collection and reduced tax evasion, both of which contributed to a significant strengthening of state fiscal positions over the period. The Bank's investments in fiscal management, therefore, were relevant to governmental efforts at bringing public finances under control. Two of the projects in this group are associated with gains in terms of collection many times greater than the amounts of these loans.
- Administrative reform had an unsatisfactory execution experience and thus produced few results. The project nevertheless was part of a reform process that enabled a more responsive public sector and raised expectations regarding the sector's performance that set standards for future endeavors in this field.
- Projects in pollution control and drainage produced important engineering works and built institutions for planning, implementation, and oversight. While the degree of success achieved varies from one operation to the next, all are wrestling with problems of sustainability that depend on appropriate legislation, information systems, control mechanisms, human resources, continued budgetary allocation and continued environmental awareness in the population.
- In water and sanitation, the Bank responded to federal policy aimed at universalizing coverage and realizing key externalities in health and the environment. Access to piped water on the part of urban households was promoted and sanitation infrastructure built, but the Bank remained largely absent from the policy issues that need to be addressed.
- In tourism in the Northeast, the Bank helped produce sizeable revenue increases in the industry and tax revenues in the region in the context of growing tourist arrivals. In the field of sustainable development, on the other hand, an ambitious newer set of programs has not been operational long enough to show results.

The following recommendations are offered with a view to strengthening the role of the IDB in Brazil:

First, the Bank and Brazil should establish clearly the parameters of their working relationship going forward. In the next Country Strategy, Management should reflect on the comparative advantage of the institution in the context of specified development challenges by looking at what

the Bank does best and how it can strengthen its value to Brazil in these areas. The next Country Strategy should also clarify Brazil's expectations of the Bank, among other aspects on the question of whether program-level objectives for the Bank's program are helpful to the country. If there are to be program level objectives, they should be accompanied by indicators, baselines and targets for improvement.

Second, if specific projects continue to be the principal form of engagement between the Bank and Brazil, then it is imperative that projects improve their evaluability, particularly during execution. The Bank has been improving the results focus of operations at the design stage, but both the Bank and many project sponsors need better systems for tracking progress toward outcome objectives as projects execute. Improvements are also needed in some aspects of project supervision (Box 4.2).

Third, the Bank should increase its diagnostic and analytic work on the problems being addressed in individual projects or groups thereof. Increased analytical work is expected to permit the scaling up of results beyond individual projects and to make projects more replicable where needed. A key potential value of the Bank in a large, federal country such as Brazil derives from developing and promoting interventions that can be replicated elsewhere in the country.

Fourth, there is a need to examine more closely the transaction costs associated with Bank projects in Brazil. Preparation and execution performance should improve. Management should develop concrete proposals, ideally with performance targets for the portfolio as a whole.

Fifth, the Bank should explore alternatives to traditional project funding, with a view to improving outcome achievement, enhancing the policy dialogue, and reducing transaction costs. Lending to BNDES in the past provided a low transaction cost product, but weak evaluation limited evidence on results. Sector-wide, programmatic loan products have been used extensively by Brazil, but since the IDB does not yet have such an instrument, future lending programs should consider the use of the newly-approved flexible lending instruments as a possible device for achieving agility coupled with evaluation and more in-depth policy dialogue.



## I. INTRODUCTION AND PURPOSE

- 1.1 This report summarizes OVE's evaluation of the IDB's program in Brazil during 1993-2003. The purpose of the evaluation, following established procedure, is to provide an account to the Board of Executive Directors regarding the program's results and to offer reflections for consideration as the Bank's Country Strategy for the period of the 2004-2007 *Plano Plurianual* (PPA) is being discussed.
- 1.2 Following the scope and methodology set out in OVE's *Protocol for the conduct of country program evaluations*,<sup>1</sup> the report seeks to assess, first, the *relevance* of the Bank's program and approach (i.e., did the program address key development challenges facing the country and did it respond to the borrower's needs?), second, the *coherence* of the program (i.e., was the program aligned with the borrower's priorities to the extent that these were compatible with the Bank's mandates, was the range of Bank instruments deployed coherently and was there adequate coordination with other development actors?), third, the *efficiency* of the program (i.e., did the Bank deliver its program in a timely and cost-effective way?), and fourth, the *efficacy* of the program in terms of outcomes (i.e., did the program generate the expected developmental results or is it on track to generate these results?).
- 1.3 To answer these questions, the methodology involves working with Bank records (in particular those pertaining to monitoring and self-evaluation), polling stakeholders and people knowledgeable about the program at headquarters and in Brazil, and reviewing published and, where appropriate, unpublished data and research.<sup>2</sup> The methodology is empirical, subject to data and resource constraints, and both "top-down" (assessing the process of programming and the program as a whole) and "bottom-up" (looking at individual projects or groups of projects and their results). Problems of attribution and counterfactuals are addressed through a narrative that attempts to sort out the likely or plausible contribution of different factors that influence the achievement of results.
- 1.4 Chapter II provides a selective, brief analysis of background that is needed to inform the evaluation. Chapter III assesses the programming process and the relevance and coherence (hence the implied value-added) of the Bank's activities and approach. Chapter IV analyzes the composition and the efficiency of delivery of the program. Chapter V investigates evaluability and the tracking of results.<sup>3</sup> Chapter VI assesses the prospects and the efficacy of the program in delivering results. In an effort to accommodate space constraints, the more detailed sector-by-sector discussion of results is relegated to Annex 1. Chapter VII concludes and distills recommendations for consideration by the Bank.

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<sup>1</sup> Document RE-271-1, April 2003.

<sup>2</sup> See citations in the report. The Bank's monitoring and self-evaluation system is described in Document RE-238, June 1999.

<sup>3</sup> Evaluability refers to the degree to which an activity is specified in terms of plausible and measurable goals and objectives, among other aspects, thus permitting evaluation.

## II. BACKGROUND

- 2.1 The 1990s were a period of great change and achievement in Brazil. The country consolidated the process of democratization and institution building, stabilized the economy through a unique set of measures in 1994, opened the economy and took measures enabling the emancipation of the private sector, fostered a process of decentralization without equal in Latin America, shifted successfully to a macroeconomic regime of inflation targeting and a flexible exchange rate, and generally engaged in rulemaking in many domains of public policy and civic life.<sup>4</sup> The accomplishments in these and other areas and persisting challenges cannot be adequately described in this report. Developments in three respects are singled out below because of their particularly prominent role in defining the context for the action undertaken by the Bank: fiscal achievements and growth; poverty, inequality, and social expenditure; and characteristics of the budget and public expenditure that at least in part delimit the space that can potentially be occupied by the Bank.

### A. The fiscal sector and growth

- 2.2 Key events during the period here reviewed after the success of the *Plano Real* in stabilizing prices included developments in the fiscal sector where challenges began to emerge in the mid-1990s as real increases in entitlement spending could no longer be offset through inflation.<sup>5</sup>
- 2.3 On the one hand, borrowing requirements were difficult to control in a situation of inflexible spending obligations in which growing social security payments played an important role. On the other, a weak fiscal stance in 1995-1998 together with the crawling peg exchange rate system drove interest rates, raising the cost of financing the public sector, crowding out private investment, and curbing growth.
- 2.4 Total net debt/GDP increased by eleven percentage points in the four years to December 1998 (Table 2.1), mostly because of the issuance of debt denominated in local currency, with net foreign debt actually decreasing as a percentage of GDP during this period. Indebtedness rose at all levels of government, with the subnational level recording worse fiscal results than the federal level, including a primary deficit each year between 1995-1998 except for 1996 (Table 2.2). Since the average primary deficit across all levels of government in 1995-1998 was only 0.2% of GDP, the data in the table imply that the net path for this period was mostly a consequence of the burden of interest.<sup>6</sup>

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<sup>4</sup> For a review of Brazil's development performance see, for example, F. Giambiagi et al., eds., *Reformas no Brasil: balanço e agenda*, Editora Nova Fronteira, Rio de Janeiro, 2004; and M. Font, *Transforming Brazil*, Rowman & Littlefield Publishers, Inc., Oxford, 2003.

<sup>5</sup> On the power of inflation to decrease real spending, see E. Cardoso, *Virtual deficits and the Patinkin effect*, IMF Staff Papers 45:4, 1998.

<sup>6</sup> Between 1995-1998 real interest rates rose for two basic reasons: money sterilization through open market operations undertaken to suppress the inflationary effect of large capital inflows, and the risk premium paid

2.5 Responding to these developments, the authorities initiated measures aimed at gaining fiscal control over the medium term. The measures included attempts to increase the flexibility of federal public spending; a program of privatization and sales of public assets which permitted the retirement of debt;<sup>7</sup> steady increases in taxation to a gross tax burden of one-third of GDP by 2000;<sup>8</sup> and the creation of a more adequate institutional framework for fiscal decentralization as a means to gain control over subnational finances. Several laws were passed to regulate the federal-subnational fiscal relationship. The Law of Fiscal Responsibility approved in 2000 provided an environment to control deficits and a framework for fiscal federalism without precedent in Latin America.

TABLE 2.1  
Net Public Debt (as percentage of GDP)  
Dec. 1994-Dec. 2002

	Dec.1994 (GDP%)	Dec.1998 (GDP%)	Dec-02 (GDP %)	Percentage Variation (Dec.94-Dec.02)
Federal Government & Central Bank	12.9	25	35.98	178.91%
States and Municipalities	10.01	14.15	18.8	87.81%
Public Enterprises	7.1	2.56	1.75	-75.35%
<b>Total Net debt</b>	<b>30.01</b>	<b>41.71</b>	<b>56.53</b>	<b>88.37%</b>

Source: Banco Central do Brasil.

TABLE 2.2  
Public Sector Primary and Nominal Balances  
(12-month accumulated, in GDP terms)\*: 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
<i>Federal Government (and Central Bank)</i>								
Primary Balance	0.52	0	-0.27	0.55	2.33	1.86	1.83	2.42
Nominal Balance	-2.38	-2.56	-2.63	-5.45	-6.87	-3.13	-3.7	-6.56
<i>States &amp; Municipalities</i>								
Primary Balance	-0.18	0.07	-0.74	-0.19	0.22	0.55	0.87	0.8
Nominal Balance	-3.57	-2.7	-3.03	-2.04	-3.17	-2.08	-2.02	-3.9
<i>State Enterprises</i>								
Primary Balance	-0.07	-0.14	0.06	-0.35	0.65	1.06	0.93	0.74
Nominal Balance	-1.33	-0.61	-0.45	-0.52	0.07	0.74	0.56	-0.01
<i>Total Public Sector</i>								
Primary Balance	0.27	-0.08	-0.95	0.01	3.19	3.46	3.64	3.96
Nominal Balance	-7.28	-5.87	-6.11	-7.93	-9.98	-4.48	-5.16	-10.46

\* A negative balance indicates a deficit

Source: Banco Central do Brasil

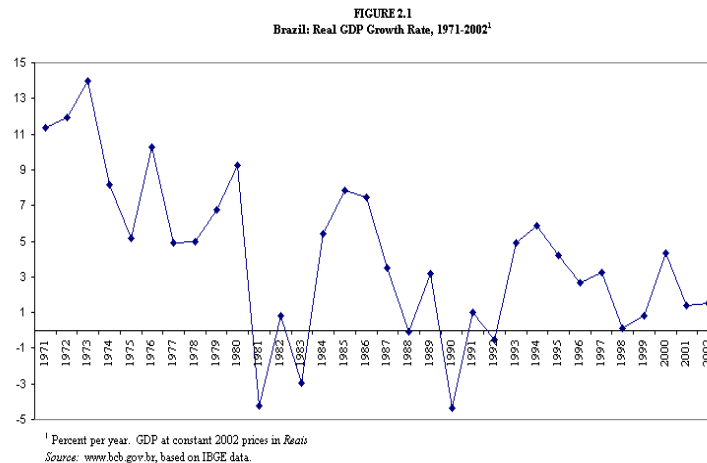
2.6 In what may be called the second phase of the *Plano Real*, 1999-2002, total net public debt/GDP increased to 56% of GDP due largely to a sharp increase in the cost of the debt (Table 2.1). At the same time, significant improvements in terms of the achievement of fiscal targets are recorded for this second phase (Table 2.2). Primary surpluses were generated at all levels of government while during the preceding phase the fiscal accounts were at best in primary balance. An IMF program called for primary surpluses of 3.10%, 3.25%, and 3.35% of GDP for the consolidated public sector in the years 1999, 2000 and 2001, respectively. As shown in the table, actual primary ratios surpassed targeted ratios in all years. In 2002 the total primary surplus amounted to 4% of GDP. In 2003 it reached 4.25%, triggering important dividends in terms of stability and market perceptions, the scope for lowering interest rates, and the outlook for the medium term.

by the government when issuing bonded securities in the context of a weak fiscal outlook, a crawling peg, and an uncertain international environment.

<sup>7</sup> The privatization of public enterprises and banks (with only nine state banks remaining in 1999 where there had been 35 at the time of the *Plano Real*) played an important role in the change in net debt during the early post-stabilization period inasmuch as it partly neutralized the so-called hidden liabilities or "skeletons" whose existence had become apparent in the process. During 1995-2000, privatization revenues accounted for a net debt reduction of 5.2% of GDP against a net debt increase of 8.5% of GDP traced to hidden liabilities. See A. Bevilacqua and M. Garcia, *Debt management in Brazil: evaluation of the Real Plan and challenges ahead*, International Journal of Finance and Economics, Vol. 7, pp. 15-35, 2002.

<sup>8</sup> Revenue measures rather than expenditure reduction drove fiscal adjustment, but "cascading" indirect taxes introduced over the 1990s are widely seen as distortionary and undermining of competitiveness. See R. L. F. Werneck, *Tax reform in Brazil: small achievements and great challenges*, Texto para Discussão Nr. 436, Departamento de Economia, PUC-Rio, 2000.

2.7 The experience with respect to average growth, on the other hand, remained unsatisfactory during the past ten years. As seen in Figure 2.1, growth fell from the very high levels of the 1960s and 1970s to the low levels of the 1980s and the even slightly worse average performance of the 1990s.<sup>9</sup> In 2003, real growth amounted to at most 0.5%<sup>10</sup> even as exports—and the stock market—boomed and the trade balance turned highly positive.



2.8 Growth, therefore, poses challenges despite a succession of years of well-behaved inflation; a system of inflation control that withstood the tests of the Asian and Russian crises, the introduction of a floating exchange rate regime and contagion from Argentina's collapse; a smooth transition of power to a new administration in 2003; and microeconomic reforms (including the opening to foreign trade) conducted during the past decade.

2.9 Insufficient public investment in infrastructure in the context of fiscal adjustment is sometimes cited as a factor underlying the observed pattern of growth.<sup>11</sup> In addition, some argue that the reforms of recent years have not gone far enough. For example, there remains an unfinished agenda and uncertainty in the regulatory area, likely limiting private investment.<sup>12</sup> More broadly, the issues that need to be tackled with a view to raising average growth in Brazil (a country that has become

<sup>9</sup> From the data underlying Figure 2.1, the average growth in 1970-1979 was 8.6% (5.9% in per capita terms), in 1980-1989 it was 3.0% (0.9% in per capita terms), and in 1990-2002 it was 1.9% (0.4% in per capita terms).

<sup>10</sup> Letter of Intent to the IMF, 21 November 2003, at [www.fazenda.gov.br](http://www.fazenda.gov.br) (p. 2).

<sup>11</sup> As a result, the *custo Brasil*—driven by substandard infrastructure and other factors that impinge on returns to investment and the cost of doing business—is generally perceived to remain high. Estimates of the output cost of inadequate investment in infrastructure in Brazil can be found in C. Calderón and L. Servén, *The output cost of Latin America's infrastructure gap*, in W. Easterly and L. Servén, eds., *The limits of stabilization: infrastructure, public deficits, and growth in Latin America*, The World Bank, 2003. However, despite the arguments and calculations advanced in this source, the literature does not show clear-cut results on the relationship between public investment and growth; see IMF, *Public investment and fiscal policy*, draft paper for consideration by the Executive Board, March 2004.

<sup>12</sup> A new framework for the electricity sector was published in December 2003, and public-private partnerships in infrastructure are being proposed as a means to attract investment. On the state of regulatory reform, see A. Castelar Pinheiro, *Regulatory reform in Brazilian infrastructure: where do we stand?* Paper written for the World Bank/OED, May 2003. On public-private partnerships, see G. Mantega, *Public-private partnerships in infrastructure: an agenda for growth*, Presentation at IDB, 3 December 2003.

increasingly complex during the past decade) include many challenges, among them a reduction in spreads and an expansion of domestic credit (cf. Annex 1 and 3); the strengthening of competition policy, extended to the financial sector and the regulatory agencies; a sustained increase in savings and investment, accompanied by a reduction in the cost and an increase in the productivity of investment; the diffusion of technological advances in the economy; labor market reform and employment training; and further advances in the public sector's ability to formulate, see through, and evaluate public policy. The expansion of exports is likely to remain key to the menu of growth. The agenda, therefore, is complicated—and it competes for resources with other areas, including the social sectors.

## B. Poverty, inequality, and social expenditure

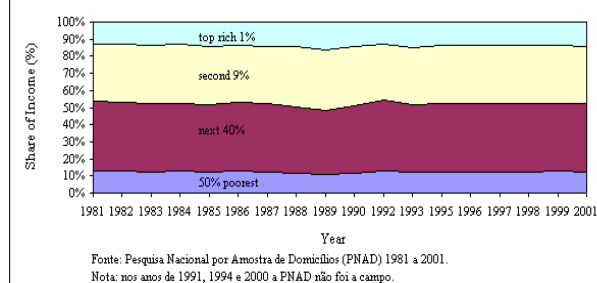
2.10 Brazil cannot be classified as a poor country considering that almost two-thirds of the world's countries and 77% of the world's population had per capita incomes lower than Brazil's US\$3,580 in 2002.<sup>13</sup> Nevertheless, more than 50 million people, or 33% of the population, live below the poverty line in Brazil (Table 2.3), compared with only 10% in similar-income comparator countries. Poverty has been persistent during the last two decades, but with two apparently lasting contractions that appear to be linked to the reduction of inflation under the *Plano Cruzado* and, in particular, the *Plano Real*. Extreme poverty was reduced by about 5% during the 1990s, one of the best performances in Latin America. The aggregate income gap of those classified as extremely poor (14% of the population) today represents 1% of national income, 4% of social expenditure, or 18% of federal spending on compensatory programs. A consensus among Brazilians that the problem of extreme poverty needs to be addressed has in recent years motivated the creation of new safety net programs.

TABLE 2.3  
Trends in Poverty and Indigence levels in Brazil

Year	% Indigent	Absolute Number of indigent	% Poor	Absolute Number of poor (in millions)
1977	17,0	17,4	39,6	40,7
1978	21,8	23,2	42,6	45,2
1979	23,9	26,0	38,8	42,0
1981	18,8	22,1	43,2	50,7
1982	19,4	23,4	43,2	52,0
1983	25,0	30,7	51,1	62,8
1984	23,6	29,8	50,5	63,6
1985	19,3	25,1	43,6	56,9
1986	9,8	13,1	28,2	37,6
1987	18,5	25,1	40,9	55,4
1988	22,1	30,6	45,3	62,6
1989	20,7	29,3	42,9	60,7
1990	21,4	30,8	43,8	63,2
1992	19,3	27,1	40,8	57,3
1993	19,5	27,8	41,7	59,4
1995	14,6	21,6	33,9	50,2
1996	15,0	22,4	33,5	50,1
1997	14,8	22,5	33,9	51,5
1998	14,1	21,7	32,8	50,3
1999	14,5	22,6	34,1	53,1
2001	14,6	24,1	33,6	55,4
2002	13,4	22,3	32,9	55,1

Source: PNADS.

FIGURE 2.2  
Distribution of Household Income 1981- 2001



2.11 While poverty declined during the 1990s, inequality remained constant: Brazil's income distribution, one of the world's most unequal, does not change much over time, as suggested by Figure 2.2 which covers a period in which there was significant variation in growth. For the country as a whole, the Gini coefficient

<sup>13</sup> The per capita income figure is from World Development Indicators 2004. The data in this section, unless otherwise sourced, are from papers in R. Henriques, ed., *Desigualdade e pobreza no Brasil*, IPEA, 2000.

improved only imperceptibly during the 1990s, from 0.575 in 1992 to 0.572 in 2001.<sup>14</sup>

- 2.12 Simulations show that the level of extreme poverty (indigence) in the Brazilian population may be more sensitive to changes in the distribution of income than growth. A 10% reduction in inequality would diminish extreme poverty by the same amount, but it would take 25 years of annual per capita growth of 3% to reduce indigence by 10%.<sup>15</sup> The persistence of inequality irrespective of the rate of growth is an important public policy challenge in Brazil.
- 2.13 Both poverty and inequality are distributed unevenly across Brazil. For example, while in the Southeast 18% of the population lives with half the minimum wage, in the Northeast the figure is 51% for the same minimum wage. The risk of social exclusion is expressed in a wide variety of ways across regions, states, and municipalities, its manifestations including differences in access to services, employment, human capital development, violence, and risks that disproportionately affect specific age groups such as the young and adolescents. Annex 3 provides information on the evolution of indicators of access to selected services between 1981 and 2001 in different parts of Brazil.
- 2.14 Brazil currently spends about R\$200 billion in the combined social sectors and thus is certainly a country with an active social policy. Considering that this amount is more than what is needed to satisfy the basic needs of those classified as poor (as implied above), the challenge is not one of mobilizing resources, but improving the effectiveness of public social expenditure, an element of which, as suggested by the government, is improved targeting.<sup>16</sup> A recent review of the targeting strategies of sixteen safety net programs involving six Ministries found targeting failures to be common, for three principal reasons: (i) resources are allocated to states not according to need, but according to population size, hence even if local governments targeted the resources perfectly according to needs, at the national level mis-targeting would result; (ii) programs may not be designed for maximum poverty reduction impact, as in the case of *Abono salarial* for which only people employed in the formal sector are eligible; and (iii) when systems are not tracked and beneficiary households monitored, mis-targeting is likely to occur over time, validating governmental efforts to create a *Cadastro único* of beneficiaries.<sup>17</sup>

### C. Budget characteristics and fiscal space

- 2.15 The achievements in terms of fiscal adjustment that were noted above translate into tight constraints on expenditure to foster growth and desired social outcomes. An additional constraint affecting the scope for, and the productivity of,

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<sup>14</sup> IBGE data based on PNAD results (*Pesquisa nacional por amostra de domicílio*).

<sup>15</sup> R. Paes de Barros et al., background paper for this report (see Annex 6; second paper).

<sup>16</sup> Ministério da Fazenda, *Gasto social do governo central : 2001 e 2002*, Brasília, 2003.

<sup>17</sup> R. Paes de Barros et al., cited above. The programs analyzed were : *Abono salarial*, *Seguro desemprego*, *Bolsa alimentação*, *Bolsa escola*, *PETI*, *Agente jovem*, *Benefício de Prestação continuada*, *Agentes comunitários de saúde*, *Atenção a crianças de 0-6 anos*, *Atenção ao idoso*, *Atenção à pessoa portadora de deficiência*, *PRONAF*, *Auxílio-gás*, *Livro didático*, *Merenda escolar*, *Saúde da família*.

development spending in Brazil is the high degree of Constitutionally-mandated ear-marking (*vinculação*) and consequently the low discretionality of spending estimated at only about 15% of primary expenditure.<sup>18</sup> As explained by the government, this can affect both the efficiency and the effectiveness of resource allocation. It is likely to introduce a bias against investment spending. It implies that a small but potentially particularly productive share of the budget must absorb the bulk of fiscal adjustment. And it tends to make fiscal policy procyclical while reducing incentives for quality control.<sup>19</sup>

- 2.16 Expenditure rigidities hence act to exacerbate the effects of a tight fiscal environment in reducing the space for development spending. This has implications for the Bank and similar institutions as the rigidities further limit the scope to accommodate international loans—particularly when they are framed in traditional project terms. As a result, it is appropriate to recognize the limits of financing as a source of relevance for an entity such as the IDB in Brazil today. Also, as implied by the authorities in the reference cited above, it is appropriate to recognize the potential merits of evaluation in a tightly constrained environment in which there is a premium on choices that maximize productivity.

### III. PROGRAMMING

- 3.1 The continental size of Brazil and its status as a middle-income economy with a sophisticated institutional structure in many respects imply that the Bank, overall, is a small player in the country. In addition, the Bank is a taker rather than a maker of priorities. This raises special questions that are discussed in this chapter regarding programming and the scope for adding value.
- 3.2 Programming by the Bank is conditioned by the fact that Brazil has an established process of planning for the purpose of guiding the allocation of public resources. The 1988 Constitution created the three interacting instruments of the four-year pluriannual plan (PPA), the annual budget directives law, and the annual budget law as a device for rationalizing the planning and budgeting process, linking the PPA to the annual budgets, ensuring consistency between the latter and the macroeconomic framework, providing continuity, and raising the efficiency and effectiveness of the public sector in providing public goods.
- 3.3 The PPA is an instrument for the formulation of strategic priorities and the allocation of the budgetary resources of the federal government, irrespective of whether expenditure is to take place federally with intended nation-wide benefits, regionally, or at the state or municipal level. Projects must be included in the PPA

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<sup>18</sup> Letter of Intent cited above.

<sup>19</sup> Ibidem. The Letter of Intent goes on to say that *[a]dicionalmente, ahinda há muito pouca avaliação quanto à efetividade das despesas públicas, com indicadores de desempenho das metas finalísticas freqüentemente falhos em focar suficientemente nos resultados* (p. 3).

if they are to be included in the budget. In addition to the federal PPA, under the Constitution, the states, too, are required to produce and have their legislatures approve pluriannual plans. The corresponding expenditures must be consistent with each state's indebtedness and spending limits under the Law of Fiscal Responsibility.

- 3.4 The federal PPAs have become more systematic during the past decade (in particular since 1996), as have those of some of the states—albeit with lags and demonstrating a heterogeneous set of experiences so far. As instruments of guidance, the PPAs are the result of processes for the political reconciliation of claims and the technical vetting of proposals. Projects included in the PPA are therefore somewhat heterogeneous with respect to both the administrative capacity of sponsors and their readiness for implementation. From an evaluation point of view it is important to note that the PPAs have not been focused on results in the past. They have tracked budgetary execution and physical progress, but not developmental outcomes.
- 3.5 Despite these limitations, Brazil's planning process clearly defines what the Bank is meant to do in the country, making the Bank's program relevant by definition to the concerns of the government. In such a context, the critical evaluative distinction becomes not *relevance*, but *value-added*. *What* the Bank is to do is defined by the Brazilian planning process. *How well* the Bank does its part and *what value it adds* to enhance the developmental impact of the activities that it supports is the key issue for evaluation. The Bank's approach to programming as a potential source of value is examined first. The value proposition from the vantage point of projects is addressed later in the report.

**A. Programming and programmatic intent, 1993-2003**

- 3.6 The Bank's approach to programming during the period reviewed was circumstantial and ad hoc. The approach had merits and shortcomings, as explained below, but did not on balance add discernible value to the domestic process in Brazil.
- 3.7 The process of programming (to the extent that it is documented in writing) can be evaluated with reference to the Bank's Country Papers (CPs) for three "programming cycles" that advocated a four-pronged programmatic thrust: promotion of competitiveness and growth; improvement of social conditions and the reduction of poverty and inequality; state reform and modernization (from the second cycle onwards); and improvements in the environment and the management of natural resources. The following conclusions pertinent to programming are drawn from the study of the CPs that are summarized in Annex 4, as well as other literature:<sup>20</sup>
- 3.8 First, the CPs, and thereby programming, did not analyze the challenges that the Bank (according to the CPs) intended to address. The CPs, and thereby programming, also did not provide the apparatus needed to judge the

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<sup>20</sup> The literature on programming also includes Programming Memoranda and Mission Reports.



appropriateness of the interventions proposed and the interaction between different instruments to be deployed. The programming literature is therefore of limited use as a starting point for an assessment of the Bank's contribution to change in given sectors such as the identified thrusts or the realization of goals and objectives under PPAs.

- 3.9 Second, the CPs were open-ended statements in agreement with Bank practice at the time, neither offering criteria for the exclusion of proposals not deemed a priority nor providing an analysis of a presumed chain of causality involving program inputs and expected results. As a consequence, their *evaluability* in a formal sense of the term was low and did not improve over time. In the absence of a results framework for each programming cycle (with realistic indicators and targets) it is difficult to know the criteria by which the program corresponding to the cycle should be evaluated, or by which the Bank would want the cycle to be evaluated, although some set of criteria could be constructed *ex post*.
- 3.10 The 1998 Update of the 1996 CP and the 2000 CP offered the commendable innovation of a *Matrix for Bank Action in Brazil* that summarized governmental priorities, the Bank's strategy and focus of action, and the priorities of other donors. The Matrices contained a set of achievement indicators that at first sight would seem to facilitate evaluation but on closer examination turn out to be incomplete and tenuously linked to Bank-supported policies and programs. In addition, in many instances, the indicators failed to convey clear targets and/or were broad and unrealistically ambitious.<sup>21</sup> Hence, the Matrices marked a good beginning toward an orientation towards results, but (if maintained) require more thorough and systematic treatment going forward.
- 3.11 Third, the CPs clearly specified the Bank's programmatic intent as far as loans are concerned, but were not specific with respect to other instruments, in particular non-financial services such as knowledge contributions and technical assistance.<sup>22</sup>
- 3.12 Fourth, however, the efficiency of programming was lower than one might expect under a system that deferred to the predictable framework of the four-year PPAs. We use the term "efficiency of programming" to denote the degree to which programming led to the identification of operations that were actually submitted for approval to the Bank's Executive Board. Most of the projects (84%) anticipated in the 1993 CP were actually carried out, making the first programming cycle particularly efficient in this regard (Figure 3.1). Three loans that were not anticipated or programmed (23% of total approvals during the period) were also carried out.<sup>23</sup> The social sectors and poverty targeting that occupied much space in the 1993 CP were absent from the lending program, except for BR-0182 (Favela Bairro, the first phase of urban upgrading in Rio de

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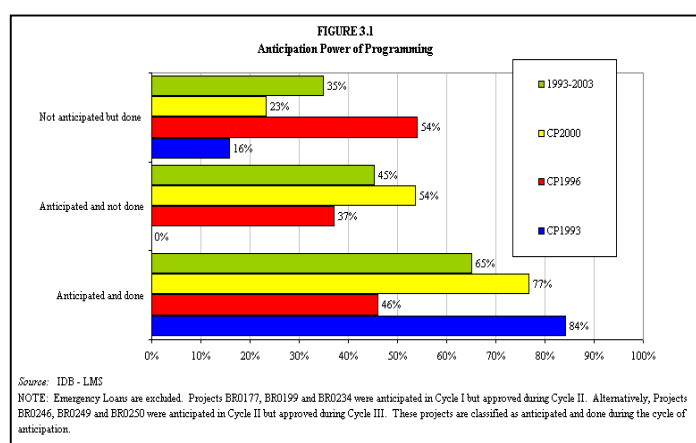
<sup>21</sup> For example, for the challenge "integration," the Matrix of the 2000 CP lists the corresponding "Bank Strategy" as "set up actions in traditional and non-traditional areas."

<sup>22</sup> The CPs offered a list of projects to be financed, which as verified from 1996 onwards figured in the respective PPAs with the exception (as one would expect) of some special cases such as the 1999 emergency loans.

<sup>23</sup> Being limited to a small number of projects, this may be interpreted as illustrating flexibility in adjusting to evolving needs. The three projects are: BR-0166, BR-0163, and BR-0204.

Janeiro that was approved in 1995). The social sectors were targeted through technical cooperation during the first cycle, as seen in Box 4.1 in the next chapter.

- 3.13 While an intermediate level of programming efficiency is detected for the third cycle, the efficiency (or anticipation power) of programming in the second cycle, at 46%, checks out as the lowest of the cycles under review. The number of projects “anticipated-but-not-done” and “not-anticipated-but-done” with reference to the 1996 CP surged relative to the levels calculated for the first cycle—from 0% to 37% and from 16% to 54%, respectively—revealing a relatively low level of accuracy of programming at CP approval in this case that is unrelated to the need for emergency lending.<sup>24</sup> The presence of the 1998 Update of this CP demonstrates responsiveness in the context of the evolving situation in Brazil in which an entirely new round of projects was put forward.<sup>25</sup>



- 3.14 Fifth, therefore, programming tended to be project-by-project and year-by-year in a framework of annual programming missions, although in some instances (roads in Sta. Catarina, revenue collection in the state reform and modernization thrust, secondary education projects and vocational training, credit programs) the presence of sequential reinforcing operations can be observed ex post that were not formally articulated as such in programming documents ex ante. In other words, there were apparently during the period reviewed lines of business that were deemed successful or worthy of replication. But there is no analysis in the programming literature about the reasons underlying the assumed success, the lessons learned, how the sequential “clusters” of projects were meant to generate

<sup>24</sup> In other words, the emergency loans of 1999 are, appropriately, not taken into account in this statistical exercise. A comment by Management on the May 2004 draft of this report appears to support the point that programming was less than thorough: *En realidad, operaciones de la categoría llamada “anticipadas pero no hechas,” en la gran mayoría de los casos han sido ideas preliminares que no se concretaron o se postergaron y no han tenido costo significativo asociado.*

<sup>25</sup> There are plausible explanations for the genesis of each not-anticipated-but-done project in the second cycle. For example, the North-South Electric Power Interconnection Project (BR-0275), which is in this group, came about because delays in the definition of the regulatory framework in the power sector limited investors’ interest in this project at a time when it seemed to become more important in view of possible energy shortages that called for an infrastructure build-out to enable exchanges between surplus and deficit regions. However, if anything, the presence of numerous explanations on an ad hoc basis reinforces questions about the scope and value of programming as practiced.

program-level results, and what the Bank's presence meant to the *mutuários* in question relative to the without-the-Bank alternative.

- 3.15 The year-by-year and project-by-project approach appears to have been satisfactory to Brazilian authorities,<sup>26</sup> but it does lower the utility of programming to both the country and the Bank. Projects were chosen on the basis of operational considerations and, appropriately, perceptions of comparative advantage, at times (according to information supplied by the Bank) not without exercising some “muscle” when other financiers manifested an interest in the same activity. But programming did not articulate programmatic intent other than in very general terms and it did not specify measurable goals to be achieved at the level of the program. It did not spell out rationales for what was being proposed, and there was no verifiable focus on results. Key dimensions such as the reasons and strategy for shifting the program's mix of operations between the federal, state and municipal level, and strategies to address execution problems (seen later in this report to be frequent) were not explained. Programming therefore was limited in scope, as were the CPs whose main role, it appears, was to serve as an initial framework for presentation to the borrower and the Board.

## **B. Analytical contributions and the Bank's margin of choice**

- 3.16 As practiced and presented in the corresponding literature, programming fell short as a source of value-added by the Bank, not because it took place in the context of the predetermined agenda of successive PPAs, as it inevitably and appropriately did, but because it lacked an argumentative basis. Programming, in other words, and in keeping with prevailing practice at the time, was short on reflection and analysis that might have generated such explicit values as programming-for-results, a strategy for going subnational and sectoral strategies, criteria for the replication of promising approaches, and evaluation of the experience of the past.
- 3.17 Analytical contributions as a category of service by the Bank, and non-financial services generally, are a potentially important source of relevance and value in the situation of Brazil in which fiscal discipline and expenditure rigidities limit the government's ability to take out loans from the Bank. It is therefore appropriate to review these contributions in this section—only to have to conclude, however, that the services in question are not well documented in the Bank's program in Brazil. Formal knowledge contributions in the form of studies and research (the topic of this section) are few, and it is difficult to locate what exists.<sup>27</sup>

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<sup>26</sup> The *Comissão de Financiamentos Externos* (COFIEX) is the apex structure through which priorities and proposals are presented to the Bank on the Brazilian side, and “demand” for the Bank's services, therefore, is articulated. One of the roles of COFIEX is to verify and certify the ability to incur debt and commit to counterpart obligations of *mutuários* such as the municipalities and states that submit proposals for consideration by the Bank. COFIEX is also the coordinating entity for other donors' (including the World Bank's) portfolio contribution. In principle, therefore, it is a source of distributive guidance for the two multilateral institutions. The process is described in Secretaria de Assuntos Internacionais (SEAIN), *Manual de Financiamentos Externos*, Brasília, DF, 1994.

<sup>27</sup> The website of Region I contains no links to analytical work. Also, the Bank's Research Department (RES) does not normally conduct country-specific research, so one looks in vain to RES for specific work on Brazil. However, two formal pieces of economic and sector work on Brazil sponsored by Region I and

- 3.18 It is the case that the resources available for economic and sector work through the administrative budget are small. But the issue runs deeper: research has not traditionally been a priority—as communicated to OVE, this is a source of frustration for some members of the staff—even though the potential contribution of applied research to programming and the quality of operations is known to be large.<sup>28</sup> It is true, of course, that research and the production of studies can be overdone, but this is not the situation of the IDB.<sup>29</sup>
- 3.19 To facilitate the discussion, it may be helpful to distinguish between three generic types of knowledge products and ask about the Bank's involvement in each of these. Type 1 in this classification would refer to sector-specific or issue-specific work aimed at *identifying what to do* (policy or reform orientation and content); Type 2 would refer to the *design of activities already identified*; Type 3 would refer to the *enhancement of the bankability of what has already been designed* (improve project structure, phasing, focus, budget presentation, risk analysis).
- 3.20 While acknowledging as contributions in the mode of Type 1 both the studies listed in footnote 27 and important workshops<sup>30</sup> organized by the Bank, the IDB's contribution of knowledge and expertise for the most part takes place at the project level—where it is again incompletely documented. In an attempt to study the nature of analytical inputs at that level, loan proposals at the *carta consulta* (or program request) stage and at the stage of Board approval were compared. The exercise indicated that the Bank's main contribution of knowledge and expertise corresponds to Type 3, although some examples of other types of contributions were recorded, too. Projects favored by a combination of Type 1 and Type 2 inputs are the secondary education projects (BR-0167, BR-0300) and BR-0360, the PBL on social protection. Type 2-only examples are BR-0360 (REFORSUS) and BR-0171 (PNAFE), the design of the latter in the context of an existing governmental priority having been affected decisively and judiciously by the Bank. Key dates in the history of this project prior to Board approval and other

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SDS are: A. Medici, *El desafío de la descentralización: financiamiento público de la salud en Brasil*, IDB, 2002; and C. Herrán et al., *Secondary Education in Brazil: Time to move forward*, Joint IDB-World Bank publication, 2000. Both of these papers have influenced sector policy thinking in Brazil, as seen in Chapter VI and Annex 1. A third set of contributions of high quality was produced for the power sector in Brazil: N. H. von der Fehr and F. Wolak, *Power Sector Reforms in Brazil – Some Issues*, 2003; A. Brown, *The Privatization of Brazil's Electricity Industry: Sector Reform or Restatement of the Government's Balance Sheet?*, 2002; and Power Systems, *The Brazilian Power Sector Supply Crisis*, 2003. In addition, in 2003 Region I commissioned a number of background studies toward the new country strategy then under preparation.

<sup>28</sup> On this, see K. Deininger et al., *Does Economic Analysis Improve the Quality of Foreign Assistance?* World Bank Economic Review 12:3, 1998.

<sup>29</sup> For example, some OVE interlocutors in the government cautioned against investment in economic and sector work in the absence of revealed demand and an interested constituency in the country. The World Bank/OED *Country Assistance Evaluation Brazil* (2003) reports that the World Bank elaborated 75 formal reports during 1990-2002 and raises explicitly the issue of ownership related to this effort.

<sup>30</sup> Workshops that the Bank organized in Brazil in recent times include (i) *Impact evaluation of cash-grant programs* (2001; carried out in the context of preparation of BR-0360, the *Programa setorial de promoção do capital humano*). This event brought expertise to Brazil on how to evaluate on-going and new “non-randomized” programs. (ii) *Evaluation of social policy: the experiences of Brazil and Mexico*, July 2003. (iii) *Teachers' performance in Latin America: new priorities*, organized by SDS in 2002.

information indicate that the Bank shaped the activity before and after its submission accompanying the corresponding *carta consulta*.

- 3.21 BR-0288 (INTERLEGIS), in turn, is an example of the many operations essentially prepared by the sponsors in Brazil, where few differences between the projects as originally proposed and the projects as submitted to the Board can be discerned. (Other examples in this category include the transport projects, lending through BNDES, some urban development and pollution control operations, BR-0305 known by the acronym of PROFAE, and BR-0220 in state and administrative reform.)
- 3.22 It is interesting to note that INTERLEGIS (the first operation done in the legislative branch of government in Brazil) received high evaluability scores and is one of the most efficient in the portfolio in its passage through early points in the project cycle, seemingly confirming the view that the activity was already well defined from the start.<sup>31</sup> However, it is understood that—like most projects—this activity benefited from a recurring and important function of the Bank, which in essence consists of asking questions in the dialogue with the sponsors that can be expected to lead to better projects.
- 3.23 It is through this function that the Bank improves public investment at the project level in Brazil. Based on the data and documentation available, it is not straightforward to measure and assess this function. But this does not make the contribution less real in a qualitative sense.
- 3.24 Recapitulating, therefore, the analytical contributions in the mode of Type 1 were limited in number (although high in quality) during the period reviewed. The limited number of contributions in the mode of Type 1 is believed to have affected the Bank's margin of choice in the context of the PPA and is identified later in this report as a factor threatening the long-term effectiveness of investments operating under policy regimes requiring reform. Also, the Bank's identifiable contribution of expertise at the project level was mostly in the mode of Type 3, which among other aspects (because projects often come to the Bank at an advanced stage of conceptualization) should have favorable consequences for the cost of project preparation in the Bank.<sup>32</sup> Through its contributions that impinged on project design the Bank improved public investment in Brazil, as mentioned. As seen in Chapter V, the joint work of the borrowers and the Bank in terms of project preparation tended to lead to clear ex ante statements of results, hence apparently reflecting a good understanding of what could potentially be accomplished with an intervention.

### **C. The relevance and coherence of programming and the program**

- 3.25 In line with definitions offered at the outset of this report, the Bank's programming and its financial and non-financial services are considered "relevant" if they respond to priority development challenges and constructively

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<sup>31</sup> Time elapsed between Profile I and Board approval was less than six months in this case, against a portfolio-wide average of 23 months.

<sup>32</sup> Administrative cost is discussed in the next chapter.

- address the borrower's needs. It emerged from the analysis above that the Bank does not program in Brazil. It appropriately defers to the PPA, but without seemingly adding value to the process. On the other hand, the actual program that the Bank supports is relevant because of its origin in the PPA.
- 3.26 This said, the value created by the Bank and its ability to respond to the borrower's needs are issues in whose nature it is that they are debated even as interlocutors in government acknowledge the positive externalities (such as the "seal of approval" benefit) that can be associated with partnerships with external institutions. The challenge of responsiveness, as understood in this report, has to do with the value of the non-financial services and the lending instruments brought into play, as well as the cost of doing business with the Bank.
- 3.27 While a full assessment has to await the analysis of later chapters in this report, the evaluation of the process of programming so far points to shortfalls in these respects, the contours of which include country programming of limited utility, a modest commitment to economic and sector work, hence lending into areas bereft of needed analytical work in the mode of Type 1 (unless Brazilian or World Bank research can be brought to bear), and furthermore an absence of evaluation of past experience at the level of the program and an absence of feedback loops enabling the application of lessons from the past to new endeavors.
- 3.28 Linked to the notion of learning is technical assistance, with respect to which OVE interlocutors in government were of the view that it can be useful if it is of the just-in-time, high-level expert variety that can respond to complex public policy tasks or if it takes the form of strategic services that prepare for "turning points." Much of the technical cooperation referred to in Box 4.1, for which funding has been declining, is not of this type, but the Box also indicates exceptions to this rule. It is sometimes through small activities (often MIF-supported technical cooperation projects) that policy dialogue "catches on" and approaches worthy of being scaled up are born.
- 3.29 As to transaction costs, data and discussion in the next chapter suggest that projects in Brazil are cheap for the Bank to prepare, but expensive for the country to take. OVE interlocutors in government indicated that they perceive the Bank to be "in need of speeding up." The reasons cited are the Bank's internal procedures, rules, and practices that can lead to delays, for example, as conditions built into projects at the design stage turn out to be unrealistic or as time is spent discussing the compatibility of proposals with Bank operational policies that themselves may not be appropriate to the situation at hand (water and sanitation activities and the privatization of water companies are a case in point).
- 3.30 Finally, in the context of expenditure rigidities and tight constraints, lending linked to projects cannot be considered to be relevant in all cases, in particular at the federal level, as it denies the borrower the degrees of freedom needed to put the funds to productive use at the same time as it tends to be onerous in terms of transaction costs. It would appear, therefore, that a case can be made for the *exploration* of conditional, programmatic or sector-wide approaches of the type that have been introduced by other official lenders for high priority programs

calling for an agreed, predictable flow of funds. A programmatic approach would help elevate the dialogue between the Bank and the country, from one often focused on the budgetary resources needed to keep projects afloat to one centered on policy and sectoral performance.

- 3.31 With respect to the evaluative criterion of coherence, three considerations come into play, i.e., the question of the alignment of Bank activity with national priorities (already addressed), the consistency and appropriateness of the mix of Bank instruments brought to bear, and the coordination of the program with other development actors, in this case in particular the World Bank.
- 3.32 The intended purpose and deployment of the full range of operational instruments was not clarified in the context of country programming. As seen in the next chapter, however, the program itself made use of all of the operational instruments available to the Bank, i.e., public sector lending, technical cooperation to address concerns primarily in the social, environmental and microfinance areas (where the MIF was an actor), and lending and investment by PRI and the IIC.
- 3.33 The IDB and the World Bank, according to the evidence, have acted in complementary ways, with the World Bank heavily engaged in the Northeast, with a strong rural, social sector, and policy and structural reform focus, as against the IDB which had a different geographic and in part a different thematic focus, concentrating on the financing of infrastructure.<sup>33</sup> Pragmatism, the preferences of the Brazilian authorities, and comparative institutional capabilities guided the division of labor between the two institutions—an arrangement that did not, however, entirely preclude instances of unnecessary competitive behavior (for example, to occupy fiscal space unable to accommodate both banks) and of insufficient coordination and alignment of procedures (for example, as noted in Annex 1, in urban transport in São Paulo and in the case of the jointly financed project REFORSUS).

#### **IV. PROGRAM COMPOSITION AND DELIVERY**

##### **A. Aggregate financial flows since 1990 and emergency lending**

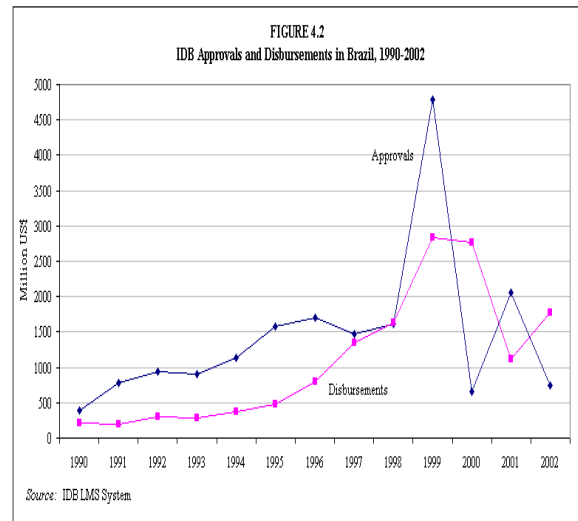
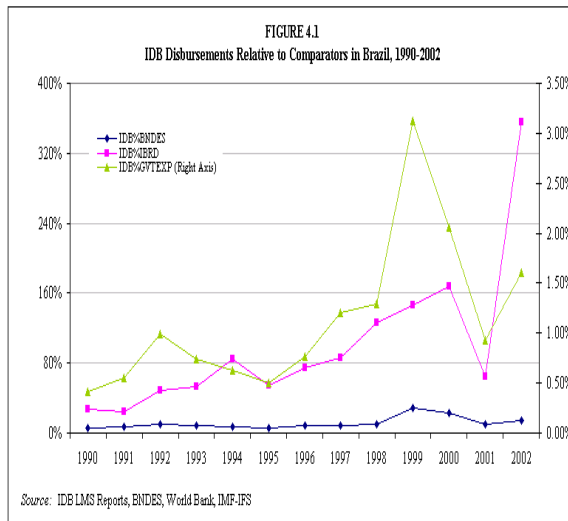
- 4.1 Since its inception through 2003, the Bank made 305 loans totaling US\$24.2 billion to Brazil and approved 289 technical cooperation operations (US\$195.6 million) and 35 small projects (US\$15 million). Between 1990 and 2003 the Bank *disbursed* US\$15.2 billion to Brazil. As shown in Figure 4.1, the average annual disbursements to 2002 amounted to 101% of World Bank disbursements (excluding IFC), 11% of BNDES disbursements, and 1% of central government expenditure. Lending commitments to Brazil between 1990 and 2003 accounted

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<sup>33</sup> See the next chapter on the IDB, and see World Bank/OED, *Country Assistance Evaluation Brazil* (cited above), on the World Bank.

for 22% of all commitments authorized and 9% of all loans approved by the Bank.

- 4.2 The Bank's approvals and disbursements were more or less flat for the first part of the 1990s, but rose considerably during the second programming cycle (Figure 4.2). An approvals and disbursement peak in 1999 was in large measure explained by the presence of emergency loans at that time, giving rise to an inevitable trend correction in the ensuing year.<sup>34</sup>



- 4.3 The rising trend in approvals and disbursements in the presence of fast-disbursing loans affected *net* disbursements favorably in the second half of the 1990s (Figure 4.3). Between 1996 and 2002, net IDB disbursements amounted to US\$9.43 billion, the corresponding figure for the World Bank being US\$3.45 billion. Net disbursements from the IDB are expected to remain low in the foreseeable future (likely at odds with the desired anticyclical role), while net *transfers* (or cash flow) began to turn negative in 2001. Repayment of principal of the emergency loans began in 2002.
- 4.4 Figure 4.4 reveals that the Bank worked in coordination with the IMF and the World Bank with respect to balance of payments support. Indeed, the Bank was present when needed, i.e., during the 1998-1999 capital account crisis when EMBI (the emerging markets bond index which tracks the spread on sovereign debt in international markets) reached peak levels as emerging markets faced temporary closure.<sup>35</sup> OVE's *Evaluation of IDB Emergency Lending 1998-1999* found a favorable announcement effect in Brazilian equity markets linked to the combined 1999 programs.<sup>36</sup> At the same time, one should note that there are possible downsides to the extensive financial assistance depicted in Figure 4.4:

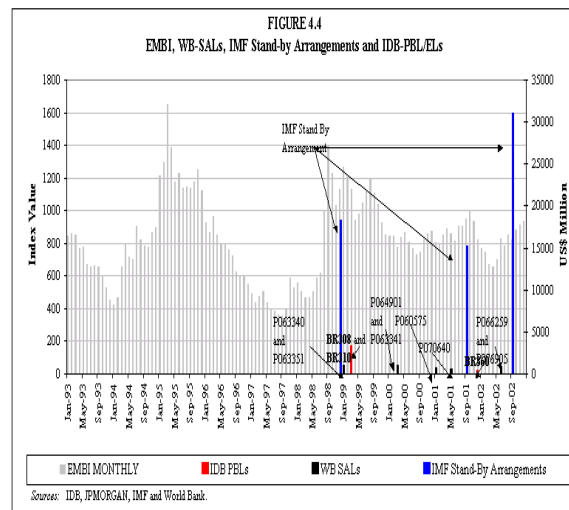
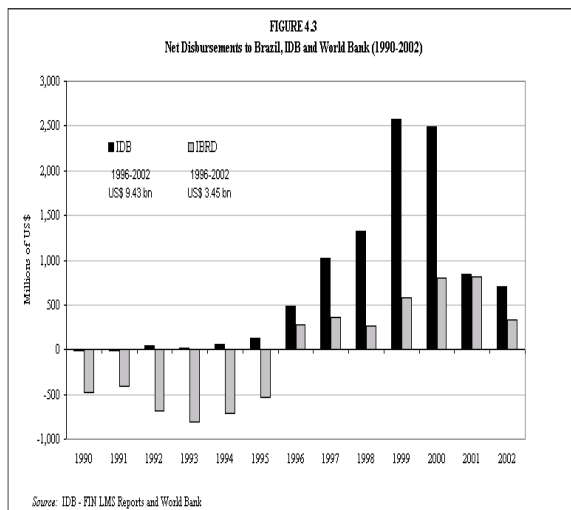
<sup>34</sup> On the heels of BR-0277, the 1998 global credit operation for US\$1.1 billion, two emergency loans were approved in 1999: BR-0308 for US\$2.2 billion and BR-0310 for US\$1.2 billion. BR-0277 and BR-0310 operated through BNDES.

<sup>35</sup> On the rationale for the Bank's intervention in the form of emergency lending see Document GN-2031 (28 September 1998) entitled: *Possible IDB participation in international cooperative efforts to overcome problems created by financial market volatility*.

<sup>36</sup> Document RE-251 Rev. of 24 September 2001.



country exposure considerations may arise; increased debt levels in the light of already important fiscal problems may become an issue; and the borrower's "fiscal space" to take on new investment loans or execute already approved ones may be reduced during the five-year amortization period of specially priced emergency loans.



- 4.5 The PCRs for the emergency loans rate the operations as "very satisfactory" (BR-0308, the social sector protection and reform program) and "satisfactory" (BR-0310, the global credit program for small and medium-sized enterprises) The report for BR-0308 asserts compliance (with reference to SAFF data)<sup>37</sup> with the objective of protecting spending on 22 priority federal social programs. The report for BR-0308 also asserts progress with respect to the objective of deepening social services reform and poor peoples' access to federally administered basic services. The report for BR-0310, in turn, asserts that the loan made possible "sustained growth" of credit to small firms during the execution period of the program, with more than 12,000 sub-loans financed under the loan.
- 4.6 The results of the IMF program under whose umbrella the IDB emergency lending occurred, and the drive to restore market confidence, are assessed in a 2003 report by the Fund's Independent Evaluation Office, which concludes that the program played a useful role in the transition to an inflation-targeting monetary regime and a more disciplined fiscal policy regime.<sup>38</sup>

## B. Portfolio composition

- 4.7 The analysis in this section refers to the 86 projects (89 loans) for a total Bank commitment of US\$16.6 billion approved between 1993 and 2003.<sup>39</sup>

<sup>37</sup> SAFF: the Planning and Budget Ministry's *sistema de acompanhamento fisico-financeiro*.

<sup>38</sup> At [www.imf.org](http://www.imf.org) find: IEO, *The IMF and recent capital account crises: Indonesia, Korea, Brazil*, 2003.

<sup>39</sup> Data are net of cancellations as of February 2004. (Fourteen projects had partial cancellations since 1993. Two projects, BR-0271 and BR-0257, were fully cancelled. The total cancelled amount is US\$328 million.) Summaries of MIF and IIC activity appear in Annex 5. Note that the portfolio approved during 1993-2003 amounts to one-third (32%) of all loans approved by the Bank and 68% of all current-dollar amounts

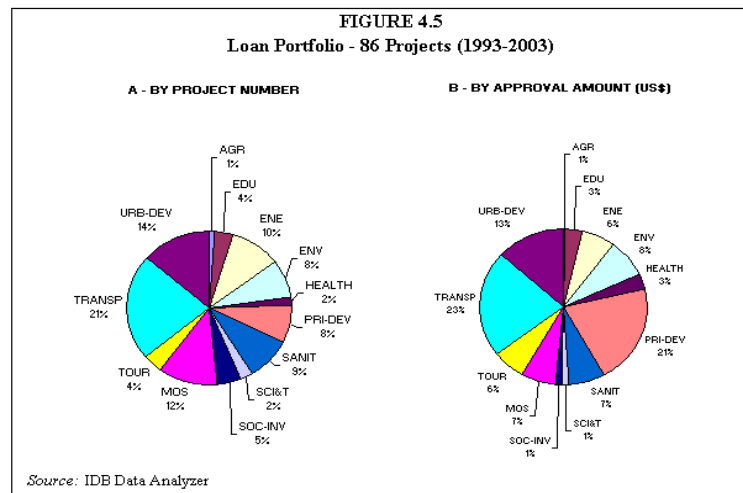
- 4.8 On the composition of the approvals in each programming cycle according to the Bank's strategic areas of engagement, see Table 4.1 and Figure 4.5, which point to a complex, multifunctional and sectorally balanced portfolio.<sup>40</sup> Except for the two emergency loans and BR-0360, a PBL, all loans were investment loans, the ratio of which to total lending was higher for Brazil than for the rest of the Bank during the decade here reviewed (97% of loans and 77% of disbursements compared with 91% of loans and 63% of disbursements for the rest of the Bank).

TABLE 4.1  
Approvals by Strategic Dimension, 1993-2003\*

PERIOD	C		SOC		MS		ENR		SEQ		PTI	
	#	US\$	#	US\$	#	US\$	#	US\$	#	US\$	#	US\$
FIRST PROGRAMMING CY	50%	63%	19%	14%	13%	2%	19%	21%	25%	16%	25%	16%
SECOND PROGRAMMING	46%	42%	35%	46%	14%	10%	5%	2%	41%	50%	27%	18%
THIRD PROGRAMMING C	45%	54%	48%	44%	6%	2%	0%	0%	55%	50%	42%	31%
AVERAGE - ENTIRE PERIO	47%	53%	34%	35%	11%	5%	8%	8%	40%	39%	31%	22%

\*Share of loan portfolio in terms of the number of projects (#) and the approval amounts (US\$)

Source: IDB LMS System



- 4.9 The Bank's program complied with the Governors' mandate for the Bank as a whole (for which there are no individual country limits) to the effect that PBL lending should not exceed 15% of cumulative lending (actual figure for Brazil: 5%). The program also thus far complied with the Bank-wide Eighth Replenishment target that no less than 40% of total approvals and 50% of the total number of operations be in the social area, broadly defined (the 1996-2003 actuals for Brazil are 49% and 55%, respectively).

approved since 1960 for Brazil. Slightly less than half (44%) of the 1993-2003 loans originated during what was identified above as the second programming cycle.

<sup>40</sup> The Bank's loan classification system distinguishes between more than a dozen sectoral denominations. For present purposes, the loans (including the two emergency loans and BR-0360 which are sector operations with a dimension of balance of payments support) were reclassified according to the four strategic areas of engagement that characterize the program in Brazil. Starting from the Bank's original self-classification of projects, the reclassification was in most cases straightforward: for example, the "social" category includes urban development, housing, sanitation, health, education and social protection. In some cases, however, informed arbitrary decisions had to be made, since many programs in the Brazil portfolio pursue multiple objectives—a fact unaccounted for in the Bank's unidimensional system of sectoral classification.

- 4.10 The data indicate that as social sector lending, modernization of the state and credit to micro and small and medium-sized enterprises through financial intermediaries grew, the share of investment directed to traditional sectors of infrastructure declined.<sup>41</sup>
- 4.11 However, detailed analysis of current project documents and their budget tables, including loans in the social area (broadly defined) and state reform, reveals the presence of much intended investment in physical infrastructure—beyond transportation (all modes), power, and large-scale environmental sanitation—in such domains as housing, urban upgrading, piped water, drainage, sewerage systems, flood and erosion control, and other construction and civil works. Table 4.2 attempts to capture this and in fact indicates that the bulk of programmed expenditure in the portfolio of investment loans (while sometimes promoting policy change at the sectoral level) is devoted to physical investments, including equipment and maintenance that can be assumed to contribute to capital formation.<sup>42</sup> The share of funds devoted to the item identified as “institutional strengthening” in the table, here taken as a catch-all for items such as “support,” “facilitate,” or “improve,” is small.

**TABLE 4.2**  
**Shares of IDB Loan Amounts by Strategic Dimension and Expenditure Categories (1993-2002)**

	IDB Loan Amount US\$(1000)	Physical Infrastructure	Equipment & Maintenance	Planning & Administration of Public Svcs.	Training & Supporting Resources	SME Credit	Institutional Strengthening
COMPETITIVENESS	5,004,200	57%	4%	2%	2%	33%	1%
SOCIAL	3,941,009	61%	12%	5%	6%	1%	15%
STATE REFORM	290,986	20%	24%	19%	8%	0%	29%
ENV. & NAT. RESOURCES	784,527	89%	5%	0%	1%	0%	6%
<b>OVERALL</b>	<b>10,020,722</b>	<b>60%</b>	<b>8%</b>	<b>4%</b>	<b>4%</b>	<b>17%</b>	<b>8%</b>

Source: 64 Loan Documents, PRI projects excluded

**TABLE 4.3**  
**Regional and Jurisdictional Distribution of Loan Approvals, 1993-2003**

REGIONAL												
PERIOD	BR		N		NE		S		SE		C-O	
	#	US\$	#	US\$	#	US\$	#	US\$	#	US\$	#	US\$
FIRST PROGRAMMING CYCLE	38%	35%	0%	0%	19%	22%	13%	7%	31%	36%	0%	0%
SECOND PROGRAMMING CYCLE	46%	79%	3%	0%	8%	3%	14%	7%	32%	12%	0%	0%
THIRD PROGRAMMING CYCLE	27%	45%	9%	4%	18%	19%	9%	7%	24%	16%	12%	9%
<b>AVERAGE, ENTIRE PERIOD</b>	<b>37%</b>	<b>53%</b>	<b>4%</b>	<b>1%</b>	<b>15%</b>	<b>15%</b>	<b>12%</b>	<b>7%</b>	<b>29%</b>	<b>21%</b>	<b>4%</b>	<b>3%</b>

BR (national), N (north), NE (north-east), S (south), SE (south-east), CO (center-west)

JURISDICTIONAL									
PERIOD	FED		FED Other		STATE		MUNICIPAL		PRI
	#	US\$	#	US\$	#	US\$	#	US\$	#
FIRST PROGRAMMING CYCLE	31%	27%	13%	19%	31%	36%	25%	18%	0%
SECOND PROGRAMMING CYCLE	46%	61%	5%	20%	22%	13%	8%	3%	19%
THIRD PROGRAMMING CYCLE	21%	19%	12%	38%	33%	24%	6%	8%	27%
<b>AVERAGE, ENTIRE PERIOD</b>	<b>33%</b>	<b>36%</b>	<b>10%</b>	<b>26%</b>	<b>29%</b>	<b>24%</b>	<b>13%</b>	<b>9%</b>	<b>15%</b>

FED (federal), FED Other (Brazilian Development Banks), PRI (loan to the private sector)

Source: IDB LMS System

- 4.12 The bulk of the funding under IDB loans, therefore, is for infrastructure and equipment—the productivity of which in the social portfolio other than urban development is not determined by rate-of-return calculations. However, even as the Bank (other than PRI) finances physical investment, it supports a social agenda and is engaged in many inherently less costly institutional endeavors variously called (i) “managerial improvement” which appears as an explicit goal

<sup>41</sup> 1980-1992 approvals in transportation, energy, and sanitation amounted to 61% of approved amounts and 58% of all projects. The values for 1993-2003 are 34% and 40%, respectively.

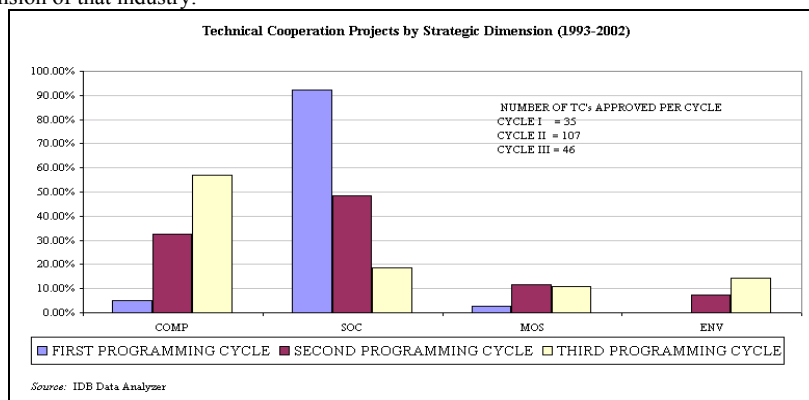
<sup>42</sup> Note that the data in Table 4.2 refer to the *intended* deployment of the resources provided by the Bank. No reference is made to the use of resources contributed by borrowers/executors.

in the state reform projects and the social area; (ii) “improvement of public services” which appears as a goal (in descending order of frequency) in the state-reform, social, and environment-related families of projects; and (iii) “institutional strengthening,” as mentioned, which appears as a goal in most non-PRI investment loans in all families (competitiveness, social, state reform, and environment/natural resources). Unfortunately, as shown later, the data required for an evaluation of the productivity of the efforts in these respects are not being collected. Technical cooperation has sought to support capacity building as shown in Box 4.1, but is not well documented with respect to results, except for MIF-supported work that is the subject of a separate, on-going evaluation effort by OVE.

- 4.13 The regional and jurisdictional distribution of the program is evidenced in Table 4.3. Overall, 37% of all Bank-supported projects and 53% of all expenditures were national in scope in 1993-2003. The highly developed Southeast and South, which together are home to more head-count poor than the three other major regions combined, commanded 41% of the projects, on average, and 28% of the intended flows. The Northeast, where the World Bank is heavily invested and where the depth of poverty is worse than in the Southeast and South, but affecting a smaller number of people, received 15% of all projects and approved intended flows.
- 4.14 The states of the Southeast and South are relatively well equipped to address poverty on their own. From the point of view of poverty reduction (a theme in each of the CPs), the Bank’s strong presence in these regions would therefore seem to require an explanation in the CPs—for example related to what one may be able to learn for possible replication in less favored regions.

#### Box 4.1. Technical Cooperation (TC)

The TC program is meant to foster capacity in institutions participating in investment operations, finance preinvestment studies, and support innovation. TC operations have been used with particular frequency in the social, environmental, and microenterprise/microfinance fields in Brazil where TC evolved into the key instrument of cooperation with NGOs. The figure below provides data on the distribution of TC operations by strategic dimension in each programming cycle. Funding for TC declined during the third programming cycle (from 1998 onwards) in the context of new arrangements regarding the use of local-currency FSO funds—the key traditional resource for TC in Brazil. As shown in the figure, while the number of TC projects declined during the third cycle, there was an increase in (MIF-funded) projects benefiting microenterprises and private sector development as approvals in the social sectors and poverty reduction declined. Some MIF-funded TCs are recognized in separate evaluation work conducted by OVE as effective. Under the INOVAR platform in Brazil, for example, MIF helped set up the institutional mechanisms for the sharing of experience and the promotion of the venture capital industry, creating a “virtuous circle” for the expansion of that industry.



- 4.15 Jurisdictionally, Table 4.3 indicates that the program touches on all levels of government but with a large share of commitments operating through the federal level—putting to work a principle of engagement formulated in one of the CPs to the effect that the Bank would attempt to address the requirements of dispersed borrowers of small size through one and the same operation where feasible. It was during the first programming cycle, before the Law of Fiscal Responsibility, that the Bank was most actively engaged at the subnational level. Subnational engagement was lower during the second cycle, as predicted in the 1996 CP, slowly to rise again during the third cycle. Subnational engagement and declining fiscal space led to progressively smaller projects over time: excluding emergency and sector loans, the average dollar amount of loans as originally approved was US\$225.6 million during the first programming cycle, US\$166.7 million during the second cycle (US\$140.7 million if BR-0277 is excluded), and US\$101.2 million during the last cycle through 2003. Pipeline data suggest that projects may on average be smaller still in the future.
- 4.16 We conclude from this review that the Bank supports an important number of complex operations that mostly take the form of investment projects, but as seen in Table 4.3 include sizeable global credit lines through BNDES that are linked to the economic and country risk cycle as depicted in Figure 4.4. The review shows that, counting the global lines as federal-level interventions, one-third of the operations during the third programming cycle was federal while one-third operated at the level of states, the remainder being municipal projects and operations by PRI. However, the financial commitments were considerably larger in the federal category (much of which executed subnationally through different modalities) than in the other cases combined. The pattern that emerges is one of a small number of very large loans at the federal level combined with smaller subnational-level loans.

### **C. Program delivery**

- 4.17 The topic of this section, delivery, is multidimensional and is analyzed with respect to the behavior of variables for which data were identified for the purposes of this report. The first of these variables is “preparation time,” i.e., the time it takes to prepare projects and see them through to where they become eligible for disbursement. The second variable is “timeliness of delivery,” based on what OVE calls the “efficiency of disbursement curve” and information from the Bank’s Project Alert Identification System which classifies projects as being “on alert” when they underperform in relation to certain progress criteria. Disbursement shortfalls are traced to different types of problems (or indicators of implementation progress) that the Bank identifies in the bi-annual PPMRs. The section also presents data on the cost-effectiveness of program preparation and delivery and, furthermore, reports on the Bank’s compliance with elements of its supervision system (Box 4.2)—supervision being key to the management of risk as the portfolio is being implemented.
- 4.18 Preparation time: It is noted with reference to Table 4.4 that in Brazil, where many project proposals reach the Bank at a relatively advanced conceptual stage (as stated earlier), preparation takes somewhat longer, on average, than in the rest

of the Bank. Delays related to the time required for the approval of the loans by the Senate, and additional delays related to the signature of the loan contracts on the part of Brazil may be contributory factors, although not in the “Profile I to approval” category referred to in the table. The data seem to be supporting the perception reported to OVE by interlocutors in government that the transaction costs in dealing with the Bank are high.<sup>43</sup> At the same time, the data indicate that preparation time varies marginally according to whether one is looking at federal as opposed to subnational level projects (Table 4.4), and more significantly depending on the size of the loans and the programmatic thrust to which the projects belong. Thus, (i) larger projects (i.e., above the average approval amount) prepared more rapidly than smaller ones; and (ii) projects in “competitiveness” were the fastest and operations in the environmental/natural resource thrust the slowest in reaching the stage of eligibility for disbursement (data not shown).

**Table 4.4 Preparation Time**  
(Excludes Private Sector Operations and Emergency Loans)

Timing (months)	Bank	Brazil	Brazil-Federal	Brazil-Subnational
	919 Projects	68 Projects	36 Projects	32 Projects
Profile 1 to Eligibility	33	35	34	36
Profile 1 to Approval	21	23	22	24
Approval to Eligibility	13	12	13	11

Source : Data Warehouse

#### **Box 4.2 Compliance with selected elements of the Bank’s supervision system**

**PPMRs:** Supervision rules require two PPMRs per year. With one one-time exception, the data reveal strict compliance with this requirement (period of analysis: 1997-2001). The problem with PPMRs is not their timely issuance, but their quality and format as discussed in the main text.

**Technical visits (TVs):** Supervision rules require a minimum of one visit per project per year. In general, visits are carried out at a rate more frequent than one a year. However, TVs are sometimes skipped in a particular year, violating the rules, but compensated by more than one visit the following year. For example, 57% of projects in the first programming cycle and 36% in the second cycle missed at least one TV in one of the four years covered by this analysis, 1998-2001. However, over the four-year observation period, 85% of projects in the first cycle and 89% in the second cycle fulfilled or surpassed the four required TVs.

**Financial visits (FVs):** FVs are carried out at the Bank’s discretion based on its risk evaluation of the project in question. About 90% of the FVs that were planned were actually carried out during 1998-2001.

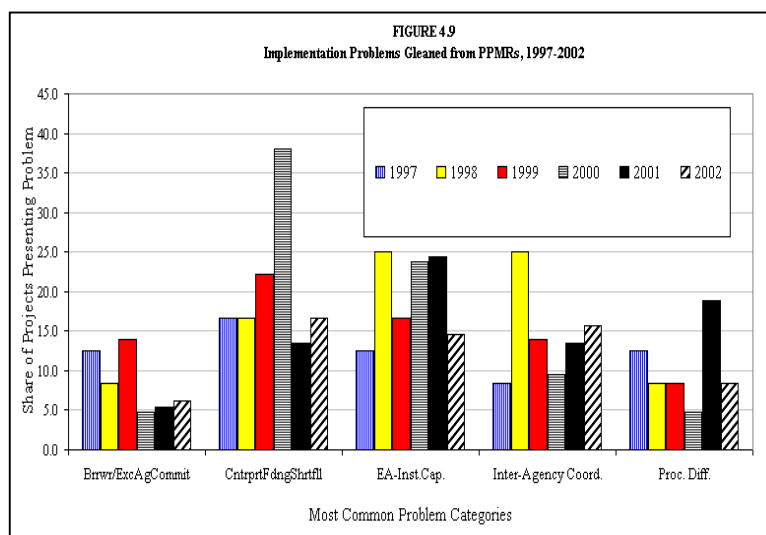
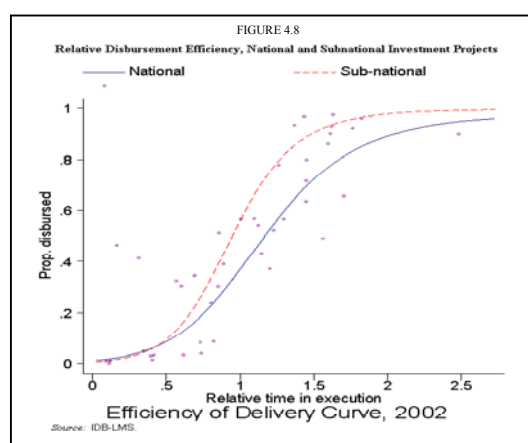
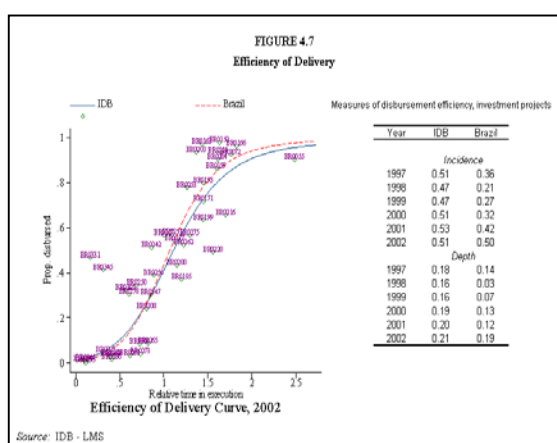
**Portfolio review mission:** Undertaken annually in the case of Brazil in accordance with rules.

**External financial audit (EFAS):** Mostly, the EFAS required for projects during our 1998-2002 period of analysis for this variable were carried out. The recorded share of *qualified audits* was high (1998: 73%; 1999: 33%; 2000: 33%; 2001: 43%; 2002: 46%). The Bank is advised to take action as necessary.

- 4.19 **Timeliness of delivery and administrative cost:** As to the timeliness of delivery, Figure 4.7 shows that investment loans in Brazil disburse slightly ahead of the Bank average pattern after the first year of execution, but the differences are not large. Twenty-two of the 53 projects in execution in mid-2003 were “on alert” for

<sup>43</sup> On federal-subnational differences in preparation time, in addition to Table 4.4, see Table A.2, which also provides information on project administration costs. It can be calculated from the table that 54% of the federal-level projects accounted for took up to 20 months to prepare, while 46% took longer. The corresponding data for subnational projects are 44% and 56%, respectively, suggesting a certain bias toward longer preparation times (but not necessarily higher cost) in the case of subnational loans.

potential disbursement problems according to the Bank's Project Alert Identification System (this amounted to 36% of all Region I projects and 15% of all Bank projects "on alert"). During the years accounted for, the incidence of underdisbursement relative to the disbursement period stipulated in loan documents was lower in Brazil than for the Bank without Brazil (35% versus 50% of the loans, respectively).<sup>44</sup> A look at the annual change in this statistic reveals an improvement for Brazil between 1997 and 2000 and a worsening (and thus a move toward the Bank average) thereafter—the effect of tightening fiscal constraints and a devaluation that made dollar disbursements go farther in domestic currency terms. By 2002 the "Brazil disbursement gap" of 19% was only slightly better than the figure for the Bank according to which an additional disbursement of 21% would have been needed to bring spending to the required level for the year.



<sup>44</sup> Disbursement efficiency is computed as the ratio of the share of project funds disbursed to the share of actual execution time since contract signature relative to the prescribed total execution time. The efficiency-of-disbursement curve permits classification of projects into below and above average disbursement efficiency. The "incidence" of disbursement efficiency refers to the number of loans disbursing more slowly than prescribed, whereas the "depth" refers to the size of the gap, in dollars, required to bring the portfolio up to the Bank-wide disbursement average.

- 4.20 Given Brazil's level of development and the quality of many of its public sector institutions, the question arises why disbursement performance is not significantly better than Bank averages. Among the explanatory factors that have been put forward to explain disbursement performance, institutional weaknesses at the subnational level along with limited fiscal space<sup>45</sup> are frequently cited, yet Figure 4.8 shows that disbursement efficiency of subnational projects exceeds that of federal ones.<sup>46</sup>
- 4.21 In the Bank's PPMRs, the five categories most frequently reported as explaining disbursement problems are: capacity constraints in executing agencies; counterpart funding shortfall; lack of commitment on the part of the borrower/executing agency; inter-agency coordination failures in the borrowing country; and procurement difficulties (Figure 4.9).<sup>47</sup>
- 4.22 While there may be merit to each of these explanations, the list as a whole is remarkably similar to the reasons offered for disbursement problems in other borrowing member countries. The list places most of the responsibility for underdisbursement on the borrower, while Brazilian respondents interviewed placed emphasis on cumbersome Bank procedures, inflexibility, and inappropriate policies as explanatory variables. The Bank's OPRCOS system<sup>48</sup> shows for 1996-2002 that costs associated with the preparation, approval and execution of investment projects in Brazil were on average 1 cent per each dollar approved—lower than the 5 cents per dollar approved that is calculated for the Bank as a whole and the 3 cents per dollar approved that is calculated for Region I as a whole. While the data are not precise, they do suggest the possibility that a low commitment of administrative resources by the Bank to the Brazil portfolio may be part of the explanation for the observed disbursement pattern.
- 4.23 Whatever the merits of each position, the data suggest that it may be appropriate for the Bank and Brazil to review their partnership for resolving disbursement issues and producing a portfolio where preparation and disbursement times are better than the record documented above. If both parties agree on a performance standard for the portfolio, focused efforts at building a partnership that can deliver results to the standard should be a part of the next country strategy.

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<sup>45</sup> Restrictions related to fiscal space are clearly important at both the federal level and that of the states (in the latter case the rules of fiscal discipline consolidated under the Law of Fiscal Responsibility come into play). Since 1999 lending by the multilateral development banks has been treated as a regular budget expenditure item, whereas previously it had *de facto* been considered additional to the budget. As a regular budget expenditure item, lending by the multilaterals is subject to overall fiscal targets and constraints.

<sup>46</sup> The figure accounts for all investment projects approved since 1993 that were disbursing in 2002.

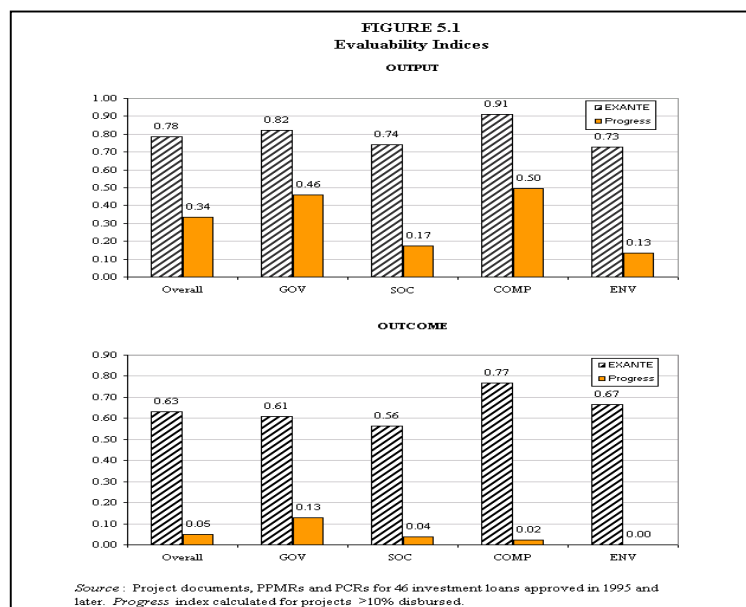
<sup>47</sup> The figure shows that the reported frequency of occurrence of different problems varied from year to year—inviting questions as to why, for example, reported institutional capacity constraints behaved in a unimodal fashion, falling in 2002 to almost the level of 1997.

<sup>48</sup> The database used attempts to match TRS, a time management system, and the TA, a travel authorization system. The TRS is a relatively imprecise source and the database most likely underestimates costs as it excludes costs associated with the hiring of local consultants, among other considerations.



## V. EVALUABILITY AND THE TRACKING OF RESULTS

- 5.1 The purpose of lending by development banks is to accelerate desired development outcomes. What one observes in the case of the IDB in Brazil is that its monitoring system does not track outcomes. The Bank, therefore, is not in a position to know what developmental results it helps achieve.



- 5.2 To investigate the issue of evaluability and the current practice with respect to the tracking of results, results frameworks were constructed for a sample of 46 investment loans and shared with Region I in mid-2003.<sup>49</sup> The results of the exercise appear in Figure 5.1, which points to relatively high ex ante and very low progress indicators. This means that the projects are considerably above the Bank norm in terms of specifying indicators and results at the time of approval, but that the process of execution does not follow these indicators or provide data on results.<sup>50</sup> The exercise found 284 outcome indicators specified for the 46 projects at the time of approval, but found progress reports on only nine of them in the PPMRs and (where applicable) PCRs (Table A.3). Scrutiny of the nine reveals that at most four are truly outcome indicators, the remaining five being output

<sup>49</sup> An evaluable project is one that (i) is fully and coherently specified “at entry” in terms of its goals and objectives, “ways and means,” risks and mitigation strategies, and indicators of success for which there should be baselines, intermediate milestones, and time-bound targets, and (ii) collects data on progress through indicators that measure outputs and development outcomes. In line with this definition, OVE’s method involves the assessment of evaluability (i) ex ante based on information at face value primarily obtained from loan documents and (ii) ex post in the form of the *progress information index*, the informational basis for which are the PPMRs and (in the case of closed projects) the PCRs. The ex ante exercise is also a means to gauge the quality of projects and, through aggregation, the portfolio as a whole in terms of logic and the completeness of specification of the operations. It is believed that logic and “completeness” are desirable attributes, hence justifying the ex ante evaluability test, even though they are clearly not the only factors determining project success.

<sup>50</sup> Sensitivity analysis shows that for the projects in this sample the *progress* indicator does not improve as projects mature.

- indicators.<sup>51</sup> Consultations with executing agencies and the Country Office revealed that progress data on additional outcome indicators are in some cases available at the agencies and in the Country Office (in fact, some such concrete examples are mentioned in Annex 1, illustrating the possibility that the absence of data in the Bank's monitoring system may in part be explained by the inappropriate format of the system, rather than the patent absence of information).
- 5.3 Awareness with respect to these shortcomings is growing in the Bank in the context of dissatisfaction in the Country Office, where it is recognized that the PPMR as designed is not an adequate instrument for reporting results and where an effort to retrofit projects with indicators and to link the PPMR to the logical frameworks (or vice-versa) is underway. A challenge not yet adequately addressed is the timely updating of the logical frameworks at entry such that they reflect the requirements of projects as they are being implemented. This is an important issue linked to the transfer of project responsibility from the design team to the implementation team. A quote from the PCR for BR-0234 (Flood control Campinas) illustrates: ... *[p]ara que o Marco Lógico possa servir como instrumento de apoio na execução, e não apenas como uma ferramenta no planejamento do Projeto, se torna imprescindível sua atualização no início da execução ...* (p. 24).

## VI. DEVELOPMENT OUTCOMES

- 6.1 The results of the Bank's activities during the period under review can in principle be discussed at both the program level and the project level, and at each level it should be possible to distinguish between the production of first-order results, or outputs, and the production of outcomes—the focus of this chapter.
- 6.2 However, at the program level, the Bank's relatively weak programming process generated few goals for the program as a whole at either the output or the outcome level. Thus, the Bank has not specified measurable goals in state reform and modernization and in the environmental and natural resource management thrust. The situation is somewhat different for the competitiveness thrust and for some of the program thrust in the social area where the outcome intentions to improve competitiveness by reducing *custo Brasil* and to improve the efficiency of delivery and the efficacy of social services are announced. *Custo Brasil* was never quantified in any Bank document, despite repeated references to the concept. Results on this dimension thus cannot be determined, but another measure of competitiveness, Brazil's ranking on the World Economic Forum's annual index of competitiveness, shows no significant movement over the period of the program evaluated.<sup>52</sup>
- 6.3 On the other key program level goal, improving social services, it is similarly difficult to obtain quantitative data because the goals of "delivery efficiency" and

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<sup>51</sup> For example, project BR-0182 provided progress data on the number of subdivisions with basic water, sewage and social services provided—an output indicator, not an outcome indicator; project BR-0261 provided progress data on the number of municipalities signing agreements with IPHAN to comply with norms stipulated by that entity—an output indicator, not an outcome indicator.

<sup>52</sup> Cf. [www.maaw.info/worldcompetitivenessreports](http://www.maaw.info/worldcompetitivenessreports).

“efficacy” were never defined or measured. A review of projects in social protection and, to a lesser degree, in health and education, however, found plausible qualitative evidence that Bank activities may have helped lay the foundation for future gains in the efficiency and efficacy of social services and transfers. For example, the Bank helped demonstrate the feasibility and possible merits of targeting in the search for an effective social policy.

- 6.4 The absence of program-level data on results implies the need to turn to projects for evaluative findings on results. A discussion of (potential) results for projects in twelve sectors under four program thrusts appears in Annex 1—subject to such limitations as the evaluability constraint and the portfolio’s maturity profile. This annex is itself a summary of OVE’s project-level review, field visit results, and commissioned background work. The purpose of the present chapter is not to summarize again, but to lay out the themes emerging from the evaluation that appear to affect the prospects of ultimately achieving the intended development effects.
- 6.5 It is appropriate to start by noting that in the twelve sectors discussed, important first-order outputs were attained during the period reviewed, much of it in the form of infrastructure built and capital goods supplied, but also in the form of balance of payments support and sizeable sums (22% of approvals) devoted to unevaluated channeled credit programs administered by two development banks.
- 6.6 It is necessary, next, to recall the finding of the last chapter to the effect that few data are available today to gauge the projects’ progress towards higher-order, outcome-level results. This, in fact, is the first of five themes identified in attempting to judge the portfolio’s accomplishments so far and its trajectory towards more final results. The evaluability review in the last chapter and the discussion in Annex 1 indicate that the Bank’s monitoring system does not provide outcome data for the majority of the projects. This means that Bank management is not in a position to know where it stands with respect to its declared objective function. It also means that the Bank does not have potentially vital risk assessment information at its hands.<sup>53</sup>
- 6.7 The second theme emerging from the evaluation relates to sustainability and the management of different risks potentially associated with the Bank’s investments. Across most of the sectors, the evaluation found significant risks related to aspects of the sustainability of benefit flows over time. Thus, for example, in transport, key risks are related to the funding of highway maintenance and management systems on a sustainable basis, the lack of regulatory definition, and the limited participation by the private sector. In energy, the risks are related to changes in market conditions and the regulatory framework, but also can be

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<sup>53</sup> From Annex 1 and the evaluability exercise conducted for this report, partial outcome level data are available through the Bank’s monitoring system or other sources, including sectoral development data, in the case of BR-0360 (the social protection PBL); BR-0177 (PROARES); BR-0202 (PRODETUR I); BR-0171 and BR-0193 (PNAFE and *Receita federal*, where the outcome fostered by the enhancements in revenue collection supported under the project is “fiscal adjustment”); BR-0182 (Favela Bairro); and BR-0288 (INTERLEGIS).

traced to choices made by the Bank during its due diligence review of potential operations.

- 6.8 In health, the risks are linked to the sustainability of the investments, given the quite substantial maintenance costs associated with Bank-financed capital equipment purchases. There also has been slippage at the policy level as far as the development of realistic and sustainable health finance solutions is concerned. In education, the risks are related to the implementation of the projects, all of which are having disbursement problems. These in turn relate to the risk that the model developed by the Brazilian federal government assisted by the Bank may have unanticipated drawbacks that contribute to the reluctance of state governments to fully embrace the new approach.
- 6.9 In urban development, key risks are derived from the extrapolation of models that apparently work in one setting but may not in others—illustrating the need for monitoring and evaluation as the basis for informed replication. In social protection, the risk is that what seems to work (based on contributions by the IDB in terms of the design of targeted solutions) may not find its way into mainstream policy to address persistent inequality. And in water decontamination and pollution control, to conclude this non-exhaustive list, the risks are related to the sustainability of funding for maintenance and to solutions to the problems of enforcement.
- 6.10 The third theme relates to knowledge deficits and the relative lack of economic and sector work. The evaluation found that the Bank’s analytical contributions in the mode of what we called “Type 1” were modest during the period reviewed—leading to knowledge deficits (for example in housing, the credit market, and transport) related to the policy frameworks governing the prospects of Bank-financed investments. Remedial action to inform the management of the risks of sustainability referred to above requires prioritized contributions in the mode of Type 1 that are narrowly designed to address issues with which projects financed by the Bank must wrestle. Once made, contributions in the mode of Type 1 should then be used in the dialogue with Brazil—something that was done in secondary education, but seems not to have been done in the power sector where it was the World Bank that in 2003 solidified its presence in the dialogue with the authorities.
- 6.11 As appropriate, contributions in the mode of Type 1 need to be complemented by work in the mode of Type 2 and 3 (defined in Chapter III above) with a view to designing feasible projects. For example, the implementation delays affecting the projects in secondary education may suggest that the projects were not designed to deal with the complexities of the proposed reforms.
- 6.12 The fourth theme with a bearing on prospects for achieving outcomes relates to replication, considered a potentially important function for the Bank in a large, federal country like Brazil. The evaluation detected a recurring failure to assess and make explicit at the project level the lessons of the past. As discussed in Annex 1 and seen rather clearly in the case of urban development, transport, and

water decontamination, this limits the scope for informed replication within Brazil.

- 6.13 The fifth theme relates to implementation—expeditious implementation representing a key potential dimension of value-added by the Bank. The evaluation of project delivery in Chapter IV and Annex 1 identified a need to work on the resolution of disbursement issues and institutional capacity constraints. However, the frequent occurrence of implementation delays noted in this report raises the question (not analyzed here) as to whether problems related to project design also play a role.
- 6.14 From the analysis in this report, then, five areas not fully attended to by the Bank are judged to have a bearing on the prospects related to development outcomes, i.e., the monitoring of results in the course of the project cycle and beyond, the management of risks related to different dimensions of sustainability, the development of sector knowledge and participation in the policy dialogue, the building of knowledge bases for replication, and the need to improve the record of implementation. For a more in-depth discussion, the reader is referred to Annex 1.

## VII. CONCLUSION AND RECOMMENDATIONS

- 7.1 The Brazil country program is prepared in an environment unique within the Bank. The Brazilian authorities articulate a detailed multiyear plan that sets the parameters for Bank assistance. The Bank in this context is clearly a taker of priorities but has the advantage of working within a planning context where ownership and prioritization by the government are axiomatic. The challenge faced by the Bank is how to organize a work program in a situation of limited fiscal space and how to maximize value-added. It is the purpose of the paragraphs below to offer conclusions with respect to selected dimensions of value-added, including the Bank's operational orientation; its responsiveness to the borrower's needs; the intangibles it brings to bear (i.e., the knowledge, expertise and rules embodied in its products and any externalities associated with its presence); and the developmental results it helps produce.
- 7.2 The Bank's practical, project-oriented focus emerges as a key potential source of value-added. The Bank influences and helps shape the initial project proposals presented by Brazil and plays a role in terms of political support or "cover" facilitating the implementation of reforms. The record on the project portfolio's first-order results or *outputs* is clearly favorable, to the extent that the portfolio is mature enough for this to be determined at the present time.
- 7.3 Evaluation and "scaling up," on the other hand, are not receiving as much attention as they might. Progress regarding the delivery of the projects' intended *outcomes* is not fully demonstrated in the absence of more complete efforts to track results. As to the challenge of scaling up, the evaluation found that in several important sectors the Bank is present with numerous loans without a premeditated search for synergy and impact greater than the sum of the parts.

- 7.4 Another source of value—responsiveness—deserves high marks in some respects, e.g., the response to the capital account crisis of the late 1990s discussed in this report, which however came at the cost of increased exposure and reduced room for maneuver today; the shift to subnational lending in the third programming cycle in response to perceived opportunities and needs at that level; the effort to devise operations with a national projection capable of reaching dispersed borrowers in different parts of the country; and the attention paid to social protection, energy, and other country priorities reviewed in this report. At the same time, the evaluation identified Bank processes and procedures, the efficiency of delivery, and the issue of “flexibility in lending” as items where responsiveness can be improved. A special consideration in this context relates to the instruments available to engage Brazil, the report taking the position that programmatic alternatives to traditional project-based funding should be explored.
- 7.5 A third source of value—intangibles—includes the knowledge contributions by the Bank, which were discussed in this report and found to be on-target in some respects and wanting in others, the report taking the position that the Bank’s limited presence in analysis and the policy dialogue may reduce its margin of choice and impair its effectiveness in key sectors in which it is invested.<sup>54</sup>
- 7.6 A fourth source of value—developmental results—is by the findings of this report more difficult to document, as mentioned, although the evaluation found evidence of important achievements in more than one respect.<sup>55</sup> Inequality and growth (elements of the declared objective function of the Bank) did not improve during the period reviewed, but the incidence of poverty declined (Chapter II). The Bank supported a sizeable and in some respects innovative portfolio in the social sectors and was active in economic infrastructure through public sector loans and the leveraging instruments of its Private Sector Department. It was an actor in channeled credit benefiting eligible firms and supported improvements in fiscal administration, coverage in water and sanitation, pollution control and drainage, and the diversification of the economy of the Northeast through tourism and sustainable development. The Bank needs to improve the tracking of progress toward developmental objectives as projects execute, as recognized in Region I’s list of lessons learned in Annex 7. It also needs to review and strengthen its management of risk as a way to improve the record of implementation.
- 7.7 Five recommendations are offered with a view to strengthening the program in Brazil:
- First, the Bank and Brazil should establish clearly the parameters of their working relationship going forward. In the next Country Strategy, Management should reflect on the comparative advantage of the institution in the context of specified development challenges by looking at what the Bank does best and how it can strengthen its value to Brazil in these areas. The next Country Strategy should also clarify Brazil’s expectations of the Bank, among other aspects on the question of whether program-level objectives for the Bank’s program are helpful

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<sup>54</sup> This is recognized in the list of lessons learned submitted by Region I and reproduced in Annex 8.

<sup>55</sup> See the Executive Summary of this report, and Annex 1.

to the country. If there are to be program level objectives, they should be accompanied by indicators, baselines and targets for improvement.

Second, if specific projects continue to be the principal form of engagement between the Bank and Brazil, then it is imperative that projects improve their evaluability, particularly during execution. The Bank has been improving the results focus of operations at the design stage, but both the Bank and many project sponsors need better systems for tracking progress toward outcome objectives as projects execute. Improvements are also needed in some aspects of project supervision (Box 4.2).

Third, the Bank should increase its diagnostic and analytic work on the problems being addressed in individual projects or groups thereof. Increased analytical work is expected to permit the scaling up of results beyond individual projects and to make projects more replicable where needed. A key potential value of the Bank in a large, federal country such as Brazil derives from developing and promoting interventions that can be replicated elsewhere in the country.

Fourth, there is a need to examine more closely the transaction costs associated with Bank projects in Brazil. Preparation and execution performance should improve. Management should develop concrete proposals, ideally with performance targets for the portfolio as a whole.

Fifth, the Bank should explore alternatives to traditional project funding, with a view to improving outcome achievement, enhancing the policy dialogue, and reducing transaction costs. Lending to BNDES in the past provided a low transaction cost product, but weak evaluation limited evidence on results. Sector-wide, programmatic loan products have been used extensively by Brazil, but since the IDB does not yet have such an instrument, future lending programs should consider the use of the newly-approved flexible lending instruments as a possible device for achieving agility coupled with evaluation and more in-depth policy dialogue.

## Detailed discussion of results

The purpose of this annex to assess the results of the Bank's program in the self-declared strategic areas of intervention, i.e., competitiveness and growth, social development, state reform and modernization, and natural resource management, environmental aspects, and "sustainable development." Our method consists of reviewing key projects in their evolving sectoral context and examining—within the limits of the evaluability constraint and the projects' maturity profile—the extent to which they have achieved, or are on track to achieve, their development objectives. The discussion, therefore, is geared towards *outcomes* in the sectoral context that applies to the projects being reviewed. While *outputs* are acknowledged in many instances, *outcomes* and the prospects for achieving them are what this annex is about.

### A. Competitiveness and growth

#### 1. Credit programs

Judged by the size of the Bank's financial contribution, credit for micro, small and medium enterprises was the single most important category of investment in the "competitiveness and growth" program category and the Brazil program as a whole in 1993-2003. The purpose of the six loans in this area for a total Bank commitment of US\$3.7 billion (Table A.1) was to "develop and modernize the Brazilian productive sector" by making available medium- to long-term credit for the identified segment of firms. Four of the loans were extended to BNDES and two that have not started to disburse to the Banco do Nordeste.<sup>56</sup>

The ability of Brazil's financial system to support productive activities and growth is constrained by the lack of long-term finance in the system in a high-interest rate environment in which credit to the private sector has to compete with the public sector's borrowing needs. The financial regulatory system has evolved in recent years, but continues to constrain intermediation because of shifting prudential controls and tax laws, weak creditor rights, restrictions on the types of products that different intermediaries can offer, information asymmetries in the absence of linked credit reporting systems, and legal arrangements that weaken contract enforcement—according to the literature a determinant of the level of private credit in the economy.<sup>57</sup>

In this context, the average maturity of loans to the private sector (other than short-term instruments such as credit card debt) remained short and actually declined in recent years;

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<sup>56</sup> The loans to Banco do Nordeste (BN) for which there are at this time no results to report are BR-0270 (2001) for small and medium-sized firms and BR-0301 (2002) as a vehicle for microfinance. The loans were signed in July 2003 after delays during which the possibility of canceling BR-0270 was evoked. BR-0270, under which the BN would against its preferences operate as a second-tier institution, is in competition with IDB lending to BNDES where the BN acts as one of the first-tier intermediaries extending credit to firms in the Northeast. BR-0301, in turn, is meant to supply resources and technical assistance to the BN's *CrediAmigo* program that is also the beneficiary of a loan by the World Bank.

<sup>57</sup> For an overview of banking and the financial sector see: the June 2003 issue of *Valor Financeiro* ([www.valoronline.com.br](http://www.valoronline.com.br)), and World Bank, *Brazil: Access to financial services*, draft, June 2003. On the role of the judicial system, A. Castelar Pinheiro and C. Cabral find that the Brazilian states with a more efficient judicial system display higher levels of private credit to their GDP than other states; see the authors' *Credit markets in Brazil: the role of judicial enforcement and other institutions*, BNDES, 1999.



interest rate spreads remained high; and total credit to the private sector as a share of GDP remained at best constant as channeled funds as a share of GDP and total credit in the system grew (Annex 3). In addition, by all accounts, credit for micro and small and medium-sized firms remained low in relation to “needs” and the sector’s capacity to grow—broadly providing the rationale for the Bank’s involvement in the absence of an adequate market response for this category of firms. The long-term credit market in Brazil is concentrated, with BNDES having the principal role of seeking to attend the demand. Credit for small and medium-sized enterprises (often already operating in the formal sector) is limited by a lack of guarantees and credit history. Micro enterprises often face the additional constraint of operating in the informal market and may lack bank accounts, titles of property, and systems of accounting.

The *first* of four loans to BNDES (BR-0155, 1995, which followed execution procedures similar to the ones adopted for its immediate predecessor, BR-0172, approved in 1990) disbursed in a matter of months, operated fully through financial intermediaries (some ninety of them), and generated in excess of 1,000 loans to sub-borrowers. The *second* and *third* loan (BR-0277, 1998, and BR-0310, 1999) had as their objective to ensure “continuity in access to funding for a group of relatively small firms during a period of financial turbulence.” BR-0277 operated through 107 financial intermediaries and benefited 25,675 firms according to BNDES data, while BR-0310 (the Emergency Loan referred to in the Chapter IV) extended funding to 12,143 firms at an average loan size of US\$98,000-equivalent according to the PCR. The *fourth* loan to BNDES (BR-0331, 2001) for both micro and small and medium-sized firms followed the model of previous loans and was about 80% disbursed in late 2003.

The developmental results of these loans cannot be determined at this time. First, because the focus of BNDES’s loan processing rests mainly on the concession and disbursement of loans. Second, because BNDES does not conduct evaluations of the possible impacts of the loans. Third, because the PCRs that exist on the Bank’s side are not analytical. And fourth, because there is no evidence that the Bank performed an effectiveness analysis of completed projects to extract lessons for the preparation of follow-up programs. The credit programs helped attract the participation of several hundred commercial financial intermediaries, thus contributing to some sort of financial deepening at BNDES’s preferential rates—replicable only under a scenario of continued channeled programs.

An important monitoring effort by the Bank (through the Country Office) reveals possible effects on firms, including increases in sales, in good measure, according to the owners, due to the financing received under the programs. The survey pointed to employment growth, particularly in medium-sized firms that brought new investments on-stream and created new businesses, most often in the commercial sector as opposed to “industrial” activity (Annex 3). The baseline against which program effects are tallied is not specified.

The monitoring effort, while a welcome beginning, does not shed light on longer-term effects, including such aspects as the durability of benefits, changes in firms’ resilience in the face of competitive pressure, and productivity and inter-industry effects. Nor does it provide guidance on the differences in approaches required for effectiveness in the micro versus small and medium-sized enterprises. Are the credit programs developing and modernizing Brazil’s productive sector as the loans promise that they will? Published

data inject a measure of doubt as SEBRAE statistics, for example, point to a decline in the participation of micro and small and medium-sized firms in the value of Brazilian exports between 1990 and 2000,<sup>58</sup> while academic growth literature suggests that productivity growth in Brazil has tended to be concentrated in larger (and newer) firms rather than the segment of small and medium-sized firms.<sup>59</sup> Also, Brazil's international competitiveness rankings have not improved since the mid-1990s.<sup>60</sup>

Under the credit programs, to conclude, the Bank commits large sums to global lines of credit that have a dimension of balance of payments support, are not the subject of evaluation, are made available without a program of feasible measures to promote financial intermediation for the benefit of the target group of micro, small and medium-sized firms (for example, the development of a credit reporting system for this category of firms), and appear to favor larger rather than micro and smaller firms (from the average loan sizes mentioned above) without an explanation (in loan documents) with respect to the intent in this respect. Monitoring indicators for project outcomes are not available, nor are efforts to contrast the effectiveness of the loans to micro versus small and medium-sized firms.

## 2. Transport

Highway transportation is the most important and commonly used mode of transport in Brazil with 60% of commercial freight and 90% of passenger traffic traveling on a road system largely constructed during the 1960s and 70s and displaying low and deteriorating indicators of quality by both international and Latin American standards. In 2003, the annual survey of highways by the *Confederação Nacional do Transporte* (CNT) classified as significantly to severely substandard and impaired 83% of the 48,000 kilometers of publicly administered federal and state highways that were surveyed.

The highway system is not receiving the investment and maintenance needed to keep pace with traffic and increases in vehicle ownership in Brazil.<sup>61</sup> The reasons for this include the absence of dedicated funds for roads and a tight budget constraint in the context of fiscal adjustment.<sup>62</sup> At the federal level, the higher share of capital expenditure in the budget of the Ministry of Transport relative to, say, the recurrent expenditure-

<sup>58</sup> [http://www.sebrae.com.br/br/ued/mpe\\_exporta.htm](http://www.sebrae.com.br/br/ued/mpe_exporta.htm).

<sup>59</sup> A. Castelar Pinheiro et al., *Brazilian economic growth 1900-2000: lessons and policy implications*, BNDES, 2001.

<sup>60</sup> World Economic Forum data at [www.maaw.info/worldcompetitivenessreports](http://www.maaw.info/worldcompetitivenessreports).

<sup>61</sup> M. Fay, *Financing the future: infrastructure needs in Latin America, 2000-2005*, World Bank Working Paper 2545, 2001, notes that Brazil and Latin America are less endowed in transport routes than countries at similar levels of income elsewhere.

<sup>62</sup> The construction and maintenance of highways had since the 1950s been financed by the *Fundo Rodoviário Nacional* (FRN), which was funded by tax on fuel and lubricants. During the 1980s, the federal government began to use the FRN to cover other expenditures while in 1988 the new Constitution eliminated it, transferring to the States and Municipalities on an untied basis the taxes and other fees previously allocated to the FRN. The highway system at that point, when the pavements began to require outlays for repairs and rehabilitation, started to depend on budgetary allocations, which have in general been insufficient and fluctuating from year to year. In 2001 the CIDE tax levied on fuel (*Contribuição de intervenção no domínio econômico*) was introduced. Its proceeds were partially earmarked to finance transport infrastructure. The share earmarked for this purpose has since been reduced and, in any case, spending from this source is limited by the cap on spending governed by the primary surplus target.

driven Ministry of Health makes the former a target for cutbacks when the need arises and for spurts of year-end funding when resources are unblocked as the budget authorities are able to see more clearly what funds are available in relation to needs.<sup>63</sup>

Federal and state highways: In the mid-1990s, the federal government and some states began a program of highway rehabilitation and transfer of public infrastructure to private concessionaires, under an amended Concession Law, with a view to addressing the investment needs in transport without inflating the fiscal deficit. The federal government, furthermore, initiated a program to transfer the responsibility for administering large sections of highways to the states. Both of these processes framed the context within which the IDB approved 18 operations for a total of US\$2.85 billion between 1993 and 2003.

Twelve of the 18 loans were public sector operations (four in federal highways, six in state highways, and two in urban transport, reviewed separately below) and six were toll roads intermediated by PRI (Table A.1).<sup>64</sup> The federal-level projects sought to recover, widen and upgrade large sections of existing highways and bridges, undertake new construction of roadways and tunnels, prepare for possible concessions, and institutionally strengthen executing agencies through technical support and training. The state-level projects intended to rehabilitate, upgrade and provide maintenance for existing roads while strengthening the institutional capabilities of state highway management directorates.

The implementation of projects at the federal and state level was affected by shortages of funds and slower than anticipated progress in the granting of concessions and the transfer of responsibilities for highways to states. Also, issued concessions were suspended as their desirability and viability became uncertain amid technical and legal questions in a changing political environment. Tying highway upgrading and maintenance to toll concessions is not an option for large portions of the network, but can work in specific circumstances under a regulatory framework capable of adapting to rapidly evolving conditions—for example, as political realities change.<sup>65</sup> Evidence suggests that the Bank might have underestimated the political and practical difficulties related to the issuance of concessions that would take over the maintenance task.

As an example, the second phase of the Rodovia Fernão Dias project (BR-0216, 1996) to create an upgraded corridor connecting Brazil with Mercosul had program components well underway with physical advances of close to 90% by September of 2002 when the project came to a halt because of funding restrictions. Pavement works began to substitute for passenger safety and signalization components, and the concession

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<sup>63</sup> World Bank, *Brazil—Planning for performance in the federal government: review of pluriannual planning*, Report No. 22870-BR, 2001, finds that transport programs suffer “far more” from in-year expenditure adjustment than social programs, even if the affected activities are designated as “strategic” in the PPA. The report notes (p. 18) that in the budget execution decree for 2000 the level of spending released to the Ministry of Health 2000 was 98% of the level authorized in the budget, compared to 51% for the Ministry of Transport.

<sup>64</sup> Space constraints preclude a full review of the 18 projects here. For details, the reader is referred to the background papers by M. P. Iannariello and I. M. de Oliveira Lima listed in Annex 6.

<sup>65</sup> World Bank/OED, *Project performance assessment report (Loan 3547S-BR, Sta. Catarina State Highway Management Project) and Review of highway concession program*, 2002, pages 2 and 20.

agreement was suspended. The project had no budget assigned to it in 2003 and 2004 in the context of a review of policy and priorities, paralyzing the execution of the IDB's share.

Insufficient counterpart funding at the state and local level is a critical issue affecting implementation, as indicated by the current funding-related “on alert” status of such operations as BR-0278 (1999, Bahia II), BR-0251 (1997, Rio Grande do Sul), and BR-0253 (1997, Ceará II)—which suggests the need for circumspection in taking into account local financial capacity at the project definition stage. Other unresolved problems that emerge from the review of the projects relate to the issue of: highway management capacity at the federal and state level; delays in establishing functioning weight control stations on rehabilitated portions of highway, affecting the durability of the investments; and the limited participation of the private sector.

The physical achievements in federal and state highways at the output level are substantial and relatively well documented both in the Bank's monitoring system and governmental sources.<sup>66</sup> However, development impacts were not monitored, even when indicators were specified at the design stage and the Bank financed subsequent phases of a program. Hence, because of the lack of data on these dimensions, little is known regarding the achievement of the development objectives stipulated under the loans (e.g., economic integration, competitiveness, reduction of transport costs, safety, and environmental improvements).<sup>67</sup>

In view of the size of the IDB's financial commitment to the highway sector, one would expect the Bank to be a participant in the on-going debate about regulatory issues and the mediation of private investment under the risks and asymmetries that characterize concessions.<sup>68</sup> However, the Bank's contributions in this respect seem modest in relation to the size and long-standing nature of its investment in the sector.<sup>69</sup> The Bank's past and current “construction-centered” approach reveals that while construction and rehabilitation of roads do take place, difficulties in putting sustainably funded highway maintenance and management systems in place may compromise the overall impact of the Bank's investments.

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<sup>66</sup> As an example of the latter, see [www.der.sc.gov.br](http://www.der.sc.gov.br) where data on the physical achievements in four IDB road projects in the state of Sta. Catarina can be accessed.

<sup>67</sup> In the eight road-transport projects for which results frameworks were constructed as part of this evaluation, fifty outcome indicators were identified as having been proposed as part of project preparation. No progress data on these are being reported in the Bank's monitoring system.

<sup>68</sup> For a discussion of the risks and asymmetries see J. C. Linhares Pires and F. Giambiagi, *Retorno dos novos investimentos privados em contextos de incerteza: uma proposta de mudança do mecanismo de concessão de rodovias no Brasil*, BNDES 2000. Also, note that in the Ministry of Transport the design of performance bonds was an item of recent discussion regarding which the Bank would seem to be in a position to propose methods and solutions.

<sup>69</sup> The Bank contributed a number of technical cooperation projects to the transport sector in Brazil, mostly in 1997-98. Two of these were devoted to the development of concession programs in the states of São Paulo and Minas Gerais. Neither output nor outcome information is available to expand on their contributions and achievements. With resources from ATN/IT-7852-BR (2002) the Bank supports the creation of a unit on public-private partnerships in the Planning Ministry. Through the *Contrato de restauração e manutenção* (CREMA), Project BR-0195 seeks to solidify maintenance and the performance of private concessionaires.

PRI projects: The Bank, through PRI, found opportunities for concessions in some metropolitan and interurban areas that led to the financing of six toll roads for a total of 732 kilometers between 1996 and 1999.<sup>70</sup> Technical and physical works have been substantially completed and the Bank's contribution through its "A" loans is fully disbursed. The projects leveraged long-term funds from international lenders and enabled private participation in a key area of economic infrastructure. As far as could be ascertained, the projects are performing adequately and have "satisfactory" risk classifications in PRI's investment monitoring system, except for one case that is "on watch" because of below-projection traffic levels. No PRI projects have been approved in roads since 1999 in Brazil, a consequence of a number of factors, including the difficulty of devising concessions, the possible exhaustion of routes with drivers willing and able to bear the cost of tolls, and continued perceived regulatory uncertainty that likely affects investment decisions.

Urban transport: High levels of success and recognition are generally attested to both the Curitiba urban transport project (BR-0209, 1995) and the São Paulo South Line Suburban Train Project (BR-0163, 1994).<sup>71</sup> Yet in reviewing the projects (one of which, Curitiba, is renowned as a source of inspiration to city planners in Latin America and beyond), this evaluation finds that an assessment is prevented by the lack of data on appropriate indicators. The project had as a development objective *the improvement of the quality of life in the city of Curitiba by improving public transportation particularly for users of low income areas in the outskirts of the city without increasing current operating costs and fares in real terms*. The project completed its programmed outputs successfully according to the Bank's monitoring system and other sources,<sup>72</sup> as a result of which a second phase is currently being proposed. However, while the PCR claims that the development objectives have been achieved or are on track to be achieved, the lack of data on the agreed outcome indicators precludes verification. OVE was able to verify the achievement of two of the nine development objectives stipulated (relative reduction in air and noise pollution levels and an increase in the number of bus passengers being transported).

Conclusion: The investment needs in roads in Brazil are such that the Bank can not be more than a marginal player even at the level of most states, which suggests that it should approach with care the question of leverage and the sustainability of institutional and financial arrangements for construction, upgrading, and maintenance. It emerges from the review of the roads portfolio, however, that these strategic issues receive little attention—the bulk of the effort being devoted to physical realizations, the effects of which in development outcome terms are not tracked down. Moving forward, the above assessment points to a need for a results-based approach and a deeper engagement with regulatory challenges. For the reasons discussed elsewhere in this report, investment

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<sup>70</sup> The CNT highway quality survey referred to above found that roads operating under functioning concessions in seven states were in vastly better condition than the ones administered publicly.

<sup>71</sup> In the case of São Paulo, Line 5, one of the components of the project and well-constructed, is operating at 12% capacity due in part to the fact that the metro's Line 4—in negotiation to be financed by the World Bank since 1993—is not operational, interfering with the overall integration of the municipal and inter-municipal transport system, limiting passenger volume and compromising the IDB-funded line's financial viability. Clearly, coordination between the multilaterals was amiss in this case.

<sup>72</sup> Background paper by I. M. de Oliveira Lima, cf. Annex 6.

finance could under such a scenario evolve from a project basis to a programmatic approach.

### **3. Energy**

At the beginning of the 1990s, the power sector in Brazil was in crisis. The debt of the public companies (owned by both federal and state governments) had reached very high proportions, efficiency was low, and the quality of distribution services had deteriorated for lack of adequate maintenance.<sup>73</sup> Sector investments had declined to about a third of the annual values experienced in the previous decade and the construction of several new hydroelectric plants had been paralyzed by lack of funds. In 1995 the country started a power sector reform process, with the purpose of moving from a centrally controlled and government-owned sector to a partially competitive system under private sector ownership and independent regulatory authorities. The objective was to increase generation capacity and improve the overall efficiency of the power system, but the regulatory framework remained fraught with uncertainty from the point of view of investors.

While the structural reforms of the power sector were being designed and implemented, a supply crisis was unfolding, erupting into the open in May 2001. Its proximate cause was the low level of water storage in the country's reservoirs at the beginning of the dry season. This prevented the generating plants from meeting expected consumption. The real causes, however, were structural and related to the low level of investment in the sector.

The IDB was absent from the sector during the first half of the 1990s. BR-0275 for the interconnection of the power systems of the northern and southern regions of the country was approved in 1997—to-date the last IDB public sector loan in energy to Brazil. The preparation of this loan and RG-0028, the loan for the Bolivia–Brazil Gas Pipeline, provided a starting point for discussion with the government on sector reform. From 2000 onwards, loans to private operators were incorporated into the overall country program of the IDB, the number of technical missions increased, and a frame of reference for the planning of future operations was established.<sup>74</sup> The Bank contributed to the understanding of the 2001 energy crisis and the identification of needed structural measures. Toward the end of the period under review it commissioned some high-quality sector analyses, but it was the World Bank, which had traditionally played a lesser role in the power sector than the IDB, that in 2003 approved an Energy Sector Technical Assistance loan to Brazil, solidifying its presence in the dialogue with the authorities.

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<sup>73</sup> For documentation and a detailed analysis of projects funded by the IDB see the background paper by P. Millán prepared for this report, listed in Annex 6.

<sup>74</sup> A purpose of the frame of reference was to avoid protracted internal discussions about eligibility of the proposed operations and thus reduce processing time, as had been requested by Brazil. The frame of reference established that PRI would analyze priority generation and transmission projects where the public sector participation was not more than 50%, a special company for the specific purpose of the project had been created, the power purchase contracts were compatible with the establishment of a competitive market by the end of 2003, and the IDB/PRI participation would yield demonstration effects.

Between 1999 and 2001 the Bank, through PRI, approved eight operations for a total of US\$487.4 million (Table A.1).<sup>75</sup> Both the VBC Energia and the Light Serviços de Eletricidade projects (BR-0346 and BR-0350) are political risk guarantee operations for the expansion and modernization of transmission and distribution lines. BR-0315, the Dona Francisca Hydroelectric Power Project on the Jacui River in Rio Grande do Sul, and BR-0304, the Cana Brava Hydroelectric Power Project on the Tocantins River in Goiás are generation projects (plagued by environmental and resettlement issues) that have started commercial operations under power purchase agreements.<sup>76</sup> BR-0316, the Energia Norte Project (consisting of the installation and operation of 267 diesel power generation engines with a total capacity of 125 MW in 82 isolated cities in the states of Pará, Rondônia and Acre) reached full commercial operations in November 2002, under conditions of financial stress for the project company.

BR-0354, the Termobahia Co-Generation Power Project, was part of a long-term strategic plan of PETROBRAS to construct and operate thermal co-generation plants close to its refineries. The project could have executed on PETROBRAS's balance sheet without the IDB (the debt of PETROBRAS is classified as investment grade), but was approved as part of the Thermal Priority Program (PPT) established in 2000 by the Ministry of Mines and Energy to mitigate expected power shortages. BR-0361, the Termopernambuco Power Generation Project, also part of the PPT, has recently received the regulator's approval of the contract between Termopernambuco and its off-takers, but may not be justified without being able to charge the high tariffs that are needed for financial viability.<sup>77</sup> Finally, RG-0054, the Argentina–Brazil Electricity Interconnection Project entailed the construction of a second transmission line between the province of Corrientes and the state of Sta. Catarina. Declared an “emergency project” because of its potential effect in reducing the supply crisis, the line started to operate commercially in August 2002, after the crisis had subsided. The project has been affected by the suspension, at the behest of the government of the state of Paraná, of payment on power sales agreements.

The effects of the two guarantee operations for power distribution companies are reported to be positive in the context of acknowledged improvements in the quality of services. On the other hand, while having started operations, the Dona Francisca and Cana Brava hydroelectric plants are having difficulty operating in the excess power scenario that now prevails in the country. The Termobahia plant was shut down in April 2003 as PETROBRAS realized that it is now more convenient to purchase power from the

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<sup>75</sup> These are the “A” loans approved by the Bank, while the associated “B” loans amount to US\$595.5 million. The totals exclude approved loans that were canceled without disbursements (the Ita Hydroelectric Power Project for US \$75 million and the Uruguaiana Gas Thermal Plant for US \$75 million). Note that no PRI projects were approved for Brazil in 2002; but in October 2003, the Novatrans power project (BR-0398, not reviewed here) was approved.

<sup>76</sup> Resettlement in the context of the Cana Brava project was the subject of an investigation under the Bank's Independent Investigation Mechanism in early 2004.

<sup>77</sup> Delays in the development of thermal generation projects under the PPT, caused in part by the lack of appropriate financing, and an unusually dry season forced the government in mid-2001 to adopt measures to reduce consumer demand for electricity through a rationing plan that included a request to all consumer segments for a reduction in consumption on the order of 20% to avoid fines and disconnection for limited periods of time. The ensuing reduction in demand, combined with new capacity coming on line, resulted in overcapacity in generation and a reduction in price.

network rather than operate its own co-generation plant. And the Termopernambuco plant (part of a strategy of Iberdrola Energia to supply thermal power to two distribution companies that it controlled) is seeing its prospects affected for the reason indicated above. Conditions changed sufficiently relative to the scenarios envisaged at the time of due diligence to affect the current outlook of the investments undertaken. However, the excess power supply is expected to end in the foreseeable future.

The development effectiveness of the energy sector loans intermediated by PRI cannot be evaluated since there are no indicators to measure the impacts of the projects. However, the Bank, through PRI, can be said to have been responsive as the 2001 supply crisis loomed, financing a number of projects to help increase generation capacity, and providing “credit enhancement” that attracted private funds.<sup>78</sup> The lack of long-term financing in normal financial markets implies in principle that there is “additionality” to the funding or guarantees provided by PRI in the case of projects that would not have been realized without this support. A separate question is the issue of the amount of the required long-term financing and therefore the size of the IDB/PRI “A” loan. This is an issue not adequately analyzed in the loan documents.

The question of choice between thermoelectric and hydroelectric power and due diligence in project preparation and implementation is critical. Going forward, an additional consideration is the uncertainty related to the current overcapacity and the possibility of renewed supply shortfalls absent new investment in the next few years. A balanced approach by the Bank and PRI is needed, emphasizing issues related to the regulatory framework under the new rules made known in December 2003 and offering credit enhancement if and when meritorious projects emerge.

## **B. Social development**

### **1. Health**

Financial, human and infrastructure constraints limit Brazil’s ability to achieve the objective of free universal coverage at minimum quality under Brazil’s *Sistema Único de Saude* in a context in which three-quarters of the population are attended exclusively by SUS and a large proportion of the users of private facilities also take recourse to the SUS, particularly for complex, higher-cost procedures.

The sector consists of a mix of public and private services. The system is pluralist, fragmented, increasingly decentralized, managed and operated at all levels of government, and coordinated by the Ministry of Health. The Municipal Health Secretariats, with the assistance of federal and state authorities, are the point of delivery of health services, responsible for managing their region’s public health networks, from the provision of primary services to the procurement of hospital/health products.

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<sup>78</sup> BNDES is the key source of long-term financing for private sector power projects in Brazil, attractive because BNDES funds are denominated in local currency (in which the projects’ revenues are generated) and are thus not subject to exchange risks. Hence, private investors will come to the Bank/PRI only when their capacity to obtain funds from BNDES has reached a constraint. BNDES co-financed four of the eight projects referred to above.



Key principles of the SUS, including integral coverage and equity in the distribution of public resources, remain unrealized. Moreover, efficiency of services, effectiveness of public expenditure, professional preparation of health workers, scope of coverage, and health outcomes vary among municipalities and regions, even as major health indicators showed sustained improvements in recent decades.<sup>79</sup>

In this context, the Bank approved two projects during the period analyzed, for a total of US\$535 million: REFORSUS (BR-0199, 1996) and PROFAE (BR-0305, 1999). The projects emerged as partial answers to challenges identified in setting up the SUS, since improving the efficiency of the public sector was seen as a necessary condition for the expansion of coverage. The projects are complementary to each other—REFORSUS (co-financed with the World Bank and arguably the most ambitious project in the IDB's health portfolio of the last ten years) addressing infrastructural and equipment needs in the context of proposed policy changes; and PROFAE (the only project of its kind in the Bank's health portfolio) addressing the training needs of health care workers.

REFORSUS has achieved most of its outputs in its priority areas of maternal and child health, emergency care, the blood bank network, and public health laboratories.<sup>80</sup> While information is available from the executing agency on the most relevant output indicators, limited data are available with respect to development effects, even though both IDB and World Bank staff monitor the project closely. Some of the scope for learning from this important operation, therefore, may be lost as neither the executing agency nor the IDB have data on outcomes, yet learning seems important in the light of the finding of a recent evaluation that “health programs in Brazil have been relevant, but results have been uneven.”<sup>81</sup>

Key issues outstanding with respect to REFORSUS (potentially compromising the achievement of the results envisaged) include the sustainability of the investments, slippages with respect to the introduction of policy changes, and implementation challenges.

The sustainability of the investments in light of budget constraints has not been seriously evaluated. The investments require maintenance, technological updates, and ancillary efforts such as training to operate special equipment, all of which is guaranteed by the government, but may prove difficult to deliver, given the sizeable resources required. There is no evidence that the Bank raised as a policy issue the need to ensure adequate maintenance as had been envisaged when the project was first conceived.

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<sup>79</sup> Infant and child mortality, for instance, declined significantly in the last twenty years (from 70 per 1000 live births to 32, and from 70 per 1000 to 39 between 1980 and 2000, respectively); life expectancy increased from 65 to 72 years for males and from 69 to 74 years for females during the same period. However, these averages hide regional and income-related inequalities: the country, for instance, continues to face challenges in terms of transmissible diseases, especially in the poorest regions. And health indicators remain below expectations in light of Brazil's above-average (by Latin American standards) per capita expenditure on health. World Bank data for 1998 put total health expenditures per capita at US\$453 in Brazil. Some 40% of this was public expenditure, distributed as follows among the three levels of government: 57% federal, 19% state, 24% municipal. For details see A. Medici (cited in Chapter III) and a background paper by S. Sugahara and K. Iwakami Beltrão prepared for this report (Annex 6).

<sup>80</sup> For a more detailed assessment, see the background paper by I. Da Costa Leite listed in Annex 6.

<sup>81</sup> World Bank/OED, *Précis* No. 22991. This document summarizes the results of an evaluation of the World Bank's role in REFORSUS.

As to the issue of slippages with respect to the policy agenda, the available documentation indicates that the program, at variance with its original objectives, was effectively reduced to the provision of infrastructure and equipment. While, according to the sources interviewed for this report, the Bank sought to induce policy change and was instrumental in introducing a new procurement system, there are few results to show,<sup>82</sup> and the policy studies that have been produced are not readily available.

As to the issue of implementation challenges, OVE's sources reported that implementing the project with the two multilaterals was sufficiently difficult (because of differences in technical procedures and administrative mechanisms, and conflict among the actors involved) that the lessons from the experience should be studied when considering further co-financed operations. Another matter linked to implementation relates to the administrative problems that can arise in the context of a large, decentralized, multiactor project such as REFORSUS. In this case, a key challenge was to find a workable execution strategy for the proposed decentralization of services. Paradoxically, the way this was solved was by *centralizing* key decisions in the Ministry of Health (such as with respect to bidding processes and procurement), given the lack of experience at the municipal level.

PROFAE, the Project for the Professionalization of Nursing Personnel pursues the goal of training auxiliary personnel providing care to low-income patients in establishments under contract with the SUS. The objective is to improve the quality of inpatient and outpatient care by reducing the shortage of qualified nursing personnel. The relevance of the activity is unquestionable considering that at least 250,000 health workers have no certification in Brazil and 47% of the students registered under the project have at most eight years of formal schooling. PROFAE is about half-disbursed and classified as on-track to meet its objectives.

PROFAE achieved important milestones in terms of the number of workers being trained, with the PPMRs providing good data on these outputs.<sup>83</sup> Outcomes, in turn, are not being monitored adequately, even though some possible indicators can be deduced from the output-level information in the PPMRs. For example, the system for competence-based certification in the pilot area (Espírito Santo) generated positive results, as did efforts to strengthen the capacity and autonomy of twenty SUS technical schools and as did the healthcare labor market monitoring system that has been established. Also, an evaluation of the quality of SUS services is being proposed from which insights useful for setting the future course of policy, programs, and standards related to the training of health workers are expected.

As in the case of REFORSUS, important lessons can be derived regarding the execution of centrally administered, decentralized projects. PROFAE strengthened local capacity by establishing a presence in each of the states. At the same time, limited autonomy at the

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<sup>82</sup> World Bank/OED, *Précis* No. 22991.

<sup>83</sup> According to data supplied by the executing agency, 60,000 nurses are trained; 128,000 are in training; and nurse technician training expanded to currently 1,000 in training. As to teaching staff, 1,500 have been trained and 8,000 are in training. (Recent PPMRs report only part of this information, in effect downplaying the amount of information actually available on results.)

local level for supervision, evaluation, and adaptation of the pedagogic program to local needs could weaken ownership and compromise outcomes.

Conclusion: With REFORSUS and PROFABE the Bank positioned itself to contribute to the health agenda, working to improve both the physical and human resources of the SUS. The needs addressed by the Bank under these operations emerged in Brazil; the Bank was responsive to country priorities. As stated, the Bank's contribution in the case of REFORSUS was essentially limited to the financing of equipment and infrastructure, leaving aside key policy challenges such as the study of healthcare financing options—an important issue now and in the future when the demographic transition will add to the current pressure on SUS to deliver on its ambitious goal of universal access to basic care.

## **2. Education**

Brazil has made notable strides in reshaping its education system (Annex 3). Despite the successes, student assessment scores have remained stable in recent years and while this is encouraging considering the quantitative expansion achieved, average scores remain below legitimate national ambitions. Furthermore, wide performance differences, highly correlated with poverty, persist across regions and different school systems. Brazil's rapid demographic transition and secondary school expansion are creating structural pressures on the teaching force, with declining demand for grade 1-4 teachers and increasing demand for more skilled and specialized grade 5-11 teachers.

In this context the Bank's program has been structured to assist the Brazilian government in implementing the Secondary Education Reform (Decreto público 2208 of 17 April 1997). Before the reform, professional technical courses were an important option for students within the secondary education system. The previous system contemplated a full equivalency between the graduates of technical courses and those graduating from an academic curriculum. Under the new legislation, secondary education became part of the basic education curriculum, the responsibility for its provision resting with the states. Professional education became part of post-secondary training; or, alternatively, it could be obtained simultaneously with the secondary basic education, but without any adjustment in the basic education curriculum. The Bank's assistance was key to the design and implementation of the reforms and is critically integrated in the work program of the Ministry of Education. The projects discussed below are examples of design that maximizes Bank relevance.

The Bank financed three projects in this context: (i) BR-0167 (1996), the Secondary Education Improvement Program in the State of Paraná (PROEM)—the objective being to smooth the transition from a policy focus on universalizing attendance in grades 1-4 to universalizing grades 5-8; the project focuses on learning outcomes and for this purpose articulated a coherent monitoring and evaluation system that is possibly the best in the Bank's portfolio in Brazil; (ii) BR-0247 (1997), the Vocational Education Reform Program (PROEP)—the objective being to support the establishment of an effective vocational education system separate from secondary education and university education, to train young people and adults for the job market through non-university post-secondary courses, basic extension courses and other activity; and (iii) BR-0300 (1999), the Improvement and Expansion Program for Secondary Education (Escola Jovem)—the objective being to promote the reform and expansion of secondary education by

improving the quality and coverage of the school system in ways that will increase equity and contribute to the country's economic and social development. The development vision under PROEM is articulated in such a way as to underscore the complementarity with BR-0300.

The projects are all “on alert,” implementing much slower than planned, with progress in many states lacking—to the point that the possibility of restructuring BR-0247 and BR-0300 is being discussed. We note that the PPMRs to-date reveal little effort to track results which in the judgment of this evaluation increases the risk that the projects may not achieve their development objectives.

In particular, the equity impact of each project needs to be monitored, since there are risks that the projects can affect poor students adversely. These are the students that before the reform were working during the day and are enrolled in technical courses at night. The reform, by delaying student access to professionalized courses to a post-secondary phase, may increase the risk of student drop-off and non-completion of the secondary courses. Additionally, the possibility of poor students registering simultaneously in the academic and professional programs again does not take into account that more than half of all students work and that such arrangements may require that they drop out of the labor market.

In other words, to conclude, while the education portfolio has come about as a result of “strategic” intervention by the IDB, the projects are not executing well; there is evidence that state governments are not universally enthusiastic; and there is concern both that the reforms may not be accomplishable within the available fiscal resources and that poor students may be disadvantaged by the changes. This suggests that acting strategically in terms of positing a thrust of reform is not necessarily equivalent to acting realistically with respect to the mechanics of that reform.

### **3. Urban development**

Substandard neighborhoods (*favelas*, *bairros populares*) represent a highly visible urban social problem in Brasil. The number of favelas has been rising rapidly, with the 2000 census registering 3,965 favelas in the country, a number likely underestimated because of IBGE's definition of the concept that requires an agglomeration of at least fifty dwellings.<sup>84</sup> Different sources of data concur in showing that the rate of population growth in the favelas exceeds that in the formal city: in Sao Paulo, between 1991 and 2000, the corresponding growth figures were 3.83% versus 0.67% per year; in Rio de Janeiro, the figures were 2.4% versus 0.38% per year. The population living in favelas reached 18.7% of the national population in 2000—an increase of more than one million “favelados” since 1991, which, moreover, accelerated during the latter half of the 1990s.<sup>85</sup>

The neighborhoods are manifestations of deep-rooted challenges in the context of continued urban growth. Infrastructure and public services need to be built and made available as a prerequisite for the poor to be able to protect and upgrade their assets.

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<sup>84</sup> The Housing Secretariat of the state of São Paulo identifies 3,000 favelas in this state alone, which suggests a phenomenon of proliferating small favelas.

<sup>85</sup> For sources and a discussion, see background paper by R. Massena listed in Annex 6.

Property rights to land and housing must be made secure, and law and order in the neighborhoods need to improve. Housing finance solutions within reach of the poor need to be consolidated at higher levels of coverage and made predictable and efficient. Planning and administration capacity of local governments, strained by the continued growth of informal settlements, needs to be strengthened. The creation of the Ministry of Cities in 2003 signaled an intention to renew urban policy and assign the topic the level of priority that it deserves.

The Bank approved nine projects for a total Bank commitment of US\$1.4 billion between 1993 and 2003 (Table A.1). One of the projects in this important portfolio was nation-wide in scope whereas the others operate at the level of states or cities/municipalities. The one nation-wide housing project financed by the Bank, BR-0273 (“Habitar”), has as one of its objectives the deepening of understanding of the housing and infrastructure problems of the urban poor with a view to informing policy. Approved in 1998, the operation was declared eligible for disbursement two years later, but had disbursed only 5% by late 2003. The project is experiencing implementation difficulties that started with delays related to the fulfillment of pre-disbursement conditions, one of which, to contract IPEA for the preparation of a sector study, remains unfulfilled today.

Hence, despite having an operational policy on housing (OP-751) and experience in housing reform in a number of countries,<sup>86</sup> the Bank has not engaged the government of Brazil in a sector-wide dialogue regarding housing. While policy discussions are carried out at the level of individual Bank-supported projects, an effort at helping to frame policy at the national level is missing.<sup>87</sup> There is no national housing policy to-date that caters to the needs of lower income groups and could act as an accommodating framework for the Bank’s support.

The objectives of the projects in urban development include the reduction of poverty and inequalities in the neighborhoods while protecting the environment, promoting access to basic services, encouraging the regularization of property, and strengthening the institutions serving the people. A general observation that can be made from the evaluator’s point of view, as seen below, is that the action that was catalyzed generated outputs that are rather well documented; however, less is known about dynamic issues such as the distribution and durability of benefits, the effects on people’s lives and livelihoods, and the workings and effects of the institutions created or modified. In the absence of knowledge of this kind the effectiveness of the projects cannot be demonstrated.

The set of eight projects financed by the Bank at the state and local levels can be separated into two groups. The first group focuses on improvements in the quality of life of low-income groups in marginal areas, among other objectives seeking (i) to provide basic infrastructure and social services and (ii) to regularize beneficiaries’ properties, with the ultimate purpose of integrating them into the formal city (BR-0182 and BR-0250, known as “Favela Bairro I & II;” BR-0242 known as “Baixada Viva” in Rio de

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<sup>86</sup> S. Angel, *The IDB housing sector strategy: diagnosis and evaluation*, report under contract for the IDB, 2002.

<sup>87</sup> It is not unreasonable to call for such an effort in a sector in which the Bank has evidently chosen to maintain a sizeable presence and investment.

Janeiro; and BR-0210 known as Favela São Paulo or “Singapura,” and BR-0298, the Tenement Action Program in São Paulo). The second group (BR-0212 and BR-0374, i.e., Urban Development Paraná I and II; and BR-0357, known as Pará Urbe) tends to focus more on improving the efficacy of public policies regarding integration and spatial organization, with an important shared component to strengthen local institutional capacity.

The Favela Bairro I loan is fully disbursed, has spawned a second phase (approved in 2000 and disbursing), and has the advantage of a PCR that provides detailed data on the first-order results that clearly appear to warrant the project’s fame as a model of its kind. What the project did not have was a monitoring and evaluation system to follow up with the beneficiaries of the interventions (the project did provide for evaluations of civil works and infrastructural improvements and for a survey of beneficiaries that attested to the satisfaction of the latter with the project). The knowledge that one would expect to be able to derive from a monitoring and evaluation system would seem to be vital for planning follow-on phases and replications.

The Bank and the government are now discussing the possibility of a third stage. In this context, consideration of some of the difficulties of the first stage is indicated, e.g., problems with the management of private contractors under the project; coordination difficulties between these contractors, the state and municipal agencies (whose attributions and functions seemed to overlap<sup>88</sup>); and the need for greater beneficiary participation. Other aspects that should be examined based on OVE’s review include: (i) clarification of the responsibilities of the different levels of government and financial agents with respect to housing; (ii) equity issues, including the question of whether those living in the target favelas are the poorest; (iii) durability and winner/loser issues, including the question of whether the improvements of the neighborhoods end up displacing its poorer inhabitants by “pricing them out;” and (iv) replicability challenges and the potential role of the IDB in assisting smaller and poorer states that experience an accelerated growth in the number of favelas. An important issue in this respect is whether such states have the resources and institutional capacity to implement Favela Bairro-type projects.

The model of neighborhood improvement pioneered by the Bank in Rio de Janeiro (i.e., upgrading of infrastructure and introduction of services) validates past investment decisions by the poor as indicated by documented increases in the value of their owner-occupied properties and manifestations of local development such as a rise in the number of small businesses and the emergence of places of employment.<sup>89</sup> However, pursuing the same goals but responding to different local conditions (in-town substandard neighborhoods as opposed to peripheral ones) through a different mix of interventions

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<sup>88</sup> There were, for example, remarkable problems with the municipal water company that did not want to authorize connections and the supply of water to the neighborhoods, and there were issues related to the final destination and treatment of sewerage.

<sup>89</sup> S. Angel, p. 18, cited above. Note that the IDB projects in Rio focus on neighborhood improvement and services, not on the improvement of private homes. It is the improved neighborhood that creates incentives for homeowners to improve their dwellings. In São Paulo, on the other hand, the IDB projects themselves focus on, and subsidize, the improvement of housing.

which focused on providing the housing units themselves, a similar project in São Paulo (BR-0210, “Singapura”) was less successful.

Although almost fully disbursed, “Singapura” is classified as unlikely to achieve its development objectives. Two sets of issues stand out: problems related to the regularization and legalization of subdivisions; and disparities between the increases in property values after upgrading (during which phase people were moved to temporary housing) and the target families’ repayment capacity or capacity to pay rent.

At the outcome level, the PPMRs dropped many of the indicators originally proposed under the project, although unquantified improvements in the living conditions of 41,000 families are claimed. Lessons to be derived pertain to the complexity of the land regularization process; the risks involved in assigning property ownership in a situation where the municipality did not own the lots in question (raising the possibility that they may not be able to be transferred to the beneficiaries); and the need to involve the community in decisions that affect it.

The Tenement program (BR0298), declared eligible for disbursement in 2003, seeks to upgrade housing conditions of tenants in unsanitary, crowded, downtown *cortiços* close to their jobs. The upgrading may lead to higher rents, the welfare implications of which may not be perceived to be advantageous by all potential beneficiaries. Old tenement houses that are not destroyed risk being re-occupied as happened twice during a pilot phase of the project, once as a spontaneous invasion and once with the concurrence of local authorities. The question for the project, therefore, is: what strategy and housing finance solution to pursue, and also, by what rules to prioritize among potential beneficiaries? (For example, female-headed households with children and physically or mentally impaired persons emerged from socioeconomic profiling as candidates for priority treatment.)

Paraná Urbano I, completed in 2000, sought to assist the state government in its urban service delivery and job creation strategy. The project is remembered for its speedy execution due at least in part to the considerable capacity of the executing agency. The results, according to the PCR, include (unquantified) improvements in living conditions; strengthened municipal autonomy and institutional capacity for programming and managing investments under the project; and important achievements in cost recovery. However, the PCR lacks impact indicators and data on the achievement of targets as originally specified. Thus, for example, there is no evidence that low-income groups absorbed 80% of the benefits as was postulated at approval, although a survey of municipalities shows that 80% of the population benefiting from the project approved of its results, i.e., civil works and other improvements carried out in the cities. The PCR recognizes that greater emphasis on monitoring and evaluation would have been helpful in this project. But Paraná Urbano II, approved in 2002, has not so far taken this up and does not have a monitoring and evaluation system that will permit an assessment of outcomes.<sup>90</sup> (Note that the Stage II project, unlike its predecessor, is experiencing problems of implementation that invite reflection with respect to the impact of governmental transitions on the execution of projects.)

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<sup>90</sup> The loan contract for this recently initiated project stipulates that the executing agency contract with an independent firm to conduct annual evaluations.

To conclude this section, it emerges that—at the present time—relatively little is known about the dynamic and longer-term effects arising from the Bank’s involvement in urban development in Brazil. A conclusion that is inescapable is that the Bank’s knowledge of the conditions characterizing the housing sector appears insufficient when judged in the context of the Bank’s *de facto* presence with numerous investments in the field. Challenges that should be engaged relate to the need for a well-articulated national policy framework benefiting lower income groups and covering both regulatory and financial aspects; a clearer focus on, and effort to track, results at the outcome level; and specificity regarding the lessons of previous loans as new phases and the possibility of replication are being considered. In particular, while Favela Bairro and Paraná Urbano display innovative features and thus considerable potential, they should be studied more systematically with a view to deriving lessons for activities now in the pipeline.

#### **4. Social protection**

In the “sector” of social protection, on which background was provided in Chapter II, three projects were supported by the Bank: BR-0177 (1996), the Ceará Social Reform Program known as PROARES; BR-0360 (2001), the Human Capital Promotion policy-based loan; and BR-0308, the Emergency Loan reviewed in the Chapter IV.

The goal of PROARES, under a disbursement extension until mid-2004, is to improve the welfare of children and adolescents at high personal and social risk by strengthening their ties to family, school, and community. (The eligible age group is from infancy to age 17.) The project exceeded its original quantitative achievement targets, having been restructured to allow for an expansion of coverage made possible by the presence of a windfall in domestic currency after the devaluation of the late 1990s.

The project operates through a variety of stakeholders, including NGOs, at the municipal level and shows evidence of important outcome-level milestones achieved, including a reduction in the incidence of malnutrition in children and a reduction of children in the streets and of children and adolescents not attending school. At the output level, the active participation of the community in the design of activities and the monitoring of results deserves to be mentioned as does the decentralization process under the project by which municipalities are involved in health, education and social assistance while strengthening the coordination and dissemination of lessons among them. A survey of municipal governments in the state indicated that most of the municipalities wanted to continue their participation in the project or get involved.

Under the project a number of outcome indicators were identified and most of them have baselines, milestones, and targets, but the PPMRs do not take advantage of this. A comparison of the indicators proposed in the loan document and those available in the 2003 PPMRs shows that several are missing. However, OVE was able to determine that the executing agency and the Country Office have the data needed to monitor the impact of the actions under the project. (The Country Office indicated to OVE that the structure and design of the PPMR precludes the proper reporting of the information that is available.)

Shifting to BR-0360, the Human Capital Promotion loan approved to support the implementation of federal income-based transfer programs for poor families, it is noted



that a unified system for the identification of beneficiaries in a single database with the possibility of cross-verification of data was put to work. *Bolsa Alimentação*, *Bolsa Escola*, *Programa de Erradicação do Trabalho Infantil (PETI)* and *Agente Jovem* were the federal programs supported, with challenges to be met in four areas: targeting; evaluation; institutional and budgetary frameworks; and management of the programs.

A key achievement of the program is undoubtedly the implementation of the *Cadastro Único*. A pilot evaluation of the *Cadastro* was carried out in the Santa Inês municipality in Maranhão. Noting the possibly limited scope for generalization of the results, the evaluation, commissioned by OVE, demonstrated that the *Cadastro* could be a relatively effective tool for reaching the poor.<sup>91</sup>

As to the PBL's objective related to evaluation, the deliverable was to provide terms of reference and baselines for proposed program-specific impact evaluations, not the evaluations themselves. The terms of reference were delivered. However, future evaluations would presuppose the existence of baselines collected during the execution of the program. Baselines were collected for the *PETI* and *Bolsa Alimentação* programs, but not for *Bolsa Escola* and *Agente Jovem*.<sup>92</sup> The success and sustainability of *Bolsa Escola* and *Agente Jovem* remain to be empirically demonstrated in the absence of impact evaluation studies for these programs.

The PCR attributed to the operation improvements in the efficiency and efficacy in the use of public resources. However, the PCR did not analyze the targeting mechanisms themselves, therefore in effect assuming them to be appropriate. This contradicts some of the findings of work commissioned for this report that analyzed resource allocation mechanisms from the point of view of their "poverty targeting" for sixteen federal social programs, finding targeting failures in most of them (Chapter II).

The analysis of Barros et al. (Annex 6) showed that two of the four programs under the PBL had inadequate targeting mechanisms when considering as a target the poor population. *Bolsa Escola* emerged as the best-targeted program among the sixteen analyzed. *Bolsa Alimentação* showed a pro-poor pattern in that the poorer states received a share of total program resources greater than the proportion of poor in those states.

The analysis of *PETI* shows that the program is highly concentrated in some regions and relatively absent in others. While this would suggest a weak correlation between targeting and needs defined in terms of poverty, the findings can probably be ascribed to the fact that the incidence of the worst forms of child labor is higher in some regions of the country than in others. Consequently, the target population for *PETI* is not necessarily the poorest group but those working in the worst forms of child labor.

As to *Agente Jovem*, Barros et al. found this to be the least well targeted program among the four supported under the PBL: more than 40% of the resources would need to be reallocated for perfect poverty targeting.

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<sup>91</sup> For details on the Santa Inês Municipality project, see R. Paes de Barros et al., background paper on Santa Inês for this report (Annex 5).

<sup>92</sup> For details on the *PETI* evaluation see the background papers commissioned for this report from the following authors: D. Pianto and S. Soares; Datametrika; and E. Cardoso and A. Portela Souza (cf. Annex 6).

Under the PBL the government committed to guarantee the sustainability of the four programs in question. The PCR considered this condition fulfilled because the programs were identified as strategic under the 2000-2003 PPA. The future sustainability, of course, will depend on sustainable budget allocations and the further deepening of implementation and monitoring capacity.

We note that while establishing the *Cadastro* was a key step towards improving the targeting of social programs, the more demanding tasks refer to the institutionalization of the *Cadastro* and the establishment of the mechanisms to continuously update it, improve its accuracy and coverage, and expand the scope of the information included while ensuring user friendliness. Monitoring the *Cadastro*'s performance should be a priority in the coming years.

To conclude, in social protection, the PROARES project made an innovative contribution to the development of a safety net “from below” in one of the poorest states in the country. The project is an example of a successful intervention from which the Bank could take important lessons for the future. The PBL, in turn, supported Brazilian efforts to establish a process of monitoring and evaluation of social programs. These efforts are critical to the assessment of development impacts and the continued challenge to improve the efficacy of targeting and thus the efficacy and efficiency of public expenditure in the social area. The PBL helped demonstrate the feasibility of targeting and the rationale for it in view of Brazil's high and persistent income inequality and the need for effective social policies that make a difference in a context of limited resources.

## **C. State modernization and reform**

The post-1985 process of democratization, rulemaking, and institution building in Brazil included new approaches to representation and participation, the strengthening of the party and electoral systems, the creation of a new federalism, and fiscal restructuring and administrative reforms, to name but some components. State modernization and reform also included an element of decentralization—a transfer of power, responsibilities, and resources away from the federal government and the Executive to subnational governments, Congress, civil society, agencies, and the market. Aspects of this agenda were being supported under many of the loans approved by the IDB during the period covered in this report. Specifically, however, the Bank classified seven loans as “modernization of the state” (Table A.1). Devoted to improvements in fiscal management, administrative reform, and the modernization of aspects of the legislative process at the three levels of government, some of these loans are assessed in this section to the extent that they have progressed enough to permit evaluation.<sup>93</sup>

### **1. Fiscal management**

A group of projects that focussed on improving government revenues and attaining a more efficient management of the public accounts is analysed in this section. The context is one where the success of the *Plano Real* was recognized as requiring fiscal adjustments

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<sup>93</sup> Technically, according to the Bank's sectoral classification of projects, there were eight operations financed in state modernization and reform. However, BR-0256, the Municipal Development of Porto Alegre Project, should be considered more an urban infrastructure project than a modernization of the state operation and consequently is excluded from consideration here.

at all levels of government, making increases in revenue a high priority for the government as seen in Chapter II. Fiscal reform in Brazil is premised on tight budget constraints and the need for strong intergovernmental coordination in the context of an on-going process of decentralization.

The Bank supported this framework by helping to modernize the *modus operandi* of Finance Secretariats at different levels of government. Thus, the loan for the Modernization of the Federal Revenue Secretariat (BR-0193, 1995) introduced a data processing system and is evaluated by the Bank and interlocutors in government as a success despite initial resistance (within the Secretariat) to some of the proposed organizational changes. The commitment of the Ministry of Finance to the project and the professionalism of the Secretariat's staff are mentioned as factors having favored the operation, in addition to the implementation assistance provided by the Bank. OVE interlocutors pointed to the Bank's procurement rules (i.e., international competitive bidding) as a factor that helped save money relative to the cost that would have been incurred absent the participation of the IDB. We note, however, that while indicators related to increases in tax revenues and the establishment of master registers were monitored and achieved, outcome indicators related to the reduction in the incidence of tax evasion were dropped during implementation.

The Revenue Secretariat loan preceded PNAFE (the National Fiscal Administration Program for the Brazilian States) and PNAFM (the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities). The three operations can be seen as a cluster of activities that reinforce each other in the quest for revenue consolidation. PNAFE (BR-0171, 1996) seeks to strengthen the state-level Finance Secretariats through projects aimed at improving the agencies' legal, operating, technological and managerial mechanisms and establishing control of taxpayer compliance. Despite the project's classification as "unsatisfactory" as far as the rhythm of implementation is concerned (reflecting insufficient budget allocations and possible reluctance among some states to participate), the results demonstrate positive developments in raising revenue in Brazilian states: on average, between 1997 and 2002 (in a context of limited growth and repeated economic and financial shocks) the states increased their collection on the ICMS and IPVA taxes by 35% and 38%, respectively.<sup>94</sup> Data presented in a recent study of fiscal decentralization in Brazil confirm the presence of change consistent with the objectives of PNAFE (and PNAFM) and lend support to the message of subnational fiscal consolidation that emerges from Table 2.2.<sup>95</sup>

PROPREV (BR-0327, 2001), the Pension System Management Modernization Project, is also part of this cluster. However, there has been little implementation progress in PROPREV and consequently no evidence of results is available. PROPREV seeks to

<sup>94</sup> Ministerio da Fazenda, *Modernização fiscal dos estados brasileiros: um documentário sobre os resultados do Pnafa* at [www.fazenda.gov.br/pnafa](http://www.fazenda.gov.br/pnafa). This publication provides state-by-state data on developments in tax collection under PNAFE. See also the article *Arrecadação recorde* in the 16 January 2004 issue of *Correio Braziliense*.

<sup>95</sup> See E. Wiesner, *Fiscal federalism in Latin America: from entitlements to markets*, IDB/OVE, 2003. On the municipal-level project PNAFM (BR-0286, 1999) note that this is at an early stage of implementation with less than 5% of the loan disbursed as of the end of 2003. Classified as progressing unsatisfactorily, the operation has to wrestle with sufficient technical and operational disparities in municipal tax administration across Brazil as to raise questions regarding the realism of its design. The Bank is restructuring this project.

raise the administrative efficiency of (part of) the pension system, an approach that can be expected to contribute a share of the savings sought under the on-going reforms (pensions and social security) as a whole. The Bank currently sees a need to revise this project to accommodate recent developments in the sector and reassess project risks.

The Bank's investments in fiscal management, in conclusion, appear relevant to governmental efforts at bringing public finances under control. The Federal Revenue Secretariat loan and PNAFE are associated with gains in terms of collection (*arrecadação*) many times greater than the amounts of these loans. At the same time, the loans and the Bank's program in state modernization and reform more generally leave untouched the expenditure side of the fiscal adjustment equation and the need to rationalize and improve the quality of government spending.<sup>96</sup> A potential problem related to the indicators chosen to measure the achievement of targets under PNAFE should be noted: the indicators focus on achieving revenue increases without consideration as to how this is done. It is known from the literature that a poor-quality tax administration may collect large amounts from easy-to-tax sectors or instruments, making the level of collection a somewhat unsophisticated measure of the effectiveness of tax administration. The "compliance gap" between actual and potential tax revenues for different sectors and instruments has been recommended as a meaningful indicator in some situations and would seem to be relevant as a measure for PNAFE and PNAFM.<sup>97</sup>

## 2. Administrative reform

It is well documented that improvements in the quality of government service provision are fundamentally constrained by inefficiencies on how the government organizes itself to finance and provide those services. Constraints often identified include the lack of management flexibility and organizational autonomy, inflexible public sector career structures, and a lack of performance-based incentives.

While administrative reform had intermittently been on the agenda for many years in Brazil, the topic returned in 1995 with the creation of MARE, the *Ministério de Administração e Reforma do Estado*, whose *Plano Diretor* represented an administrative and civil service reform agenda that sought to bring about a shift from a "bureaucratic" to a client-oriented, "managerial" administration—a goal that in the judgment of several evaluations that exist ended up not being fully realized as envisioned.<sup>98</sup>

The IDB supported MARE through its loan for the Modernization of the Executive Branch of the Federal Government (BR-0220, 1997). The objectives and conceptual framework of the loan were in line with the *Plano Diretor* developed by MARE. The main difficulty with this project, which is only about half-disbursed, is that by the time it was signed, MARE was being dissolved. Political support for the project as well as

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<sup>96</sup> Some of this will be addressed under a new operation—PNAGE—currently under preparation.

<sup>97</sup> R. Bird and M. C. Jantscher (eds.), *Improving tax administration in developing countries*, International Monetary Fund, Washington, 1992.

<sup>98</sup> World Bank, *Brazil—Planning for performance in the federal government: a review of pluriannual planning*, Report No. 22870-BR, 2001. See also: F. Gaetani, *Public management policy change in Brazil, 1995-1998*, IDB, 2002; A. Santana et al., *Avaliação do Programa de Modernização do Poder Executivo Federal — Relatório Final*, UNDP Brasília, 2002; and F. Gaetani and B. Heredia, *The political economy of civil service reform in Brazil: the Cardoso years*, IDB, 2002.

funding and the rate of execution tumbled. The project should at that time have been re-evaluated. Re-evaluation, however, did not occur until August 2000 when the budget was restructured to take into account the effects of the 1999 devaluation and again in July 2001 to accommodate persistent delays and what by then was being seen as a loss of priority of the proposed reforms (the 2000-2003 PPA did not include the resources needed to honor the loan contract).<sup>99</sup>

The operation, therefore, has not delivered (and cannot today deliver) the results that were promised at the time of approval. But the project—which did not contribute “content” but provided resources to help execute a previously established agenda—was part of a reform process that “enabled a more flexible public sector”<sup>100</sup> and raised expectations regarding the sector’s performance that set standards for future endeavors in this field. The outcome indicators needed to measure improvements in the quality of public services are not available. A challenge for future operations in this area relates to the need to develop monitoring and evaluation systems of the quality, efficiency and effectiveness of the services that are being delivered by the public sector, in order to make possible the analysis needed to identify the constraints impeding improvements.

#### **D. Natural resource management, environmental aspects, and “sustainable development”**

##### **1. Pollution control and drainage**

Since the start of the intensification of industrialization and urbanization in the 1950s and 1960s, industrial pollution and untreated household waste have seriously damaged many rivers and estuaries in Brazil. Decontamination efforts began on a large scale in the late 1980s and early 1990s. But progress in terms of bringing about improvements is slow. Guanabara Bay, for example, the “marine door of entrance to the city of Rio de Janeiro,” has its bottom covered with a layer of toxic sludge that does not seem to be reduced by natural decomposition, and the rate of sedimentation has been greater than the rate at which rivers and tides can flush sediment out of the Bay. Phosphorus, nitrogen and heavy metals will be released into the water for many years to come, and, according to the *Fundação estadual de engenharia do meio ambiente* (FEEMA), eutrophication and the level of biochemical oxygen demand were not reduced during the 1990s. Tributary rivers that pass through densely populated areas continue to carry loads of pollutants.

The IDB in the context exemplified by the condition of Guanabara Bay approved seven projects in pollution control and drainage between 1993 and 2003 for a total of close to US\$1.3 billion (Table A.1).<sup>101</sup> The objective of BR-0072 (1993, Guanabara Bay) is to decontaminate the Bay and its basin, strengthen the municipal government institutions whose actions can have positive effects on the Bay, and improve the quality of life of the population living in the basin. The project (which did not supply a baseline in terms of

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<sup>99</sup> The Bank indicated to OVE in April 2004 that a new action plan with revised results indicators has been prepared as part of documentation sent to the Executive Vice President to continue implementation and seek an extension of the deadline for disbursement on this project.

<sup>100</sup> F. Gaetani, cited above, p. 32.

<sup>101</sup> Some of these projects are second phases of projects that were initiated in the 1980s. The projects are sometimes collectively referred to as the brown and blue agenda (industrial pollution control, river basin management, and water and sanitation).

the indicators of contamination to be improved) for the most part financed civil works, treatment plants, collectors and trunk lines, connections to heavily populated areas, household connections and water meters, solid waste collection and treatment, and canal and river drainage. The project also foresaw work in digital mapping,<sup>102</sup> the modernization of municipal information systems, and environmental programs operating through FEEMA to significantly reduce industrial waste.

The improvement of the Bay's water quality depends on the execution of civil works in a coordinated manner. This has not happened: project components have been carried out piecemeal in scattered locations. While many of the planned engineering works have been implemented, there have been setbacks including two serious oil spills into the Bay in 2000 and 2001 and institutional discontinuity in the wake of changes in government. Data on outcomes achieved under the project are not being collected. In light of the physical, institutional, and political complexity of the pollution problem of the Bay, the project's objective "to clean up the Bay and its basin" was unrealistic. The project, which is "on alert" because of execution delays, suffers from coordination problems between different agencies that cast doubt on the validity of the rating of "high" (in recent PPMRs) for the appropriateness of key assumptions under the project.

The story of BR-0203 (1995, Todos os Santos Bay) looks more promising in a context of fewer and better-monitored industrial sources of pollution, a history of water quality monitoring, and the Bay's visibility for tourism, fishing, and overall natural esthetics. The state government is an actor pressing for results by maintaining a continuity of policy and practice from one administration to another. The introduction of industrial self-regulation and the presence of local environmental control commissions also serve to deepen an expectation of compliance. The project does not monitor outcome indicators, but it did come equipped with baselines for key pollution and quality of life indicators, a number of which (including the quality of selected beaches) display improvements during the period of operation of the project.<sup>103</sup>

BR-0265 (1999, Tietê pollution control) is a second-phase project whose first phase (as indicated in the corresponding PCR) focused on the worst industrial polluters, achieving cuts in organic and inorganic industrial discharges. The objective of Tietê II is to further improve the environmental quality of the river basin. But the project (with 28% of the loan disbursed at the end of 2003) is advancing at a slow pace, with the latest PPMR formulating a "learned lesson" about project design and stipulated execution time that seems applicable to all or most of the projects in pollution control and drainage: *El plazo para desembolsos de esta operación fue establecido en 3 años, poco realista para completar un proyecto de esta envergadura, con variados componentes y organismos co-ejecutores y trabajos de compleja realización como son las principales obras previstas, consistentes en colectores marginales de los ríos Tietê y Pinheiros, ubicados en pleno centro de la ciudad de São Paulo, con difíciles condiciones constructivas debido al intenso tránsito de vehículos y cercanía a las márgenes de los ríos.*

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<sup>102</sup> Linked to which is BR-0183 (1995, Digital Mapping), which according to the PCR for this activity enabled the mapping and cadastral update of properties in an area exceeding one-thousand square kilometers, among other aspects permitting increases in property tax revenue. The project also financed drainage works that are quantified in the PCR.

<sup>103</sup> Cf. [www.bahiasol.com/ecologia/cra.htm](http://www.bahiasol.com/ecologia/cra.htm).

A key challenge for the pollution control and drainage projects relates to the issue of sustainability, as noted variously by the Bank itself. For example, the PCR for BR-0073 (1993, the Guaíba Watershed project) states that the project's objectives were substantially achieved,<sup>104</sup> but cautions about the prospects for sustainability, pointing out that sustainability depends on appropriate legislation, information systems, control mechanisms, human resources, continued budgetary allocation, and last but not least continued environmental awareness in the population. The solidity of the Bank's contribution to improvements in these areas cannot be assessed based on the available documentation regarding Guaíba, Todos os Santos, Guanabara and Phase II of the Tietê decontamination project. The PCR for BR-0234 (1996, Flood Control Campinas) makes the point that sustainability requires the drainage canals built under the project to be cleaned and maintained on a regular basis, which as stated in the PCR depends on the availability of resources for this purpose. In light of today's fiscal and budgetary realities, this is an issue hardly adequately addressed by the Bank in its dialogue with borrowers in Brazil.

## **2. Water and sanitation**

Access to potable water and sanitation varies greatly on a regional basis, by income, and along urban-rural lines in Brazil. For the country as a whole, urban coverage in terms of potable water extended to more than 90% of the population in 2001, but sanitation coverage was much lower. The data in Annex 3 reveal (i) significant nation-wide progress in urban access to piped water, with coverage extending to about 70% of households in the lowest decile in 2001 (progress in achieving coverage was faster during the 1980s than the 1990s); (ii) little progress in rural access to piped water, with coverage extending to about 8% of households in the lowest decile in 2001; (iii) some progress in the share of urban households covered by sanitation, with coverage extending to about 45% of households in the lowest decile in 2001; and (iv) essentially no progress in rural sanitation since the early 1980s.

Responding to a federal policy aimed at universalizing coverage, the Bank invested important sums and effort in fostering access to piped water on the part of poor urban households and in building sanitation infrastructure during the period reviewed in this report. (The Bank was not present in *rural* water supply and sanitation, but with its focus on marginal urban areas helped attend to the needs of rural migrants.) The urban development projects reviewed earlier all have water and sanitation components that are an integral part of a vision of urban development centered on the expansion and improvement of public services. In addition, during the period 2000-2002 the Bank approved three dedicated loans that focus on widening coverage and raising the efficiency of service provision through components that address water supply and distribution, sanitary sewerage, wastewater treatment, storm water drainage, and erosion

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<sup>104</sup> Following the PCR, the achievements in conjunction with the project include: the organization of the collection and processing of solid waste in the city of Porto Alegre; the capturing, control and treatment of household and industrial effluent; the improvement of the quality and cleanliness of the water and the beaches belonging to the city and surrounding areas; soil conservation measures and reduced use of toxic agrochemicals in participating municipalities; the licensing of industries and firms complying with environmental standards; educational and environmental awareness measures; and the introduction of an institutional component for environmental policy making and enforcement.

control. These loans are: BR-0345 (2000, Federal District Basic Sanitation), BR-0351 (2002, Goiânia Water and Sanitation), and BR-268 (2001, PASS), BR-0345 being the only one sufficiently advanced to show results.

The water and sanitation components of the urban development projects have yielded important benefits in terms of such outputs as connections and sewage installations. The Federal District Basic Sanitation loan—the justification for which at first sight seems surprising until one learns that the District’s water system had been laid out for a considerably smaller population when Brasilia was planned and built—is progressing according to schedule as far as the engineering works are concerned. The project also introduced elements for the creation of a regulatory instance and the possible incorporation of private actors—the only project in the collection of water and sanitation activities supported by the Bank to do so. A study to improve the administrative efficiency of the Federal District Sanitation Company (CAESB) is concluded, and work on a master plan for water and sanitation is nearing completion. A study on the possibility of selling shares in CAESB, however, has been suspended.

Water in Brazil is largely run by the public sector, and the borrower has directed the Bank to work in this area with a view to expanding coverage. Responding to the borrower’s pragmatic approach, which is inspired by a desire to realize key externalities in health and the environment, the Bank was able to expand lending to Brazil in the past ten years in the face of a Bank-wide decline in lending for water and sanitation that appears in part to be related to provisions in the Bank’s operational policy on public utilities (OP-708) which favors the participation of private operators.<sup>105</sup>

The Bank’s response in Brazil was appropriate, given the importance of water and sanitation for human welfare and the positive externalities associated with broader coverage. But the Bank has largely been absent from the policy issues that need to be addressed. These have been analyzed in background work commissioned by OVE<sup>106</sup> and include such challenges as the scope and terms of the “partnership” between the state water companies and the municipalities, tariff structure, the nature and financing of cross-subsidies between types of clients and between systems and regions, and the participation of private operators. Legislation on a regulatory framework for the sector is under consideration in Congress, but has not so far been passed.

### **3. Tourism and environmentally sustainable development**

Tourism: Of six projects that were approved during the period under review in tourism and “environmentally sustainable development,” only one (BR-0204, 1994, PRODETUR I) generated results so far, as the others have not started to disburse or are at very early stages of disbursement.<sup>107</sup>

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<sup>105</sup> On this, see OVE’s *Evaluation of the public utilities policy (OP-708) for potable water and sanitation services*, Document RE-270, 4 November 2002.

<sup>106</sup> M. E. Corrales, Background paper on the water and sanitation sector in Brazil, 2002 (written for the OVE evaluation cited in the previous footnote).

<sup>107</sup> PRODETUR I spawned BR-0323 (PRODETUR II, 2002). A technical assistance loan to help support ecotourism in the Amazon region (BR-0208) was approved in 1999 and is under implementation at a slow pace. The sustainable development projects are BR-0246 (2001, Zona da Mata); BR-0249 (2000, Pantanal); and BR-0313 (2002, Acre).



Tourism in the Northeast grew during the past decade. In Bahia, to mention a key state, tourist arrivals augmented by 221% between 1991 and 2000 (to 4.2 million guests). The number of visitors from abroad grew by 247%.<sup>108</sup> In Ceará tourist arrivals in 1998 stood at 170% of the 1995 level as employment in the sector, the passenger throughput at airports, and revenue from tourism grew.<sup>109</sup>

The development objective of PRODETUR I in this context was to *contribute to the socioeconomic development of the Northeast, generating employment opportunities, higher per capita income, and increased state revenues*. The loan focused on removing constraints to the growth of tourism that were posed by inadequate infrastructure and public services. In addition, investments to protect historic and natural attractions and institutional development were foreseen.

An evaluation commissioned by the Bank in 2001, recent PPMRs, and the loan document for PRODETUR II supply data on progress regarding some of the outcomes under different components of PRODETUR I, including: 1.2 million jobs created between 1994 and 2001 in the nine states of the Northeast; net revenue increases in the industry of US\$1.2 billion per year; net yearly increases in tax revenues for the region of US\$400 million by 2002; and a doubling of tourist arrivals from 6 million in 1994 to 13 million in 2002.<sup>110</sup> As an actor in this context, the project, therefore, appears to demonstrate that tourism can be effective as a vehicle for development, although in some cases (as shown by the identified evaluation) related infrastructure investments have come at a cost to the environment that calls for mitigation of a more comprehensive kind than has been realized so far. Still, the project is producing results and does so despite acknowledged implementation difficulties in some of the states, related to funding difficulties and the ability of some states to come up with project proposals of the required quality to draw resources under the program. The loan document for PRODETUR II draws lessons from the first phase in thorough ways not seen in other cases in the Brazil portfolio where second phases were initiated.

Sustainable development: As to sustainable development, Brazil faces daunting challenges as it seeks to make compatible its goals of economic development, poverty reduction and growth on the one hand and preservation of the environment on the other. These challenges include the relationship between land use in coastal areas and urban growth; the harvesting of the Mata Atlântica and the Caatinga for fuel wood; the occupation of the Amazon region (Amazônia legal) for cattle ranching and agroindustrial pursuits (soybeans); the preservation of the indigenous protected areas in the face of an expanding road network; the need to combat desertification and manage droughts; and other issues (not necessarily less important) related to petroleum exploration and the contamination of soils. Brazil has been a leader and innovator in the matter of integrating environmental considerations and development. But progress is constrained by many factors, including the limited institutional capacity at the state and local level to manage the environmental agenda in a context in which implementation responsibilities are

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<sup>108</sup> See [www.bndes.gov.br/conhecimento/setorial/get4is06.pdf](http://www.bndes.gov.br/conhecimento/setorial/get4is06.pdf). See also S. E. Silveira and M. M. Tavares, *A recente expansão dos resorts no Brasil*, BNDES Setorial, 2002.

<sup>109</sup> [www.bndes.gov.br/conhecimento/setorial/get4is08.pdf](http://www.bndes.gov.br/conhecimento/setorial/get4is08.pdf)

<sup>110</sup> S. Whiting and D. M. Cicci, *Avaliação dos aspectos ambientais e socio-econômicos do Prodetur I*, 2001.

decentralized and in which the federal government is challenged to provide assistance in the face of heterogeneous needs.<sup>111</sup>

The role of the Bank, while small in global terms, is promising. The Bank financed a large share of the National Environment Fund (Phase II of BR-0262, 1998) through which it fostered local participation and helped build state capacity. The Zona da Mata and Acre programs propose innovative approaches that integrate the economic, environmental and social agendas through projects that address priorities at the local (municipal) level. The Acre program distinguishes itself by attempting to fully integrate an environmental agenda into the state's program of government. However, outcome indicators are not available for the National Environment Fund project. And the two other programs, now in initial stages of implementation, would benefit from greater attention to the development of an evaluative framework mindful of the value of a data and analytical base to judge the merit of possible replication.

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<sup>111</sup> Cf. background work commissioned for this evaluation, listed in Annex 6, including A. Sobreira and J. Ferreira Irmão, *As políticas públicas para o desenvolvimento do Nordeste*, paper prepared for this report.

TABLE A.1  
Brazil: Approved Projects, 1993-2003

Project #	Loan #	Project Title	Executing Agency	JL	R	Year Approved	Current Project Amount	%D	Main Component	SEQ	PTI
<b>AGRICULTURE</b>											
BR0274	1248/OC-BR	Consolidation and Self Sufficiency of Agrarian Reform Settlements	Instituto Nacional de Colonização e Reforma Agrária	F	BR	2000	\$51.00	3.7%	This operation develops a system for accelerating the graduation of rural settlements from INCRA support so that 75 agrarian reform settlements can reach self-sufficiency. The program will provide social and productive infrastructure, technical assistance and training.		
			<b>SUBTOTAL AGRICULTURE</b>				<b>\$51.00</b>				
<b>EDUCATION</b>											
BR0167	950/OC-BR	Secondary Education Improvement Program in the State of Paraná	Secretaria Estadual de Educação - Paraná	S	S	1996	\$100.00	57.6%	The objective of the operation is to increase the efficiency, equity and efficacy of Paraná's public secondary school system. The program supports the creation of the general secondary school and the transformation of technical vocational education to a post-secondary level.	SEQ	
BR0247	1052/OC-BR	Technical and Vocational Education Reform Program	Ministério da Educação	F	BR	1997	\$250.00	34.1%	Supports the establishment of an effective vocational education system to train through non-university post-secondary courses. The program also includes preparation for secondary education reform, dissemination of new curriculum and plans to expand and upgrade secondary education at the state level.	SEQ	
BR0300	1225/OC-BR	Improvement and Expansion Program for Secondary Education "Escola Jovem"	Ministério da Educação	F	BR	1999	\$250.00	12.1%	Promote the reform and expansion of secondary education, by improving the quality and coverage of the school system in ways that will increase equity and contribute to the country's economic and social development.	SEQ	
BR0364	1406/OC-BR	Diversity in Access to Higher Education	Ministério da Educação	F	BR	2002	\$5.00	0.0%	Promote equity and diversity in higher education for Afro and indigenous Brazilians and other socially disadvantaged groups through the formulation of policies and strategies for social inclusion, boosting the capacity of the MEC and supporting the development and evaluation of innovative projects for promoting access.	SEQ	
			<b>SUBTOTAL EDUCATION</b>				<b>\$605.00</b>				
<b>ENERGY</b>											
BR0275	1051/OC-BR	North-South Electric Power Interconnection Project	Eletrobrás	F	BR	1997	\$307.00	100.0%	Link the two major electric power systems in the country, support the restructuring of the electric power set by providing inst strengthening activities for the establishment of ANEEL, the dev of indicative planning in the new context of competition, and the strengthening of the sector's environmental management.		
BR0346	1228/OC-BR	VBC Energia S.A. (Guarantee)	VBC Energia S.A.	P	S + SE	1999	\$100.00	0.0%	PRI. Loan Guarantee. Expansion of electricity distribution networks of CPFL-SP & RGE-RS.		
BR0315	1297/OC-BR	Dona Francisca Hydroelectric Power Project	Dona Francisca Energética S.A.	P	S	2000	\$14.53	100.0%	PRI. Constr & oper of hydroelectric power plant & ancillary facilities in RS.		
BR0316	1272/OC-BR	Energia Norte Power Project	Guascor do Brasil Ltda.	P	N	2000	\$23.70	30.7%	PRI. Three power gen projs (267 diesel units for power gen) that will serve isolated towns not connected to the electricity grid in N Brazil.		
BR0350	1267/OC-BR	Light - Serviços de Eletricidade S.A. (Guarantee)	Light - Serviços de Eletricidade S.A.	P	SE	2000	\$100.00	0.0%	PRI. Loan Guarantee. Finance 2000-2001 capital investment prog of Light-RJ.		
BR0304	1260/OC-BR	Cana Brava Hydroelectric Power Project	Companhia Energética Meridional	P	CO	2000	\$75.00	89.6%	PRI. Constr, oper & maint of hydroelectric power plant in GO.		
BR0361	1380A/OC-BR	Termopernambuco Power Generation Project	Companhia Energética de Pernambuco	P	NE	2001	\$42.40	75.1%	PRI. Dev, fin, constr, oper & maint of a natural gas fired, combined-cycle co-generation power plant in PE.		
BR0401	1505A/OC-BR	Bandeirante Investment Program	Bandeirante Energia S.A.	P	NE	2003	\$38.90	0.0%	PRI. Investment program comprising capital expenditures to expand and modernize Bandeirante's electricity network and business management support system.		
BR0354	1367A/OC-BR	Termobahia Co-Generation Power Project	Termobahia Ltda.	P	NE	2001	\$57.79	92.3%	PRI. Dev, fin, constr, oper & maint of a natural gas fired, combined-cycle co-generation power plant in BA.		
RG0028	RG0028	Bolivia-Brazil Gas Pipeline Integration Project	Transportadora Brasileira Gasoduto Bolívia-Brasil (TBO)	F	BR	1997	\$240.00	100.0%	The Bank will be involved in financing the construction of a section of the Brazilian side of the pipeline (Corumbá-Campinas).		
RG0054	1338A/OC-RG	Argentina-Brazil Electricity Interconnection	Companhia de Interconexão Energética (CEIN)	P	S	2001	\$49.00	100.0%	PRI. Constr, oper & maint of a second electricity interconnection between Argentina & Brazil.		
RG0054	1339A/OC-RG	Argentina-Brazil Electricity Interconnection	Transportadora de Energia, S.A.	P	S	2001	\$25.00	100.0%	PRI. Constr, oper & maint of a second electricity interconnection between Argentina & Brazil.		
BR0398	1485A/OC-BR	Novatrans Energia	Novatrans Energia S.A.	P		2003	\$30.00	0%	Development, construction, commissioning, operation and maintenance of a 1200MW,1278KM,500KV energy transmission line.		
			<b>SUBTOTAL ENERGY</b>				<b>\$1,034.42</b>				

ENVIRONMENT											
BR0073	776/OC-BR and 911/SF-BR	Environmental Management of the Guaba Watershed	Secretariat of Planning and Administration (SPA) and other agencies	S	S	1993	\$132.30	100.0%	Improve the environmental quality of the Guaba River watershed by monitoring and reducing industrial pollution, implementing soil conservation, improving the management of toxic agricultural chemicals, consolidating conservation units, setting up educational programs on environmental issues and strengthening the environmental management capacity of state institutions.		
BR0072	782/OC-BR and 916/SF-BR	Saneamento Bahia de Guanabara	Companhia Estadual de Agua e Esgoto State Rio de Janeiro			1993	\$350.00	98.6%	Clean up the Guanabara Bay and adjacent basin areas, improve the quality of life of residents of the basin and strengthen local government institutions whose activities affect the bay through sewage collection and treatment, potable water supply, solid waste collection and disposal.		
BR0262	1013/SF-BR	Support Program for the National Environment Fund (Fundo Nacional do Meio Ambiente, FNMA) II	Ministério do Meio Ambiente, dos Recursos Hídricos e da Amazônia Legal	F	BR	1998	\$24.00	61.2%	Support locally developed environmental projects, strengthen the capacity of project executors to implement environmental projects, as well as the capacity of the fund to mobilize investment resources.		
BR0249	1290/OC-BR	Sustainable Development Program for the Pantanal	Ministério do Meio Ambiente, dos Recursos Hídricos e da Amazônia Legal	F	CO	2000	\$92.40	3.1%	Foster sustainable development of the Pantanal to stabilize the environmental quality of the Pantanal's ecosystems by supporting reforms in the management and conservation of natural resources.		
			SUBTOTAL ENVIRONMENT				\$598.70				
HEALTH											
BR0199	951/OC-BR	Health Sector Reform Project - REFORSUS	Ministério da Saúde	F	BR	1996	\$350.00	79.2%	Expand and improve the delivery of care under the Unified Health system (SUS) through investment in infrastructure rehabilitation and equipment, introduction of policy reforms to provide financial sustainability, equity and efficiency.	SEQ	
BR0305	1215/OC-BR	Project for the Professionalization of Nursing Personnel - PROFAE	Ministério da Saúde	F	BR	1999	\$185.00	45.7%	Professionalize auxiliary nursing personnel to provide care to the low income population and consequently reduce the shortage of skilled nursing auxiliaries.	SEQ	
			SUBTOTAL HEALTH				\$535.00				
PREINVESTMENT											
BR0175	991/OC-BR	Public Policy Research and Development Network	Instituto de Pesquisa Econômica Aplicada (IPEA)	F	BR	1997	\$25.00	57.6%	Boost the capacity of economic and statistical research institutes in order to design, plan and evaluate public policies that would meet the country's needs and priorities.		
			SUBTOTAL PREINVESTMENT				\$25.00				
PRIVATE SECTOR DEVELOPMENT											
BR0155	907/OC-BR	Multisector Global Credit Program	Banco Nacional de Desenvolvimento Econômico e Social	B	BR	1995	\$300.00	100.0%	Financing of a program of medium- and long-term credit for Brazilian priv enterprises for modernization & expansion projects.		
BR0277	1125/OC-BR	Global Multisector Financing Program	Banco Nacional de Desenvolvimento Econômico e Social	B	BR	1998	\$1,100.00	100.0%	Provide medium and long-term financing for modernizing & expanding SMEs to enhance their competitiveness in an opening economy.		
BR0310	1175/OC-BR	Global Credit Program for Small and Medium-Sized Enterprises	Banco Nacional de Desenvolvimento Econômico e Social	B	BR	1999	\$1,200.00	100.0%	Develop a modern productive sector in Brazil by providing medium and long-term financing available to private sector SMEs requiring investment funding for projects to restructure, improve and expand efficient operations.		
BR0270	1308/OC-BR	Program to Expand Markets for Small and Medium-Sized Enterprises in Northeastern Brazil (PEM)	Banco do Nordeste do Brasil	B	NE	2001	\$150.00	0.0%	Loans for investment in the priv sct for SMEs in Northern Brazil.		
BR0331	1374/OC-BR	BNDES Program to Support Micro, Small and Medium-Sized Enterprises	Banco Nacional de Desenvolvimento Econômico e Social	B	BR	2001	\$900.00	74.4%	Medium and long-term financing for investment projects aimed at expanding, modernizing and diversifying productive activities of priv Brazilian MSMEs.		
BR0301	1387/OC-BR	Global Credit Program for Microenterprises in Northeastern Brazil	Banco do Nordeste do Brasil	B	NE	2002	\$30.00	0.1%	Strengthen microenterprises in northeastern Brazil by financing a massive expansion in the supply of formal microcredit in the region through its CrediAmigo program.	SEQ	PTI
BR0407		Banco Bradesco	Banco Bradesco S.A.	P		2003	\$50.00	100%	Trade finance facility.		
			SUBTOTAL PRIVATE SECTOR DEVELOPMENT				\$3,730.00				

SANITATION											
BR0159	849/OC-BR	Drainage Program for Sao Paulo - Stage II	Secretaria de vias Publicas	M	SE	1994	\$302.00	90.6%	Improve sanitation and living conditions for residents living in valleys in the municipality of Sao Paulo by reducing the occurrence of floodings, relocating families and providing housing and social services.	SEQ	
BR0183	838/OC-BR	Digital Mapping and Urban Drainage for the Rio de Janeiro Municipality (Guanabara)	Coordenadoria de Recursos Externos/Secretaria Municipal da Fazenda - Rio de Janeiro	M	SE	1995	\$30.00	100.0%	Clean up of the Guanabara Bay and adjacent basin areas, improvement in the quality of life of residents of the basin area and strengthening of local government institutions.	SEQ	
BR0203	878/OC-BR	Environmental Sanitation Program for Salvador and the Municipalities of Todos os Santos Bay	Secretaria de Recursos Hídricos, Saneamento e Habitação - Bahia	S	NE	1995	\$264.00	98.0%	Improve the standard of living of inhabitants of Todos os Santos Bay by expanding the collection and disposal of sewage and solid waste, increasing water service coverage, reducing industrial pollution and strengthening local government institutions.	SEQ	
BR0234	939/OC-BR	Flood Control Program in Campinas	Secretaria Municipal de Planejamento, Desenvolvimento Urbano e Meio Ambiente - Campinas	M	SE	1996	\$19.80	100.0%	Reduce damage caused by flooding in the city of Campinas through drainage, improvements of shantytowns and resettlement of families.	SEQ	
BR0265	1212/OC-BR	Tietê River Cleanup Project, Stage II	SABESP, Companhia Estadual de Saneamento Ambiental	S	SE	1999	\$200.00	20.5%	Improve environmental quality in the Tiete River watershed in the Sao Paulo Metropolitan Region, conserving and making efficient use of water resources in the upper reaches of this basin.	SEQ	PTI
BR0345	1288/OC-BR	Federal District Basic Sanitation Program	Secretaria de Estado de Infraestrutura e Obras - Distrito Federal	S	CO	2000	\$130.00	50.3%	Improve sanitation in the Federal District by expanding the existing sanitation infrastructure and strengthen the service providers.	SEQ	
BR0269	1356/OC-BR	Social Action Sanitation Program Small Municipalities	Secretaria Especial de Desenvolvimento Urbano	F	BR	2001	\$100.00	0.0%	Help the country narrow socioeconomic inequalities by improving water supply and basic sanitation services for low income users in small urban communities.	SEQ	
BR0351	1414/OC-BR	Goiânia Water and Sanitation Program	Saneamento de Goiás S.A. (SANEAGO)	S	CO	2002	\$47.60	5.5%	Improve sanitation conditions for residents of Goiana and contiguous urban areas by upgrading water supply and sewerage services.	SEQ	PTI
BR0324	1502/OC-BR	Ceara Sanitation Program	Companhia de Agua e Esgoto do Ceara	S		2003	\$100.00	0.0%	Mejorar las condiciones sanitarias y ambientales de los habitantes del Estado de Ceará por medio de una mayor y más eficiente prestación de los servicios de agua potable y saneamiento.	SEQ	
			SUBTOTAL SANITATION				\$1,093.40				
SCIENCE & TECHNOLOGY											
BR0164	880/OC-BR	Science & Technology Program (FINEP II)	Financiadora de Estudos e Projetos (FINEP) - Ministério da Ciência e Tecnologia	F	BR	1995	\$156.28	100.0%	Develop and improve Brazil's scientific and technological capabilities to increase corporate competitiveness skills and productivity by modernizing the technology that corporations use.		
			SUBTOTAL SCIENCE & TECHNOLOGY				\$156.28				
SOCIAL INVESTMENT											
BR0177	955/OC-BR	Program of Support for Social Reforms for Child and Adolescent Development in the State of Ceará	Secretaria de Trabalho e Ação Social - Ceará	S	NE	1996	\$42.00	67.0%	Help children and adolescents from infancy to age 17 to grow and develop as members of a family, school and community.	SEQ	
BR0308	1174/OC-BR	Social Sector Reform and Social Sector Program	Ministério de Planejamento, Orçamento e Gestão	F	BR	1999	\$2,200.00	100.0%	Protect federal social spending levels during an economic downturn in particular those funds designed to deliver basic social services and deepen reforms in education, health, labor and social welfare.	SEQ	
BR0246	1357/OC-BR	Program to Support Sustainable Development in Pernambuco's Mata Region	Secretaria de Planejamento e Desenvolvimento Social - Pernambuco	S	NE	2001	\$90.00	1.1%	Improve the availability and quality of basic municipal services, promote civil society's participation in the planning process and strengthen the management capacity of the municipal government.	SEQ	PTI
BR0360	1378/OC-BR	Sector Program to Build Human Capital	Ministério do Planejamento, Orçamento e Gestão; Ministério da Fazenda	F	BR	2001	\$500.00	99.6%	Implementation of a federal income-based transfer program for poor families in order to build Brazil's human capital.	SEQ	
BR0313	1399/OC-BR	Acre Sustainable Development Program	Secretaria de Estado de Planejamento e Coordenação - Acre	S	N	2002	\$64.80	4.9%	Improve the quality of life of the population and preserve the natural wealth of the State of Acre in the long-term.	SEQ	PTI
BR0373	1486/OC-BR	Social Inclusion through Culture and Citizenship	Secretaria de Estado da Cultura	S	S	2003	\$10.00	0.0%	Promote equitable access to cultural activities for children and teenagers in social risk in the city of Sao Paulo so as to contribute to their social development.	SEQ	PTI
			SUBTOTAL SOCIAL INVESTMENT				\$2,896.80				

STATE REFORM & MODERNIZATION												
BR0166	814/OC-BR	Strengthening of the Capability of the Ministry of Foreign Affairs in the Int. Economic Area	Ministério das Relações Exteriores	F	BR	1994	\$9.62	100.0%	Strengthen the capability of the Foreign Relations Ministry in the area of international economic affairs and policies. Most importantly economic integration.			
BR0193	888/OC-BR	Project for Technological Modernization and Strengthening of the Federal Revenue Secretariat	Secretaria da Receita Federal / Ministério da Fazenda	F	BR	1995	\$62.36	100.0%	Increase the efficiency and improve the effectiveness of the Federal Reserve Secretariat to control taxpayer compliance, provide better taxpayer assistance and reduce tax evasion.			
BR0171	980/OC-BR	National Fiscal Administration Program for the Brazilian States	Secretaria Executiva / Ministério da Fazenda	F	BR	1996	\$500.00	75.3%	Improve the management of the public funds of the Brazilian States.			
BR0220	1042/OC-BR	Program for Modernization of the Executive Branch of the Federal Government	Ministério da Administração Federal e Reforma do Estado	F	BR	1997	\$36.47	54.1%	Strengthen the technical capability of human resources and improve the logistical means for federal administration.			
BR0288	1123/OC-BR	INTERLEGIS - Legislative Integration and Participation Network	Centro de Processamento de Dados do Senado Federal	F	BR	1998	\$20.00	55.44%	Support the technological modernization of the legislative power at the three levels of government.			
BR0256	1095/OC-BR	Municipal Development Program for Porto Alegre	Prefeitura Municipal de Porto Alegre	M	S	1998	\$76.50	50.53%	Improve the wellbeing of the inhabitants of Porto Alegre by making the municipal administration more efficient in the performance of its functions through improvements in the provision of sanitation, infrastructure, environmental control and road maintenance.			
BR0286	1194/OC-BR	National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities	Secretaria Executiva / Ministério da Fazenda	F	BR	1999	\$300.00	3.2%	Support the achievement of macroeconomic stability through a self-sustaining fiscal balance by efficiently managing municipal income and spending.			
BR0327	1346/OC-BR	Support for Modernization of Pension System Management (PROPREV) - First Phase	Ministério de Presidência e Assistência Social	F	BR	2001	\$57.00	9.5%	Support modernization of the Brazilian pension system management.			
BR0365	1423/OC-BR	Program to Support Modernization of the Federal Court of Accounts	Tribunal de Contas da União	F	BR	2002	\$5.00	0.0%	Support modernization and institutional strengthening of the Tribunal de Contas da União by increasing the efficiency and effectiveness of audit functions.			
			<b>SUBTOTAL STATE REFORM &amp; MODERNIZATION</b>				<b>\$1,066.95</b>					
TOURISM												
BR0204	841/OC-BR	Tourism Development Program in Northeastern Brazil (PRODETUR/NE-I)	Banco do Nordeste do Brasil SA	B	NE	1994	\$400.00	90.7%	Reinforce the capacity of Brazil's Northeast to maintain and bolster its growing tourism industry.			
BR0208	1216/OC-BR	Technical Cooperation Program for the Development of Ecotourism in the Legal Amazon Region (PROECOTUR)	Ministério do Meio Ambiente dos Recursos Hídricos y da Amazônia Legal	F	N	1999	\$11.00	27.1%	Develop a strategy for sustainable tourism in the Amazon region through studies for the mgmt and/or establishment of protected areas, key investments for prioritized ecotourism and infrastructure works.			
BR0323	1392/OC-BR	Tourism Development Program in Northeastern Brazil - 2nd Stage (PRODETUR/NE-II)	Banco do Nordeste do Brasil	B	NE	2002	\$240.00	0.1%	Strengthening the state's capacity for strategic planning, training & infrastructure.	SEQ	FTI	
			<b>SUBTOTAL TOURISM</b>				<b>\$651.00</b>					

TRANSPORTATION											
BR0162	767/OC-BR	Program to Modernize and widen the Fernao Dias Highway - Stage I	Departamento de Estrada de Rodagem	F	SE	1993	\$267.00	100.0%	Widening and modernization of the Fernao Dias Federal Highway between Sao Paulo and Minas Gerais.		
BR0196	772/OC-BR	Highway Corridor Program of the State of Bahia	Dep. Estradas Rodagem Bahia	S	NE	1993	\$147.00	100.0%	Support economic development in the area served by the main highway and preserve the existing road network.		
BR0163	844/OC-BR	Sao Paulo Suburban Train Project	Secretaria de Transporte Metrop. SP	S	SE	1994	\$420.00	100.0%	Integration of the different mass transit systems in the south and southwest sectors of Sao Paulo and facilitate the daily commute of the middle- and low-income population by reducing travel time, improving service quality, comfort and safety.	SEQ	
BR0150	904/OC-BR	Improv of São Paulo-Curitiba-Florianópolis Highway	Departamento Nacional de Estradas de Rodagem	F	BR	1995	\$450.00	97.6%	Enhance level of service & decrease accident rate on the thoroughfare.		
BR0216	975/OC-BR	Upgrading of the Fernão Dias Highway - Stage II	Departamento de Estrada de Rodagem	F	SE	1996	\$275.00	72.7%	Upgrade level of service, so as to ease congestion & reduce accident rate. Institute financially self-sustaining concession arrang for pvt sct oper & maint of highway.		
BR0235	916A/OC-BR	Yellow Line Toll Road Concession (Linha Amarela)	Linha Amarela S.A.	P	SE	1996	\$14.00	100.0%	PRI. Concession for the oper & maint of a 15 km urban toll road in RJ.		
BR0195	1046/OC-BR	Federal Highway Rehab and Decentralization - Phase I	Departamento Nacional de Estradas de Rodagem	F	BR	1997	\$300.00	39.4%	Rehab of fed highways in order to reduce transp costs so as to support socioeconomic development.		
BR0272	1071A/OC-BR	Region dos Lagos Toll Road	Concessionária da Rodovia dos Lagos S.A.	P	SE	1997	\$14.58	100.0%	PRI. Concession for the expansion, oper & maint of a 60 Km highway system in RJ.		
BR0251	998/OC-BR	Rio Grande do Sul State Roads Program	Departamento de Estradas de Rodagem - Rio Grande do Sul	S	S	1997	\$150.00	57.3%	Reduce transp costs & enhance conditions for highway integration within MERCOSUR.		
BR0253	1019/OC-BR	Second Roads Program for the State of Ceará	Secretaria de Transportes, Energia, Comunicações e Obras - Ceará	S	NE	1997	\$115.00	80.8%	Reduce cost of transp & contribute to socioecon dev by expanding access to industrial & tourism areas.		
BR0296	1156A/OC-BR	Castello-Reposo Toll Road Project	Concessionária de Rodovias do Oeste de São Paulo - VIAOESTE S.A.	P	SE	1998	\$40.28	100.0%	PRI. Concession for the const, rehab, upgrade, oper & maint of 156 Km of highways in SP.		
BR0278	1191/OC-BR	Highway Corridor Integration Program State of Bahia - II	Dep. Estradas Rodagem Bahia	S	NE	1999	\$146.00	41.2%	Reduce cost of transp, consolidate network of secondary transp corridors and rehabilitate deteriorated roads.	SEQ	PTI
BR0312	1232A/OC-BR	Ecovias dos Imigrantes Toll Road Project	Ecovias dos Imigrantes S.A.	P	SE	1999	\$75.00	100.0%	PRI. Concession for the const, rehab, upgrade, oper & maint of the Anchieta-Imigrantes Highway System.		
BR0306	1190A/OC-BR	Anhangüera-Bandeirantes Toll Road Project	Concessionária do Sistema Anhangüera-Bandeirantes S.A.	P	SE	1999	\$41.74	100.0%	PRI. Concession for the const, rehab, upgrade, oper & maint of the Anhangüera-Bandeirantes Highway System.		
BR0307	1205A/OC-BR	Linha Amarela Toll Road - Section IV (Linha Amarela II)	Linha Amarela S.A.	P	SE	1999	\$6.60	100.0%	PRI. Concession to incorporate an additional 3.2 miles to Linha Amarela ("Section IV"). Will contribute to the conclusion of a metropolitan ring in RJ.		
BR0295	1351/OC-BR	Highway Rehabilitation Program State of São Paulo	Departamento de Estradas de Rodagem - São Paulo	S	SE	2001	\$120.00	35.9%	Reduce transp costs by carrying out civil works on a significant portion of highways that are in poor or fair condition.		
BR0355	1390/OC-BR	Santa Catarina State Highway Program - Phase IV	Departamento de Estradas de Rodagem - Santa Catarina	S	S	2002	\$150.00	27.6%	Decrease transp cost, improve access to country seats and increase traffic safety.		
BR0209	873/OC-BR	Curitiba Urban Transport System	Prefeitura Municipal de Curitiba	M	S	1995	\$120.00	100.0%	Improve public transport system, increase capacity, upgrade feeder roads and facilities for users of pub transp.	SEQ	
		<b>SUBTOTAL TRANSPORTATION</b>					<b>\$2,852.20</b>				
URBAN DEVELOPMENT											
BR0182	898/OC-BR	Rio de Janeiro Urban Upgrading Program	Prefeitura Municipal do Rio de Janeiro	M	SE	1995	\$179.99	100.0%	Upgrading basic infrastructure and increasing the supply of urban & social services.	SEQ	
BR0212	917/OC-BR	Program to Support Urban Development in Paraná	Secretaria de Estado de Desenvolvimento Urbano - Paraná	S	S	1996	\$249.00	100.0%	Support the municipalities of the State of Parana in improving the quality of life of their citizens.	SEQ	
BR0210	938/OC-BR	São Paulo Favela Improvement Program	Secretaria de Habitação e Desenvolvimento Urbano - Prefeitura Municipal de São Paulo	M	SE	1996	\$150.00	96.7%	Dev of favelas & legalization of nonconforming subdivisions by providing legal housing to 11,000 low-income families.	SEQ	
BR0242	1037/OC-BR	Rio de Janeiro Neighborhood Upgrading Program "Baixada Viva"	Secretaria de Estado de Planejamento, Controle e Gestão - Rio de Janeiro	S	SE	1997	\$180.00	54.1%	Provide Neighborhood Upgrading through basic sanitation, street paving, solid waste collection systems, recreation areas, child care centers, primary health care systems, sanitation, environmental education and small business promotion.	SEQ	
BR0273	1126/OC-BR	Low-Income Neighborhood Improvement Program - "Habitar Brasil"	Secretaria de Políticas Urbanas / Ministério do Planejamento, Orçamento e Gestão	F	BR	1998	\$250.00	5.9%	Support the federal's government effort to raise living standards of poor families living in sub-standard neighborhoods.	SEQ	PTI
BR0261	1200/OC-BR	Preservation of Urban Historical and Cultural Sites (Monumenta Program)	Ministério da Cultura	F	BR	1999	\$62.50	6.3%	Investments to increase the econ, soc, and cultural use of historic sites through the restoration of national monuments, improvements in streets, sidewalks and parking facilities.		
BR0250	1241/OC-BR	Rio de Janeiro Urban Upgrading Program, "Favela-Bairro" - Stage II	Secretaria Municipal de Habitação - Rio de Janeiro	M	SE	2000	\$180.00	42.1%	Improve the quality of life of low income groups through basic infrastructure, social services and the regularization of properties.	SEQ	
BR0298	1354/OC-BR	Multiphase Program Tenement Action Program in the State of São Paulo	Companhia de Desenvolvimento Habitacional e Urbano do Estado de São Paulo	S	SE	2001	\$34.00	3.6%	Improve the quality of life of families living in tenements in the downtown areas of municipalities in the State of Sao Paulo by financing housing solutions and renovating existing tenements.	SEQ	PTI
BR0357	1404/OC-BR	Program to Support Pará Urbe - First Phase	Secretaria de Desenvolvimento Urbano e Regional - Pará	S	N	2002	\$48.00	1.1%	Expand and improve the quality of services that local governments deliver to their communities.	SEQ	PTI
BR0374	1405/OC-BR	Paraná Urbano II Program	Serviço Social Autônomo Paranaidade - Paraná	S	S	2002	\$100.00	17.8%	Enhance the quality of life of residents of the State of Parana by improving finances and institutional strengthening of municipalities as well as the provision of basic social services.	SEQ	PTI
BR0391	1479/OC-BR	Rehabilitation of Downtown Sao Paulo	Empresa Municipal de Urbanizacao	M	SE	2003	\$100.40	0%	Promotes economic development and diversity in the Downtown area of Sao Paulo.	SEQ	
		<b>SUBTOTAL URBAN DEVELOPMENT</b>					<b>\$1,533.89</b>				
		<b>TOTAL</b>					<b>\$16,829.64</b>				

JL: Jurisdictional Level of Borrowing Agency (F: Federal, B: Development Bank, S: State, M: Municipal, P: Private)

%D: Percentage Disbursed as of December 2003

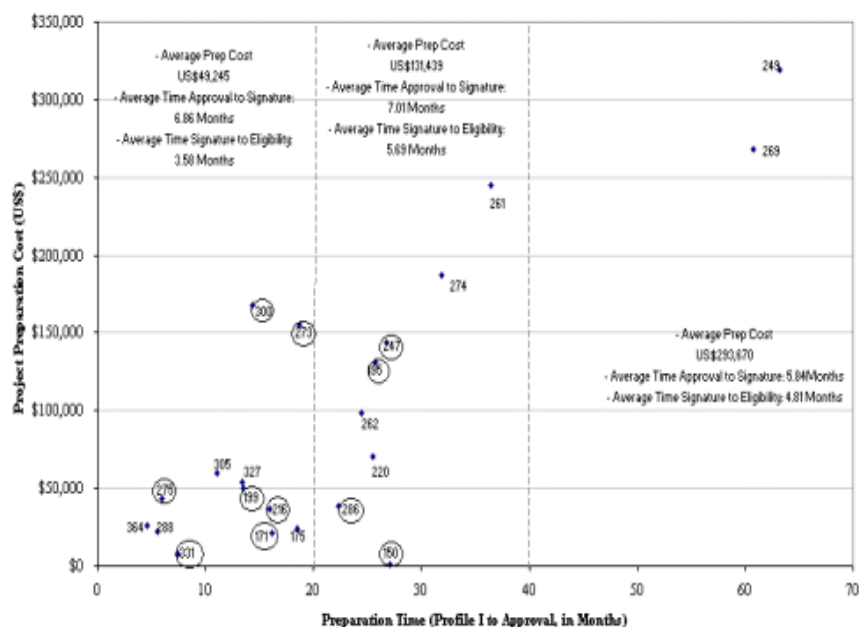
R: Region

SEQ: Social Equity Enhancing Project (as classified by Bank)

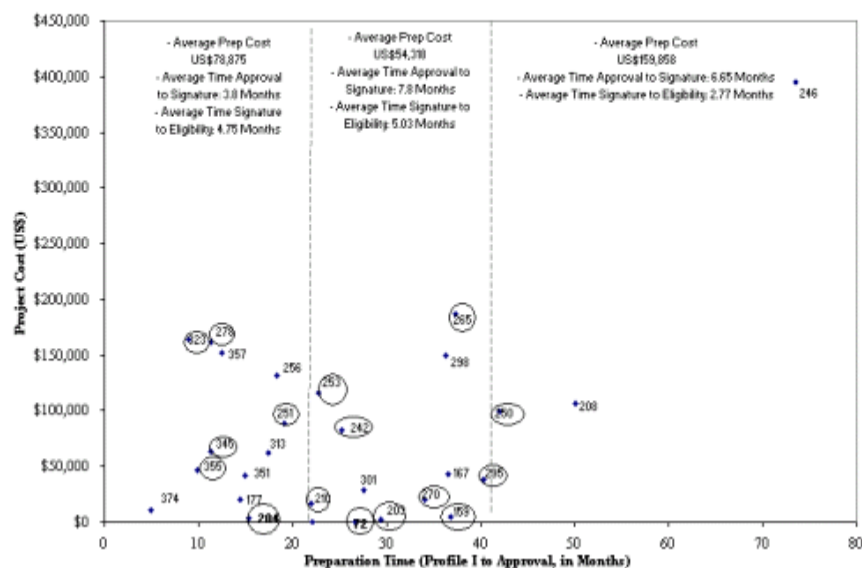
PTI: Poverty Targeting Investment (as classified by Bank)



**TABLE A.2**  
**Relationship between Project Preparation Costs and Preparation Time to Approval**  
(Circled projects reflect approval amounts above US\$200 million – Selection of projects (22) is limited to data in the OPRCOS database (excludes PRI, ELs and PEL.)  
**Federal Level**



**Relationship between Project Preparation Costs and Preparation Time to Approval**  
(Circled projects reflect approval amounts above US\$100 million – Selection of projects (27) is limited to data in the OPRCOS database, excludes PRI\*)  
**Subnational Level**





**TABLE A.3**  
**Project Outcome Level Indicators: Availability of Updated Data**  
**(Sample of 46 Investment Projects)**

<b>Project Number</b>	<b>Year of Approval</b>	<b># of Indicators at Approval<sup>1</sup></b>	<b>#of indicators dropped since Approval</b>	<b>#of indicators added since Approval</b>	<b>Share of Indicators with Updated Data</b>
<b>State Reform</b>					
BR0193	1995	5	5	9	33%
BR0171	1996	6	2	3	14%
BR0220	1997	6	0	0	0%
BR0288	1998	5	1	0	25%
BR0286	1999	9	6	3	0%
BR0327	2001	1	1	3	0%
BR0365	2002	3	0	0	0%
<b>Social</b>					
BR0182	1995	6	6	2	100%
BR0183	1995	3	2	0	0%
BR0167	1996	11	5	1	0%
BR0177	1996	11	4	0	0%
BR0199	1996	7	0	0	0%
BR0210	1996	6	6	2	0%
BR0212	1996	6	0	0	0%
BR0242	1997	9	9	3	0%
BR0247	1997	6	2	0	0%
BR0256	1998	17	5	1	0%
BR0273	1998	6	5	0	0%
BR0261	1999	9	5	2	17%
BR0300	1999	5	0	0	0%
BR0305	1999	4	0	2	0%
BR0250	2000	7	6	0	0%
BR0345	2000	6	6	3	0%
BR0269	2001	4	1	0	0%
BR0298	2001	5	4	1	0%
BR0351	2002	2	1	0	0%
BR0357	2002	9	0	0	0%
BR0364	2002	6	2	0	0%
BR0374	2002	8	4	0	0%
<b>Competitiveness</b>					
BR0150	1995	4	1	0	0%
BR0209	1995	9	0	0	0%
BR0216	1996	5	1	0	25%
BR0195	1997	4	1	0	0%
BR0251	1997	2	1	0	0%
BR0253	1997	6	0	0	0%
BR0275	1997	6	0	0	0%
BR0278	1999	4	2	0	0%
BR0295	2001	6	0	0	0%
BR0355	2002	10	2	0	0%
<b>Environment/Natural Resources</b>					
BR0203	1995	10	6	0	0%
BR0234	1996	8	6	2	0%
BR0262	1998	3	1	1	0%
BR0265	1999	5	3	0	0%
BR0249	2000	6	0	0	0%
BR0246	2001	4	0	0	0%
BR0313	2002	4	1	0	0%
<b>TOTAL</b>		<b>284</b>	<b>113</b>	<b>38</b>	<b>9</b>

<sup>1</sup> Based on Loan Document descriptive statements and its logical framework.

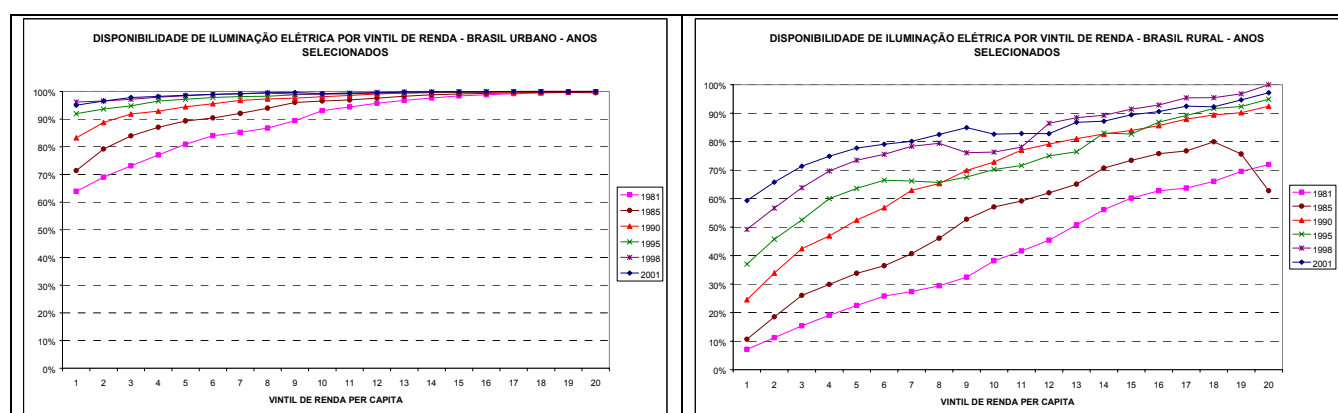
Source : Project Documents, PPMRs and PCRs.

## Selected socioeconomic and financial data

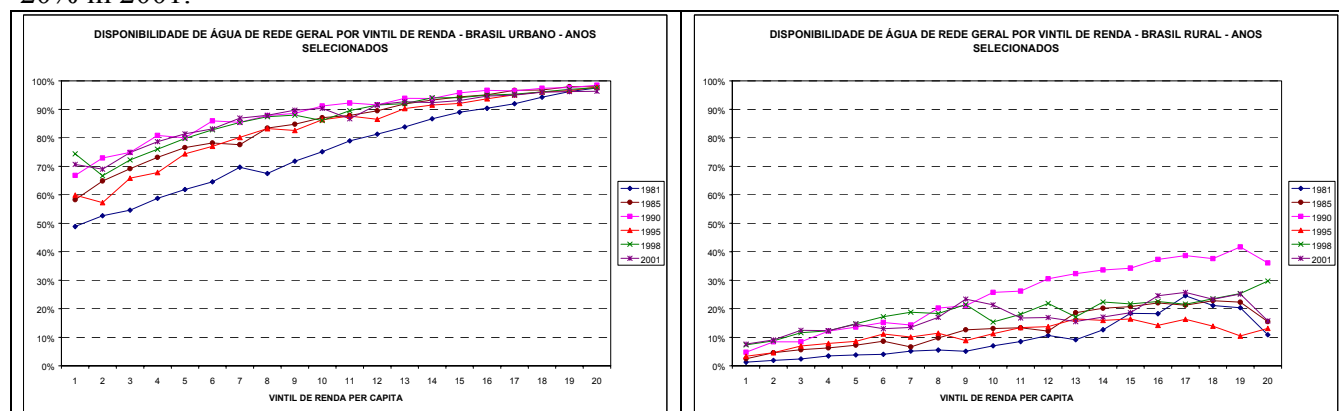
### 1. Access to basic services

The graphs in this section show the evolution of selected indicators (water and sanitation, electricity) according to data obtained from six national surveys (PNAD) between 1981 and 2001.<sup>112</sup>

Access to electricity improved substantially for all income groups over the past 20 years. The data below indicate that the poorest had the biggest gains: among the poorest, access increased from 7% to 59% between 1981 and 2001.

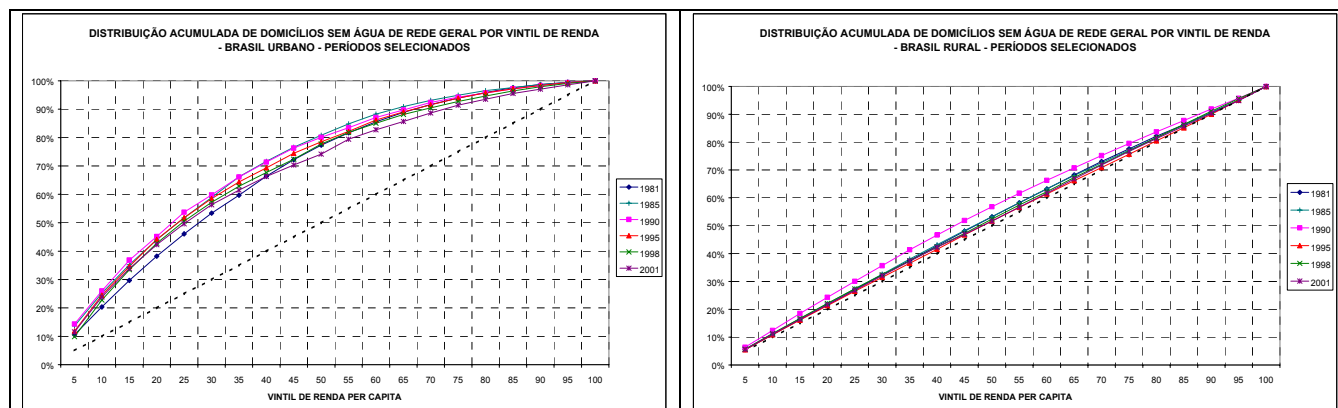


Access to drinking water improved significantly in the urban areas during the first half of the 1980s, benefiting especially the poorest groups. After 1990, the data show stagnation (particularly pronounced in rural areas). Urban coverage among the poorest increased from 50% to 70% between 1981 and 2001. However, rural coverage among the poorest was no higher than 20% in 2001.

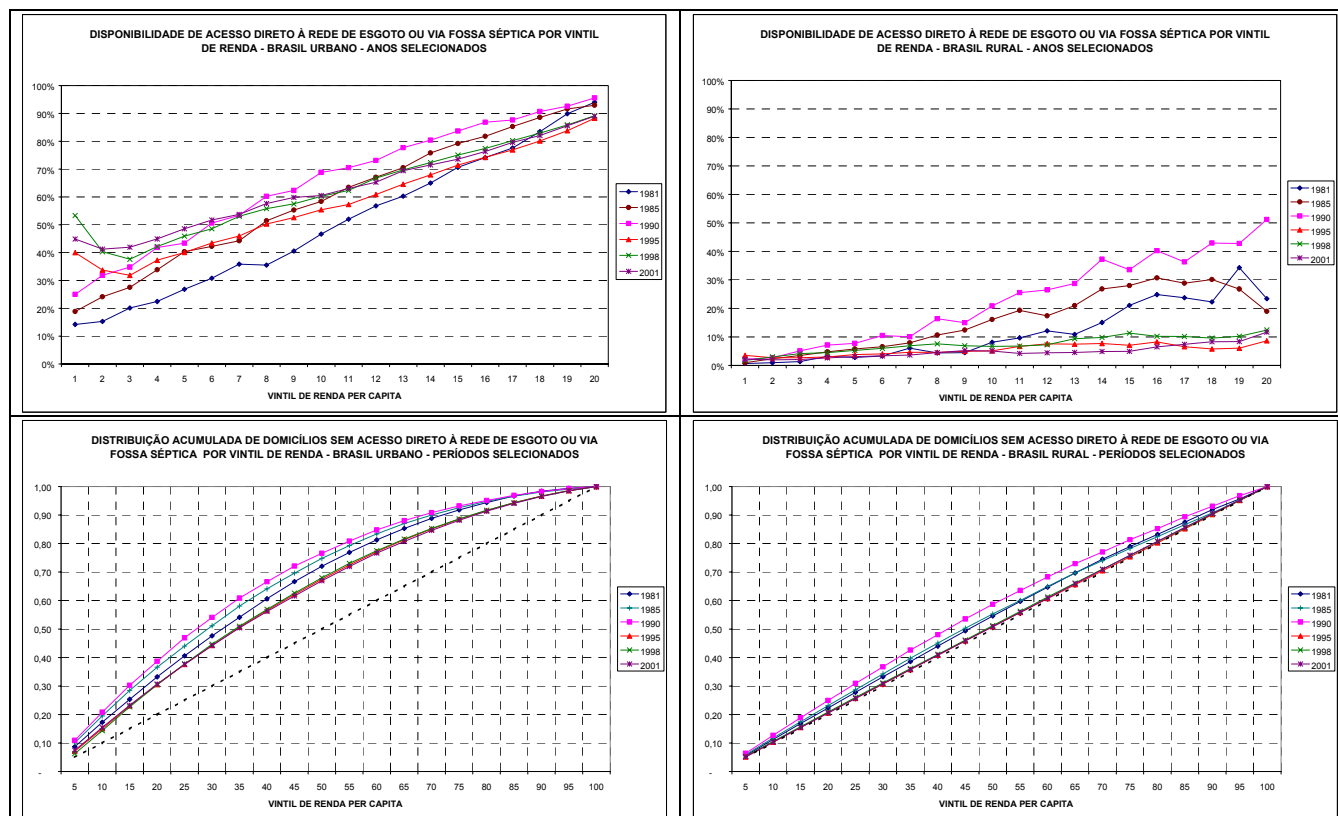


<sup>112</sup> Source: K. Iwakami Beltrão and S. Sugahara, *Infra-estrutura dos domicílios brasileiros: uma análise para o período 1981-2001*, Background paper for this report, 2003 (also listed in Annex 6). Data are from the 1981, 1985, 1990, 1995, 1998 and 2001 PNAD. Note that: (i) the analysis is limited by the fact that that much of the rural population in the North of Brazil is not covered by these surveys; (ii) methodological changes between surveys impose some constraints on between-year comparisons, particularly regarding access to piped water.

On the cumulative participation of households without water for both urban and rural areas, see the next two Figures. In general, we note that inequalities are larger in urban than in rural areas, probably a consequence of the low access in rural areas. Note the absence of apparent improvements in equity during the two decades.



For sewerage, lower levels of coverage are diagnosed. While in the urban areas the richest group displays no change in access with already around 90% of coverage in 1981, the poorest group shows an increase in coverage from 10% in 1981 to slightly above 40% in 2001. The poorest in rural areas, in contrast, display no improvement (essentially zero access). The cumulative data point to larger inequalities in urban areas, but with a trend toward improvements in equity during the 1990s.

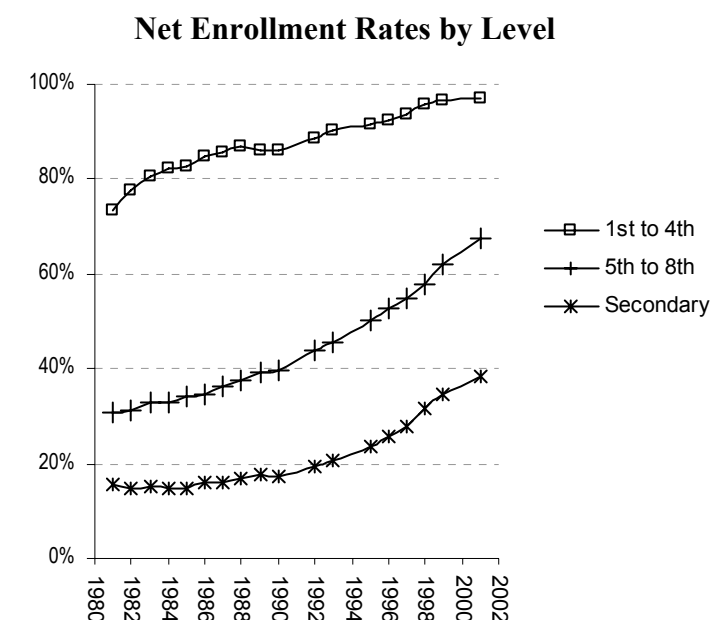


IBGE data indicate that only 32% of the population earning half the minimum wage per capita have adequate water and sanitation facilities in the country as a whole (in the Southeast region this proportion is 56%).

## 2. Education

On net enrollment over the last two decades, the series on 1<sup>st</sup> through 4<sup>th</sup> grade shows that universal primary access is essentially a solved problem. The 5<sup>th</sup> through 8<sup>th</sup> series, however, indicates that the access to the second cycle of primary education is incomplete (this cycle is still considered mandatory education under the Constitution).

If children are enrolling in school at seven, why are they not where they should be at 11 to 14? Part of the reason is that there is a discontinuity in the supply of education from fourth to fifth grade, mostly in the rural area. There are between one and two million children enrolled in rural schools that provide only first through fourth grade education and many have no fifth grade schools within a reasonable distance from where they live. These children account for about 5% to 10% of the 17 million enrolled in elementary school in Brazil.



Source: Soares, background paper for this report

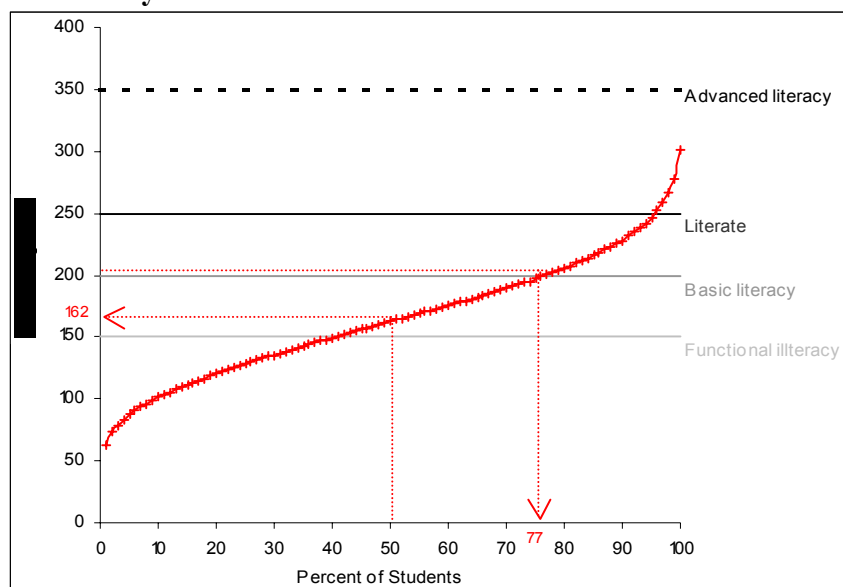
The other 20 percentage points are not attributable to lack of school places. The possible explanations are (i) child labor and socioeconomic conditions that take children away from school and (ii) grade repetition. If schools retain students in one grade for more than one year, this will make them be out of age and thus not attending the school level they should.

The 1<sup>st</sup> through 4<sup>th</sup> grade enrollment makes it necessary to create five million 5<sup>th</sup> to 8<sup>th</sup> grade school places.

To determine learning success, Brazil applies excellent standardized testing methodology at fourth grade, eighth grade, and at the end of secondary level: the *Sistema de Avaliação do Ensino Básico* (SAEB) given since 1995 by the *Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira* (INEP). The results are comparable across time and grade levels and show how much of the official curriculum children have learned—a good educational content mastery thermometer.

In the Figure below the horizontal lines show different levels of measured proficiency on the proficiency axis (vertical).<sup>113</sup> The point on the horizontal axis where the curve crosses each horizontal line shows the percentage of children incapable of showing this same proficiency on the test. For example, the red line going from proficiency level 200 on the vertical axis, which corresponds to basic literacy skills, intersects the curve at 77. This means that 77% of fourth grade students in 2001 were unable to perform at basic literacy. This level of literacy corresponds to the abilities of finding secondary information in texts, relating expressions or ideas that deal with the same theme, or making inferences from global analysis of a text.

### Accumulated Distribution of 4<sup>th</sup> Grade Students by SAEB Proficiency: Written Communication



Source: Soares, background paper for this report

The whereabouts of young adults aged 15-17 is an important issue as this is when they make the transition from school to work. Almost half of the youngsters in this age group are not enrolled in the appropriate grade and are still struggling through the eight grades of primary school. Of those in primary school, 16% are still in grades one through four (i.e. 6.9% of the total age group are still enrolled in the first cycle of primary school with at least four years of age grade distortion). Only 37.8% of youth from 15 to 17 are enrolled in the appropriate grade level. Almost 19% have dropped out, 15.2% without having finished primary school and another 3.7% having finished it. In other words, those who are out of school are not there because they have finished their compulsory schooling but rather have given up after multiple repetitions

<sup>113</sup> On an IRT scale, every proficiency point represents multiple abilities that are equivalent since they are determined by an underlying proficiency. The examples given in the legend merely show one possible interpretation.

### Percent of Young Adults 15 to 17 by School Attendance and Work

	Out of School	In School	Total
Working	8.6	23.0	31.5
Looking for work	2.0	6.6	8.7
Not working	8.3	51.1	59.8
Total	18.9	81.1	100.0

Source: 2001 PNAD microdata

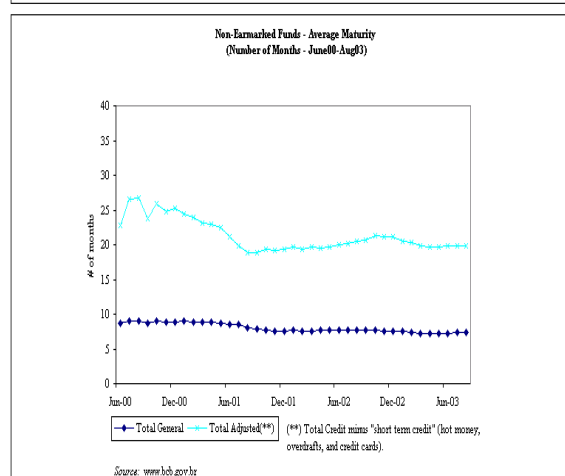
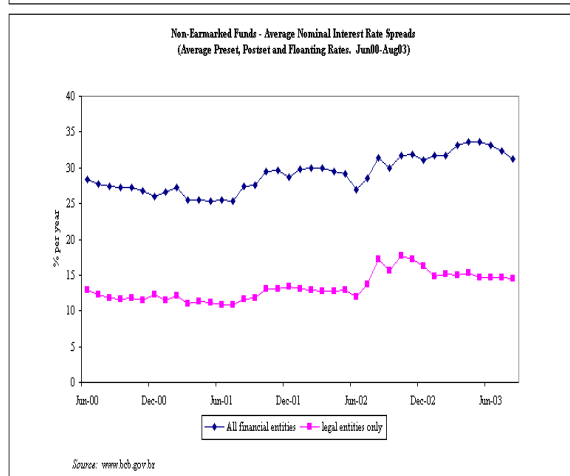
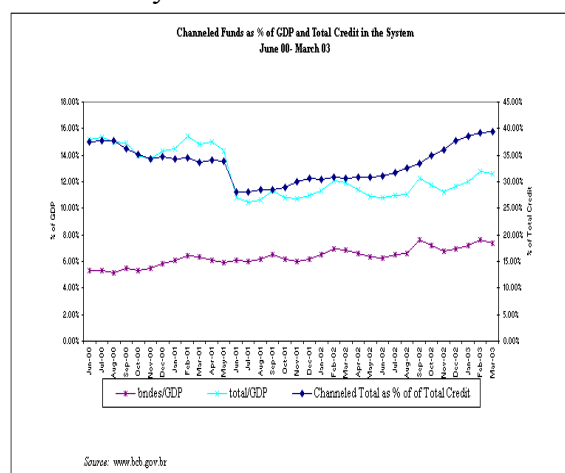
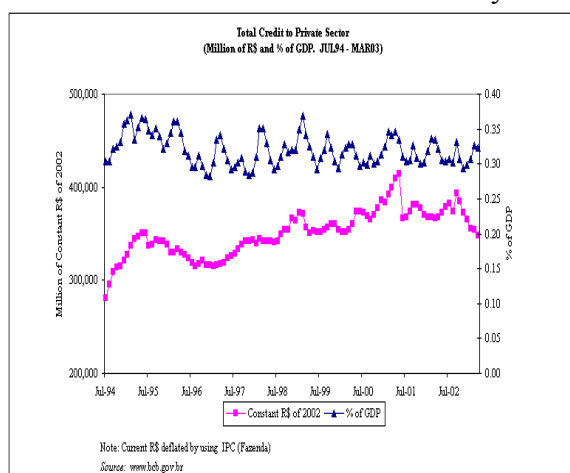
### Percent of Young Adults 15 to 17 by School Attendance and Work

School Level	Percent
In School	81.1
Primary	43.1
Secondary	37.1
Higher	0.3
Out of School	18.9
Without Primary	15.2
With Primary	3.7
Total	18.9

Source: 2001 PNAD microdata

## 3. Financial sector

The figures below document some of the characteristics of the financial system discussed in the section on credit programs in Annex 1: (i) private credit/GDP has been volatile and has not been growing, although it did grow in absolute terms during the period reviewed; (ii) channeled funds as a share of GDP and total credit in the system have expanded; (iii) interest rate spreads for non-earmarked funds have been high and growing; and (iv) the average maturity of loans to the private sector remained short and actually declined in recent years.



**Summary of Evaluation Results for Credit Programs BR-0277 and BR-0310  
(725 firms surveyed)**

(725 firms surveyed)										
	No. of Subloans	Amount (Average)	% Change in Sales <sup>1</sup>	% Change in Employees <sup>2</sup>	Impact of project on firm's competitiveness <sup>3</sup> (% of firms)		Impact of project on firm's productivity <sup>4</sup> (% of firms)		Impact of project on firm's market share <sup>5</sup> (% of firms)	
					No Effect	Highly Positive	No Effect	Highly Positive	No Effect	Highly Positive
SIZE OF FIRM <sup>6</sup>										
Small	457	R\$ 65.2M	68%	74%	22%	50%	27%	47%	9%	44%
Medium	156	R\$ 86.9M	59%	127%	17%	67%	24%	65%	12%	64%
Other/Not Specified <sup>7</sup>	101	R\$ 6.5M	59%	45%	39%	25%	43%	27%	17%	19%
PURPOSE OF LOAN										
Modernization	218	R\$ 39.8M	48%	46%	19%	59%	24%	58%	8%	50%
Relocation	116	R\$ 32.4M	56%	59%	23%	60%	23%	57%	18%	53%
Expansion	314	R\$ 72.9M	49%	47%	19%	58%	22%	56%	7%	56%
New Investments	188	R\$ 57.1M	210%	1058%	29%	37%	39%	35%	11%	34%
SECTOR										
Agriculture	19	R\$ 1.4M	13%	24%	58%	11%	58%	11%	58%	5%
Commerce	240	R\$ 50.6M	79%	383%	22%	47%	31%	45%	10%	42%
Industry	208	R\$ 50.6M	58%	43%	8%	68%	8%	66%	9%	62%
Services	169	R\$ 53.1M	51%	73%	38%	47%	44%	45%	16%	47%
REGIONS										
NE	154	R\$ 37.3M	59%	97%	18%	48%	24%	46%	8%	43%
Others	570	R\$ 122.7M	62%	104%	25%	50%	29%	48%	12%	45%

<sup>1</sup> The percentage change is based on annual sales for the year before and the year after financing was obtained.

<sup>2</sup> The percentage change is based on the number of firm employees the year before and the year after financing was obtained.

<sup>3</sup> The percentages are based on questionnaires administered to firm owners. The analysis is qualitative in nature and reflects owners' perception regarding the effect of financing on the firm's performance.

<sup>4</sup> See footnote 3.

<sup>5</sup> See footnote 3.

<sup>6</sup> Size is based on gross annual sales of the firm: Micro/Small up to R\$ 7.8M; Medium between R\$ 7.8M-R\$ 45M and Large above R\$ 75M. Large firms were excluded from our analysis because there were only 2 in the sample.

<sup>7</sup> This category includes agricultural operators as well as other not specified.

Source: Sistema de supervisão de campo de projetos 1125/OC-BR e 1175/OC-BR: Relatório final 1999-2002, by C. de Souza Pinto et al.

**Brazil, Key Economic Indicators, 1990-2003**

Source	Indicator	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average
1 BCB	GDP growth (annual %)	-4.35	1.03	-0.54	4.92	5.85	4.22	2.66	3.27	0.13	0.79	4.36	1.42	1.52	0.30	1.83
2 BCB	GDP per capita growth (annual %)	-7.78	-0.54	-2.05	3.37	4.33	2.75	1.24	1.87	-1.21	-0.55	2.99	0.10	0.21		0.36
3 IBGE	Population, Total (million)	147.59	149.93	152.23	154.51	156.78	159.02	161.25	163.47	165.69	167.91	170.14	172.39	174.63		161.19
4 IBGE	Population Growth (annual %)	3.72	1.58	1.53	1.50	1.46	1.43	1.40	1.38	1.36	1.34	1.33	1.32	1.30		1.59
5 WB	GNI per Capita (US\$) Atlas Method	2,780	2,950	2,820	2,780	3,100	3,700	4,320	4,740	4,600	3,870	3,590	3,060	2,850		3473.85
6 WB	GNI per Capita (US\$) PPP	5,410	5,530	5,620	5,910	6,230	6,670	6,820	6,930	6,800	6,910	7,300	7,450	7,250		6525.38
7 WB	Gross Domestic Savings, Current Prices (% of GDP)	21.4	20.5	21.4	22.3	22.5	20.5	18.6	18.9	18.6	19.3	20.1	19.9			20.33
8 WB	Fixed Investment, Current Prices (% of GDP)	20.6	18.1	18.4	19.3	20.7	20.5	19.3	19.9	19.7	19.1	19.4	19.4			19.53
10 BCB	Exports of Goods and Services (% of GDP)	6.69	7.79	9.24	8.97	8.02	6.59	6.16	6.56	6.49	8.95	9.15	11.42	13.14		8.40
11 BCB	Imports of Goods and Services (% of GDP)	4.40	5.19	5.31	5.88	6.09	7.08	6.88	7.40	7.33	9.17	9.26	10.90	10.28		7.32
12 BCB	Current Account Balance (% of GDP)	-0.81	-0.35	1.58	-0.16	-0.33	-2.61	-3.03	-3.77	-4.24	-4.72	-4.02	-4.55	-1.68		-2.21
13 BCB	Current Account Balance (US\$ million)	988.80	1,102.20	2,061.00	1,290.90	2,149.90	4,405.10	10,791.70	18,992.90	28,855.60	28,578.40	32,779.20	22,457.40	16,566.20		13155.33
14 BCB	Foreign Direct Investment (% of GDP)	0.21	0.27	0.53	0.30	0.40	0.62	1.39	2.35	3.66	5.33	5.44	4.41	3.61		2.19
15 WB	Total Debt Service (% of exports of goods and services)	22.2	22.6	20.2	23.6	30	36.6	42.2	62.7	74.8	112.8	90.7				48.95
16 BCB	Net External Debt (% of GDP)	-	24.16	18.66	14.25	8.69	5.59	3.91	4.3	6.18	10.25	9.64	10.41	14.55	12.57	11.01
17 BCB	Gross International Reserves (cash concept) (% of imports)	42.35	40.65	92.48	102.46	110.26	100.95	110.67	85.96	75.57	72.25	59.07	64.50			79.76
18 IBGE	Inflation, Consumer Prices (annual %)	350.35	189.82	278.23	373.79	275.84	20.41	9.18	5.11	1.65	8.60	5.83	7.42	11.90	8.95	110.51
19 BCB	Current Fiscal Revenues, Central Government (% of GDP)	-	-	-	-	-	-	-	2.08	2.21	2.19	2.22	2.30	2.16	2.06	2.17
20 BCB	Fiscal Expenditures, Central Government (% of GDP)	-	-	-	-	-	-	-	2.24	2.02	2.36	2.38	2.68	2.36	1.77	2.26
21 BCB	Pension Expenditures (% of GDP)	-	-	-	-	-	-	-	0.80	0.86	0.82	0.84	0.90	0.83	0.58	0.80
22 BCB	Nominal Deficit, General Government (% of GDP)	-	-	-	-	-	7.28	5.88	6.11	7.93	9.97	4.47	5.16	10.47	3.68	6.77
23 BCB	Primary Deficit, Consolidated Public Sector (% of GDP)	-	-	-	-	-	-0.27	0.08	0.95	-0.01	-3.19	-3.46	-3.64	-3.96	-4.32	-1.98
24 BCB	Net Public Debt, Consolidated Public Sector (% of GDP)	-	38.13	37.06	32.56	30.01	30.56	33.29	34.35	41.71	48.68	48.78	52.57	56.53	37.00	41.63
25 BCB	Nominal Exchange Rate (Reals per Dollar, Year Average)	-	-	-	-	0.85	0.92	1.01	1.08	1.16	1.81	1.83	2.35	2.92		1.55

**Notes:**

5 2002: <http://www.worldbank.org/data/databytopic/GNIPC.pdf>

6 2002: <http://www.worldbank.org/data/databytopic/GNIPC.pdf>

16 End of year (Dec) monthly figures. 2003 figure is from August.

18 Broad Consumer Price Index (IPCA).

19 End of year (Dec) monthly figures. 2003 figure is from October.

20 End of year (Dec) monthly figures. 2003 figure is from October.

21 End of year (Dec) monthly figures. 2003 figure is from October.

22 End of year (Dec) monthly figures. 2003 figure is from July.

23 End of year (Dec) monthly figures.

24 End of year (Dec) monthly figures.

## The Country Papers summarized

The program period reviewed in this report covers three programming cycles which coincide with four administrations in Brazil: the Itamar Franco presidency (1993-1994), the two administrations of Fernando Henrique Cardoso (1995-2002), and the first year of the presidency of Luiz Inácio Lula da Silva (2003).

The Bank's declared objective during the *first* of three programming cycles<sup>114</sup> was to "contribute to the national effort to improve the social and economic conditions of low income groups, without exacerbating inflationary pressures."

The 1993 Country Paper (CP) identified inflation and poverty as the most important problems to be addressed.<sup>115</sup> While recognizing the linkages between the two, the paper implied that the challenge of high inflation escaped treatment by the Bank. The CP proposed a program of Bank action that emphasized the social sectors and the objective of arresting the deterioration of the environmental conditions facing the poor. It also identified the modernization of productive sectors and competitiveness in the context of an open economy as possible areas of engagement. In so doing it introduced three of the four recurring desiderata that permeate the Bank's programming literature in Brazil and serve to classify the actual program of the last ten years. The four desiderata are: improvements in competitiveness and growth, poverty reduction and social programs, improvements in aspects of the environment and the management of natural resources, and modernization of the state.

The CP noted that social spending in Brazil "traditionally favoured the non-poor over the poor," that "large amounts of resources have not been used efficiently," and that measures were needed to mitigate the fiscal impact (arising from counterpart requirements and debt service obligations) of lending by the Bank. The paper discussed no measures to increase the efficiency of resource use, but suggested cost recovery provisions, operating cost-savings, and unspecified "provisions for increasing fees for other services within the sector" as possible means by which to lessen the fiscal burden associated with Bank lending.

The CP also advocated options for reaching the poor: better targeting; pro-poor sectoral priorities; fiscal decentralization, local accountability, and unspecified "new approaches" to the financing of federal transfers; and collaboration with NGOs in providing social services. It stated that "[w]hen supporting projects in ... the productive sectors and in infrastructure, the Bank should seek that most of the direct benefits generated ... accrue to low-income groups." The actual program of loans proposed and realized during this programming cycle focused heavily on infrastructure and at least in a direct sense had little to do with the social rhetoric of the CP. This and the variability of the predictive power of programming over the years raises questions about the purpose, the quality, and the potential scope of the Bank's programming in Brazil.

The main objectives of the *second* programming cycle, outlined in the 1996 CP,<sup>116</sup> were to achieve: "public sector reform and modernization of the state both at the federal and sub-federal levels;" "increased levels of economic openness and reduction of the *custo Brasil*" through investment in economic infrastructure; and "poverty alleviation" essentially in the form of more equitable access to social services. The 1996 CP reflected on, and programming took advantage

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<sup>114</sup> The programming periods reviewed in this report are: 1993-1995, 1996-1999, and 2000-2003.

<sup>115</sup> CP-516 (27 August 1993) and Programming Memoranda and Mission Reports.

<sup>116</sup> GN-1897-1 (22 February 1996) and Programming Memoranda and Mission Reports.



of, new opportunities in Brazil (tied to the success of the *Plano Real* and the consensus for action under the new government) and at the Bank (tied to the Eighth Replenishment).

While cautioning that “the demand for financing greatly exceeds the Bank’s lending and human resources capacity,” the CP set out an agenda that would touch: civil service reform, improved planning and management capacity, and fiscal reform in the sector of modernization of the state; infrastructure, the financial sector, and microenterprise development in a cluster of proposals intended to support growth; education, health, urban development, and sanitation in the social and environmental area; and lending to the private sector through PRI, IIC and MIF-supported activities for which Brazil had become eligible in 1995. The loans proposed and realized during this programming cycle covered all of the action areas identified in the CP although the collection of loans that came to pass differed to a degree from that announced in the CP.

The 1996 CP foresaw an ambitious three-year lending goal of US\$6 billion but warned that fiscal constraints and high state-level indebtedness could interfere. The CP also: announced a series of studies that would be undertaken;<sup>117</sup> stated the Bank’s interest (for reasons of efficiency and effectiveness) in seeking “channelling mechanisms” that would enable it to reach numerous states or municipalities through one loan operation; and indicated that during the programming cycle in question lending to the federal government would increase relative to sub-national entities because of temporarily increased financing needs at that level to support decentralization or the transfer of responsibilities to the states.

The 1998 Update of this CP<sup>118</sup> clarified important principles of engagement, including working through mechanisms that would make it possible to efficiently address the requirements of dispersed borrowers of small size in Brazil (smaller states and municipalities, small and medium enterprises); the intention to craft strategic associations for catalytic actions; and the principle that the Bank would select those sectors, topics, regions, and mechanisms that “maximize the product of its presence” in the country.

The main objective of the *third* programming cycle, outlined in the 2000 CP,<sup>119</sup> was to support competitiveness and growth, on the one hand, and the reduction of inequities and poverty, on the other. Modernization and reform of the state continued as a key concern—“the unifying concept of the Bank’s strategy for 2000-2003”—as did the environment *cum* management of natural resources. Regional integration gained prominence as an area of interest to the Government and the Bank during this cycle.

In essence, however, the 2000 CP advocated continuity, although it did not make the case for it through an evaluation of the achievements of the previous years or of the experience with the principles of engagement formulated in the 1998 Update. Also, the paper did not discuss such challenges (then apparent and relevant to some of the declared objectives of the Bank) as the microeconomic implications of macroeconomic stability—or the crisis that a year earlier had led to unprecedented emergency lending by the Bank. The paper lacked the depth of its predecessor, the 1996 CP, but was comparable to it and the 1998 Update with respect to the issue of evaluability that is discussed in the main text of this report.

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<sup>117</sup> These have proven difficult to locate.

<sup>118</sup> CP-863-3 (8 July 1998).

<sup>119</sup> GN-2104-1 (7 July 2000) and Programming Memoranda and Mission Reports.

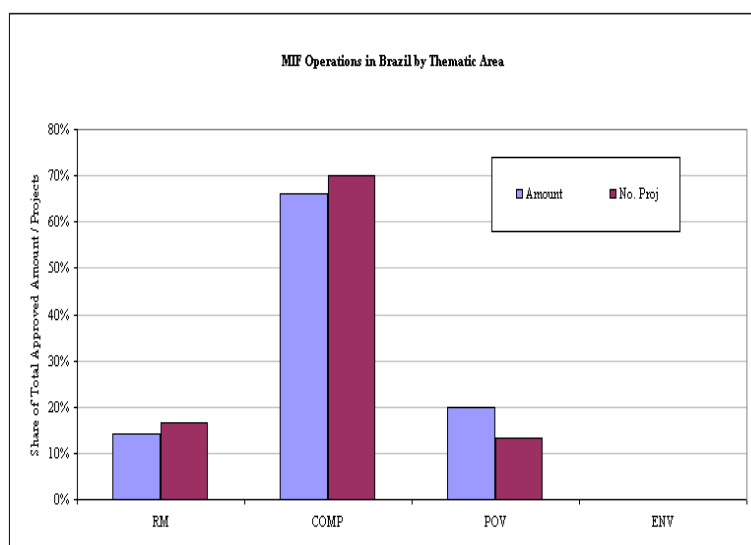
## Brief on the Multilateral Investment Fund and the Inter-American Investment Corporation in Brazil

### 1. Multilateral Investment Fund (MIF)

MIF, a US\$1.3 billion-dollar grant and investment facility, has as its mandate to improve and accelerate the prospects for private sector growth in Latin America and the Caribbean. MIF places special emphasis on the development of small enterprises.

MIF operations in Brazil started in 1997 and since then have been quite active, approving on average five operations per year. A total of thirty technical cooperation projects (TCs) have been approved between 1997 and 2003 for US\$41.6 million. Invoking the four overarching thematic areas of the IDB's Brazilian portfolio, it could be argued that the MIF operations have focused primarily on improvements in competitiveness levels in Brazil with 21 operations and 66% of the total approval amount in this area. The remaining nine operations have focused on modernization of the state (five projects and 14% of the total approved amount) and poverty alleviation (four projects and 20% of the total approval amount). There have been no operations focusing on the environment and natural resource conservation under the MIF for Brazil.

This distribution, depicted in the figure below, reflects to a large extent the mandate of the MIF as most of the operations focused on competitiveness and within that on private sector development, science and technology investments and to a lesser extent on transport, energy and tourism investments. Education and Health operations reveal the interest in poverty alleviation while the remaining emphasis has been on institutional strengthening and institutional support in various sectors.



Of the thirty projects, three were cancelled before reaching maturity. The MIF contribution towards those three operations amounted to US\$2.48 million and focused on: consolidating the institution and regulatory framework for concessions in the transport sector; labor market modernization; and the effectiveness of the competition regulatory system in the country. Only one operation has been fully completed so far, a 1998 project for job skills training for urban youth.

## 2. Inter-American Investment Corporation (IIC)

Between 1989 and 2003, the IIC has approved 24 loans and investments in Brazil totaling US\$180 million. These consisted of loans and investments directly to companies (nine), financial intermediaries and private equity funds (eleven), and four linked mortgage security backed transactions. Over the period, the IIC also funded four regional private equity funds (US\$92 million) which provided financing to Brazilian companies as well as companies in other Latin American countries.

The direct investments in companies went to entities in a variety of sectors, including agriculture, pulp & paper, technology, bottling, and fuel distribution. No clear sector strategy could be determined from the choice of sectors that received funding.

IIC Direct investments or investments through financial intermediaries

Company	Sector	Amount	Instrument	Approval
1	Investment Fund	2	Equity	11/30/1989
2	Technology	4,5	Loan	10/23/1990
3	Livestock & Poultry	2	Equity	02/04/1991
4	Financial Services	8	Loan	12/12/1991
5	Agriculture	8	Loan	06/09/1992
6	Financial Services	28	Loan (10), Syndicated (18)	09/15/1992
7	Agriculture (Wine)	6,5	Loan	11/06/1992
8	Aquaculture	4,8	Loan	05/06/1993
9	Pulp & Paper	8	Loan	04/23/1993
10	Financial Services	19	Loan (6), Syndicated (13)	12/22/1994
11	Investment Fund	4,999,988	Equity	09/14/1995
12	Investment Fund	3,963,438	Equity	06/21/1996
13	Investment Fund	4	Equity	11/13/1997
14	Bottling&Beverages	8	Loan	12/10/1997
15	Financial Services	8	Loan	12/10/1998
16	Financial Services	1	Sub.Loan	08/29/2000
17	Capital Markets	200	Sub.Loan	08/30/2000
18	Capital Markets	5	Loan	12/13/2001
19	Capital Markets	10,3	Loan (10), Sub.Loan	08/30/2000
20	Capital Markets	10	MB Sec.	12/13/2001
21	Pulp & Paper	8	Loan	12/13/2001
22	Financial Services	10	Loan	10/01/2001
23	Fuel distribution	6	Loan	04/24/2002
24	Financial Services	10	Loan	07/23/2003

**List of background papers commissioned by OVE<sup>120</sup>**

- R. Paes de Barros et al., *Targeting as an Instrument for a More Effective Social Policy*, December 2003.\*
- R. Paes de Barros et al., *Uma Análise da Focalização dos Programas Sociais Brasileiros*, December 2003.\*
- R. Paes de Barros et al., *Uma Avaliação do Grau de Focalização dos Programas Bolsa Escola, Bolsa Alimentação e Auxílio – Gás no Município de Santa Inês-MA*, December 2003.\*
- K. Iwakami Beltrão, *Infra-Estrutura dos Domicílios Brasileiros: Uma Análise para o Período 1981/2001*, December 2003.\*
- P. Millán, *Evaluation of IDB Interventions in the Power Sector*, December 2003.
- D. Pianto and Sergei Soares, *Use of Survey Design for the Evaluation of Social Programs: The PNAD and the Program for the Eradication of Child Labor in Brazil*, December 2003.\*
- E. Cardoso and André Portela Souza, *The Impact of Cash Transfers on Child Labor and School Attendance in Brazil*, December 2003.
- J. Jatobá, *Relatório sobre a Pesquisa de Avaliação do Programa de Erradicação do Trabalho Infantil (PETI) Realizado pela Datamétrica em Pernambuco, Sergipe e Bahia em Fevereiro de 2003*, December 2003.\*
- S. Soares, *An Analysis of Brazilian Educational Evolution According to a Demographic and Life Cycle Perspective*, December 2003.\*
- A. Sobreira and José Ferreira Irmão, *As Políticas Públicas para o Desenvolvimento do Nordeste*, December 2003.
- S. Sugahara and Kaizô Iwakami Beltrão, *Dados Transversais Versus Longitudinais, Evolução de Algumas Características de Saúde da População: Gastos Individuais, Acesso a Planos de Saúde e Auto Avaliação – Dados das PNADS 1981 e 1998*, December 2003.\*
- F. Guala, *Fiscal Sector Performance – Evidence from Brazil since the Real Plan*, December 2003.
- M.P. Iannariello, *Review of Projects in the Transport Sector in Brazil*, December 2003.
- I. da Costa Leite, *Relatório sobre o Programa de Profissionalização dos Trabalhadores em Enfermagem (PROFAE)*, December 2003.\*
- I. da Costa Leite, *Relatório sobre o Projeto de Reforço à Reorganização do Sistema Único de Saúde (REFORSUS)*, December 2003.\*
- R. Massena, *Análise dos Programas Urbanos – Habitacionais no Brasil*, December 2003.\*
- Ana Lucia Saboia et al., *Avaliação dos Projetos nas Áreas Sociais – Educação*, December 2003.\*
- I. M. De Oliveira Lima, *Marco Setorial do Transporte no Brasil*, June 2003 (commissioned by Region I)

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<sup>120</sup> Financial support from the DFID (UK) office in Brasilia for the papers marked with an asterisk (\*) is acknowledged. The views expressed in the papers are those of the authors; they are not institutional positions.

## **Brazil: Lecciones aprendidas de la acción del Banco** (Texto sometido por la Región I)

A continuación se incluyen algunas lecciones obtenidas del análisis interno de las estrategias recientes y de la ejecución de la cartera, que deberían orientar la definición de la acción en el futuro, tanto en lo referente a la formulación de la estrategia, como al diseño de proyectos y la administración de la cartera.

### **1. Formulación de la estrategia**

- La formulación de las Estrategias de 1996 y 2000 en armonía con los planes plurianuales de desarrollo nacional, garantizó un importante nivel de apropiación de ellas en el país. Similarmente, en el ámbito de operaciones específicas, el financiamiento de proyectos destacados de la acción del gobierno, tuvo el mismo efecto positivo.
- Tratándose de un país que cuenta con una planificación nacional de mediano plazo detallada, y en donde la demanda potencial por servicios del Banco supera en mucho la posibilidad de atenderla, debe hacerse un esfuerzo de focalización de la acción, dando mayor especificidad a la definición de “áreas de acción estratégica”, yendo más allá de los grandes temas generales (competitividad, pobreza y reforma), lo que redundaría adicionalmente en mejorar la posibilidad de evaluación del aporte del Banco.
- Es necesario ampliar y profundizar el trabajo analítico en apoyo a la formulación de la estrategia general, de estrategias particulares para sectores, temas y regiones particulares y en apoyo al diseño de proyectos, priorizando en particular el tema de las características de la pobreza y las necesidades de asistencia social a grupos vulnerables.
- Con una presencia sostenida en ciertas áreas temáticas, como desarrollo urbano y administración tributaria, el Banco ha logrado desarrollar secuencias de operaciones integradas en “familias de proyectos”, donde con una buena utilización de las experiencias acumuladas se ha maximizado el impacto global de su cooperación. Trabajo analítico adicional permitiría facilitar su evaluabilidad y maximizar su replicabilidad potencial.
- Las reformas estructurales en Brasil, pasan por un lento proceso de maduración y aceptación de la clase política y de la población. En el diseño de la estrategia y de los programas y proyectos, el Banco, debe tomar muy en cuenta el entorno socio-político y los tiempos políticos (elecciones nacionales, estatales y municipales).
- La acción del Banco, es importante como catalizador y difusor de políticas ayudando a las autoridades en su implementación.
- A pesar de los logros alcanzados en las áreas sociales, Brasil es uno de los países con elevados índices de inequidad social. La equidad debería ser enfocada desde múltiples direcciones, asegurando que la distribución del gasto social y específicamente los subsidios vayan a los más pobres.
- La salud, la educación universal primaria y la incorporación de mayor población a la enseñanza media y profesional avanzaron, pero la calidad de los servicios sociales todavía necesita mejorar. La estrategia social debe estar

focalizada en proyectos que busquen mejorar la calidad y eficiencia del gasto social, implantando sistemas de evaluación e impacto.

## **2. Diseño de operaciones y administración de la cartera**

- En los últimos años, se ha mejorado el diseño relativo al monitoreo y evaluación de los impactos de desarrollo esperado de los proyectos, con objetivos más explícitos y componentes mejor definidos. Este esfuerzo debe redoblar y hacerse extensivo, en la medida de lo posible, a programas y estrategias del Banco, y especialmente se debe buscar la forma de apoyar al país, en sus diferentes niveles de gobierno, en el desarrollo de sus propias capacidades en este campo.
- Es posible generar complementariedades con resultados importantes en materia de eficiencia e impacto, con la agrupación de actividades a diferente nivel en torno a un tema central, una región o un ejecutor específico. Este es el caso de temas desarrollados a nivel nacional que pueden aplicarse a niveles estatales y municipales, así como actividades de diversos sectores integradas en programas de acción a nivel de una región o prestatario en particular.
- La estrategia del Banco en Brasil para acercarse a la sociedad civil es considerada buena y que está teniendo impacto positivo. Debe asegurarse un buen nivel de participación de la sociedad civil en los proyectos, particularmente en los que incorporan reasentamientos familiares y expropiaciones de terrenos. Igualmente se deberá asegurar que los acuerdos políticos y sociales necesarios se hayan concluido con anterioridad a la iniciación del proyecto.
- Es importante un mayor esfuerzo en las áreas de la gestión social, el control de los recursos, la transparencia y la incorporación de la sociedad civil. En particular, es deseable que los proyectos sociales se realicen directamente con los municipios o los estados que se encuentran más cerca de la sociedad civil, la ciudadanía y la comunidad.
- En el área social, existen un conjunto de programas realizados por distintas instancias gubernamentales (Unión, estados y municipios) cuyo papel tiende a superponerse y duplicarse. Las acciones del Banco deben cuidar de aclarar el papel de cada una de esas instancias y facilitar su articulación.
- Teniendo en cuenta los muchos cambios externos que han afectado durante los últimos años la situación nacional en general y de los ejecutores en particular, especialmente en cuanto a restricciones presupuestarias, es importante tratar de incorporar en el diseño de las operaciones, la mayor cantidad de elementos de flexibilidad posible, que permita a las operaciones sobrevivir en un ambiente cambiante sin poner en peligro sus objetivos centrales y sin convertirse en operaciones suspendidas a la espera de la restitución del ambiente externo previsto originalmente.