ove Office of Evaluation and Oversight

Independent Country Program Review

Brazil 2019-2022

IDB IDB | Invest

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Inter-American Development Bank, 2023
Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

RE-589
October 2023

Independent Country Program Review

Brazil
2019-2022

Office of Evaluation and Oversight

IDB | IDB Invest

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Acknowledgements

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Acronyms and Abreviations

ATRICON	Associação dos Membros dos Tribunais de Contas [Association of Members of Courts of Accounts]
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Bank for Economic and Social Development]
CAPAG	Payment capacity
CBR	IDB Country Office in Brazil
CCLIP	Conditional credit line for investment projects
CDC	Country development challenges
COFIEX	Comissão de Financiamentos Externos [External Financing Commission]
CP	Country Program
CPD	Country Program Document
CPE	Country Program Evaluation
CS	IDB Group Country Strategy
CSC	Country Department Southern Cone
ER	Expected Result
FFS	Fee-based Financial Advisory Service
FI	Financial Institutions
GDP	Gross Domestic Product
ICPR	Independent Country Program Review
IDB	Inter-American Development Bank Group
IGR	Investment grants
INV	Investment loan
LAC	Latin America and the Caribbean
LBR	Loan based on results

MAPA	Ministério da Agricultura, Pecuária e Abastecimento [Ministry of Agriculture, Livestock and Food Supply]
MYP	Multi-Year Plan 2020–2023
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBP	Programmatic policy-based loan
PI	Progress Indicator
PNAFE	Programa Nacional de Apoio à Administração Fiscal para os Estados brasileiros [National Program to Support the Fiscal Administration of Brazilian States]
PPP	Public-Private Partnership
RAS	Redes de Atenção à Saúde [Health Care Networks]
ReTS	Evaluation Recommendation Tracking System
SEAID	Secretariat for International Affairs and Development
SEAIN	Secretariat for Foreign Affairs
SG	Sovereign guaranteed
SMART	Specific, Measurable, Achievable, Relevant, and Time-Bound
SME	Small and Medium-sized Enterprise
SO	Strategic Objective
SUAS	Sistema Único de Assistência Social [Unified Social Assistance System]
SUS	Sistema Único de Saúde [Unified Health System]
SUSP	Sistema Único de Segurança Pública [Unified Public Security System]
TCP	Technical Cooperation Program
TFFP	Trade Finance Facilitation Program
UBS	Unidades Básicas de Saúde [Basic Healthcare Units]
UPA	Unidade de Pronto Atendimento [Emergency Care Units]

Executive Summary

Purpose. This Independent Country Program Review (ICPR) analyzes the strategy and program of the Inter-American Development Bank (IDB) Group in Brazil for the 2019–2022 period. The ICPR seeks to strengthen the accountability of the IDB Group's work in the country by providing the Board of Directors with useful information to consider for the next country strategy, and by inviting Management to incorporate its findings for the benefit of the new strategy and program. The ICPR is based on an exhaustive desk review and triangulation of information provided by 152 informants, including both IDB Group specialists and external counterparts in the country.

Country Context. The Brazilian economy is the largest in Latin America and the Caribbean, but over the past decade it has grown at a lower rate than the region's average almost every year. The country has strong macroeconomic policies; however, fiscal challenges, including the growth of public debt, remain relevant and have increased since COVID-19. The country continues to have ample access to external and domestic financing. Brazil has made great progress in reducing poverty, but challenges remain due to high inequality, low social mobility, gaps in access to services, and wide regional, ethnic, and gender inequalities. In the productive area, there are structural challenges related to the business climate, access to infrastructure services, human capital formation, and the environmental sustainability of the country's production model.

Crosscutting objectives and themes. The Country Strategy (CS) of the Bank for 2019–2022 identified 13 strategic objectives (SOs) and 32 expected results (ERs) in four priority areas. In addition, the CS proposed to integrate three crosscutting themes: gender and diversity, environmental sustainability and climate change, and innovation and digital transformation.

Strategic Objectives (SO) of the CS
Priority Area: Competitiveness
SO1. Promote greater economic competitiveness
SO2. Increase the role of the private sector by improving the quality of the business environment
SO3. Narrow infrastructure gaps
Priority Area: Integration
SO4. Promote trade liberalization
SO5. Integrate the less developed regions

Priority Area: Fiscal
SO6. Reform the structure of public expenditure
SO7. Perfect the public investment system
SO8. Promote e-government and digital solutions to foster transparency, accountability and efficiency in delivering services to citizens and enterprises
Priority Area: Social
SO9. Build a more effective government
SO10. Improve management and the quality of spending and infrastructure in the education and health sectors
SO11. Enhance the effectiveness of citizen security services in the control and prevention of violent crimes
SO12. Improve the efficiency of the public job placement system
SO13. Implement efficient policies to increase access to housing

Relevance of the objectives and design of the CS. The objectives were relevant to the country's development priorities and challenges and covered almost all of them. Five factors reduced the relevance of the CS. First, the CS lacked strategic selectivity; its objectives were even broader than those of the previous CS, but there is no evidence that their selection was based on an analysis of what worked or did not work in the areas that were continued, nor on the IDB Group's capacity to contribute to the new objectives. Second, some of the objectives were too general, limiting their usefulness as a guide for the country program (e.g., "increase citizens' life expectancy"). Third, the CS had weaknesses in its vertical logic that undermined the clarity of the theory of change with which the IDB Group proposed to advance the objectives, especially in a context where the expected contributions of the IDB Group were relatively small compared to those of the country. Fourth, the CS had gaps in its monitoring mechanisms, with indicators that could have been anticipated *ex-ante* not to have an adequate update frequency to measure its progress. Fifth, the CS had weaknesses in the identification and mitigation of some risks, identifying the country's general risks (instead of focusing on specific risks related to the IDB Group's contribution to the objectives), and proposing generic mitigation measures with logic flaws (such as mitigating program risks during the execution of the same program).

Country Program. The Country Program (CP) consisted of 376 operations totaling US$16.507 billion, of which 223 (59%) were approved during the review period[1] and 153 (41%) were carried over from previous periods. During the period under review, the IDB approved US$5.247 billion in loans (25% less than the estimated financing framework in the CS) and US$60 million in non-reimbursable operations (80% of which were for client support and were implemented by the IDB, mostly to develop new opportunities). For its part, IDB Invest approved US$4.461 billion, more than double the annual average of the previous period.

1 From August 28, 2019 (date of approval of the CS) to December 31, 2022 (closing date of this ICPR).

Operations carried over from previous periods had US$6.737 billion pending disbursement at the beginning of this period. Almost the entire IDB program consisted of investment loans (almost two-thirds of the amount was for financing subnational entities). The IDB Invest program was characterized by a significant expansion of the Trade Finance Facilitation Program (TFFP), which accounted for more than half of the IDB Invest program amount, and the mobilization of significant additional resources through co-financing, support for bond issues, and the mobilization of other third-party resources (including concessional funds that promoted inclusiveness and climate change incentives), as well as the development for some public-private synergies (such as renewable energies or water and sanitation) and the innovation in its product offering to the private sector. The IDB's support also included a knowledge agenda that, along with technical cooperation, was perceived by the Government as a differentiating feature compared to other multilateral organizations, especially because it was not tied solely to specific IDB investment projects. Despite its importance, there is no evidence about its contribution to the objectives, nor does the IDB have a corporate system to record and analyze knowledge products to facilitate sharing the knowledge generated.

Program alignment. The broad CP managed to cover almost all the expected results set out in the CS (31 out of 32). However, its alignment was weak for more than two-thirds of them, as the CP lacked the feasibility to contribute due to two factors: (i) *focus*, as it indirectly addressed some objectives or incompletely covered some dimensions of objectives that required multidimensional interventions; and (ii) *scope*, as it was limited geographically in relation to the national focus set in the CS or limited in scale compared to the ambition of the objective. Regarding the crosscutting themes of the CS, environmental sustainability was integrated in 53% of CP operations, gender and diversity in 40%, and digital transformation in 32%. However, there were gaps in integration where it was relevant to include them, such as gender and diversity across the social sector or environmental sustainability in infrastructure. The IDB supported the response to COVID-19 in Brazil with 58 operations for US$4.1 billion, including rapid-preparation prototypes, unanticipated specific operations, and reallocation of resources in existing operations. Of particular note was the emergency support through social transfers that expanded the number of beneficiaries and allowed for the preservation of jobs. The counterparts interviewed by OVE highlighted the speed, flexibility and support of the IDB Group during the crisis.

Program Implementation. The program faced significant forecasting challenges, in part because of the adjustment of assistance in response to the pandemic, a decision by the Federal Government to pause the granting of guarantees for subnational governments, and the volatility of demand. About 56% of the planned IDB loans and 75% of the expected IDB Invest operations did not materialize.

In line with the IDB's active portfolio management, cancellations amounted to only 8% of the CP amount but disproportionately affected planned support for specific objectives (e.g., public expenditure and competitiveness). IDB disbursements totaled US$5.032 billion, well below the US$7 billion anticipated in the CS. IDB Invest disbursements totaled US$3.726 billion, 83% more than in the previous period. Borrowing times and costs in Brazil remained lower than in the comparators, with the exception of the lengthy legislative approval process, which took an average of 14.5 months (almost twice as long as in the other borrowing countries that require legislative approval). The previous Country Program Evaluation (CPE 2015–2018) made five recommendations that remain relevant. The specification of a business model differentiated by borrower type (federal, subnational, public financial intermediaries, and private sector) that promotes value addition is still pending. Operations continue to face execution challenges similar to those of the CPE, including weaknesses in counterparts and in the management of acquisitions. Various mechanisms were tested to speed up execution, but there is still no evidence that they have had any effect, in part because its application overlapped with the challenges arising from the pandemic. Progress was made on strengthening and using national fiduciary systems (auditing and acquisitions), but no targets were set for the use and strengthening of non-fiduciary systems (safeguards, monitoring and evaluation).

In the priority area of competitiveness, the most significant contributions were made in the areas of *simplifying the payment of taxes and improving access to credit for the private sector*, and in *infrastructure*. In terms of *simplifying the payment of taxes*, systems have been implemented to consolidate ancillary tax obligations, eliminating the need for monthly tax returns. In terms of *access to credit*, both IDB Invest and the IDB contributed with financing close to 0.5% of total credit to the private sector in Brazil. In *infrastructure*, progress was made in the inclusion of renewable energy, with increases in installed capacity and financing; in the quality of logistics, with reductions in average travel times and costs; in water, sanitation, and solid waste, with improvements in access to or quality of services; and in urban mobility, with projects that improved the planning and use of public transport. Some of the factors that favored these contributions include an adequate match between the ambition of the objectives and the size of the CP that supported them; consistency between the objectives and long-term government policies; and the program's ability to have a signaling effect on other market participants, which helped advance complex operations where it was necessary to mitigate environmental, social, and financial risks. In contrast, the contribution was low to the remaining objectives in this priority area, related to improving competitiveness, the business climate, business start-ups and closures, investment in research and development, and

the framework for public-private partnerships. This low contribution was due to a variety of factors; namely, the program's failure to address the many dimensions of some particularly broad objectives, o the cancellation of key operations, the predominance of a young portfolio from which results could not yet be expected, and unfavorable results in some older operations.

In the priority area of integration, the main contributions were to *increase trade flows* and the *competitiveness of less developed regions.* Trade flows were supported mainly by IDB Invest, with infrastructure projects that improved ports and logistics, business projects that increased clients' exports, and TFFP operations that promoted foreign trade transactions amounting to almost 0.1% of the national volume. In turn, the competitiveness of the regions benefited from a portfolio focused on the poorest regions, which improved power generation, access to telecommunications, sanitation and urban services, and local healthcare systems. These contributions also showed an adequate match between the ambition of the objectives and the dimensions of the program used to achieve them. In contrast, the program had a low contribution to the remaining objectives in this area, which focused on reducing tariff barriers and trade bureaucracy and increasing the regions' income. This is explained by the fact that the program did not cover one of the objectives, some results were very limited to certain sectors, some operations had serious implementation delays, and others did not provide evidence of contribution to the objectives.

In the fiscal priority area, the most significant contribution was observed in the use of *e-government*. The IDB promoted digital solutions that covered multiple sectors and levels of government, improving the efficiency of tax and accounting management, public procurement, the digital transformation of subnational governments, and the digitization of various services. These contributions were facilitated by the alignment of the State's objectives and policies, as well as the IDB's accumulated experience in digital government, which led it to implement a solid evidence-based program. In contrast, contributions to the remaining objectives—reducing the pension system deficit, tax expenditures, the total wage bill, and improving the efficiency of public investment—were low. This was due to weak program alignment due to low contribution feasibility (mostly because the activities that could contribute were a small part of operations with different objectives), a young portfolio, and severe delays in some operations.

In the social priority area, the program made its most significant contribution to the objective of *expanding access to and improving the quality of primary health care services*. In several states and municipalities, the program helped to increase the coverage of services and to reduce the annual rate of hospitalization related to primary health care. These contributions also benefited from consistency with long-term government goals and policies. In contrast,

contributions to the remaining objectives focused on government effectiveness, education, citizen security, employment and housing were low. This was due to various factors, such as the program's failure to simultaneously address the many necessary dimensions of some of the goals, weaknesses in alignment (mostly due to a reduced geographic scope of the program), a young portfolio, implementation delays, cancellations, modifications, and lack of evidence of progress directly related to the goals.

Contribution to Objectives. In summary, of the 13 SOs, the CP made a low contribution to 9, a medium contribution to 3, and a high contribution to 1. The ***lower contributions*** were mainly due to four factors: (i) low *feasibility* of contributing from the design of operations (on average, 30% of the programs under each objective had weaknesses related to their low feasibility of contributing to the objectives set due to gaps in their scope or focus); (ii) low *maturity* (16% of the programs were still too young to expect results); (iii) low *implementation* (6% of the program consisted of old projects, but their disbursements were severely delayed); and (iv) lack of evidence (25% of the program did not report a contribution to the CS objectives, despite some degree of implementation). In contrast, the program made ***greater contributions*** when four other factors were present: (i) alignment, i.e., when the scope of the objective was consistent with the program's approach to addressing it; (ii) *consistency*, when the program was consistent with long-term government policies; (iii) *experience*, when the IDB Group accumulated lessons learned that allowed it to continuously improve its evidence-based interventions (including lessons learned from project evaluations); and (iv) *signaling*, when it provided a seal of quality to technically complex projects, helped mitigate environmental, social, and financial risks, and allowed them to materialize with the contribution of other private and public participants.

01

Introduction

1.1 This Independent Country Program Review (ICPR) analyzes the strategy and program of the Inter-American Development Bank (IDB) Group in Brazil for the 2019–2022 period. ICPRs are independent reviews of the most recent IDB Group Country Strategy (CS) and corresponding Country Program (CP). According to the Office of Evaluation and Oversight's (OVE) Country Product Protocol (document RE-348-8), ICPRs focus on accountability. In line with this, ICPRs do not make recommendations, but rather draw conclusions to inform the Board's consideration of the future CS and to be taken into account by Management if it finds them useful in the design and implementation of the future CS and CP.

1.2 The ICPR is based on an exhaustive desk review and triangulation of information provided by IDB Group specialists and external key informants. The ICPR summarizes the country context, based on the most recent diagnoses by the IDB Group (Country Development Challenges, CDC) and other contributors. In addition, the ICPR assesses the relevance of the objectives set out in the CS 2019–2022, describes the CP, analyzes its alignment with the CS, and examines its implementation and contributions to the objectives set, to the extent that available information allows. The ICPR is based on a systematic review of documentary information on CP operations, as well as input from a combination of interviews and semi-structured questionnaires with 152 informants, including all team leaders of CP operations,[2] government counterparts, and executing agencies, selected through a purposive sampling designed to cover the different types of operations that are part of the CP (see Annex, Chapter V).

2 Information was gathered from periodic monitoring reports (PMRs and ASRs) available at the time of preparation of this ICPR. For the IDB, PMRs considered included those available as of September 2022 (corresponding to the period of January–June 2022). In addition, information was updated to December 2022 through surveys sent to all team leaders and specific requests for information.

02

Country Context

2.1 Brazil is of systemic importance to the region and the world. Brazil is the fifth largest country in the world by area and the seventh largest by population. Its territory includes much of the Amazon rainforest (the world's largest rainforest also known as the lung of the planet), vast reserves of fresh water, agricultural land, minerals and biodiversity. With more than 7,000 km of coastline and borders with 10 countries in the region, Brazil occupies a strategic position. Diverse in culture and ethnicity, including more than 300 indigenous groups, Brazil's population is relatively young (almost 40% are under 25 years old) and urban (88%).[3]

A. Macroeconomic Situation

2.2 Brazil has the largest economy in Latin America and the Caribbean (LAC), although its growth has been volatile and slower than that of the region. Brazil accounts for about one-third of the region's gross domestic product (GDP). With a per capita GDP of US$7,507 (2021), Brazil is an upper-middle-income country according to the World Bank's classification. Between 2011 and 2019, its GDP grew at a lower average annual rate than the rest of LAC (0.77% vs. 2.78%, Figure 2.1). During this period, Brazil suffered one of the deepest recessions in its history (2015–2016), interrupting a decade of growth. In 2017, the country resumed slow growth, which continued with the approval of the CS 2019–2023, but a few months later the pandemic changed the scenario, with a 3.9% decline in GDP in 2020 (lower than the average decline of 6.6% in LAC). The strong fiscal response (equivalent to more than 10% of GDP) and the increase in the price of the main export commodities (soybeans, oil and iron ore) helped Brazil to resume growth (4.6% in 2021 and 2.8% in 2022). Most of the period covered by the ICPR was during the COVID-19 pandemic, which posed significant social, economic and operational challenges.[4]

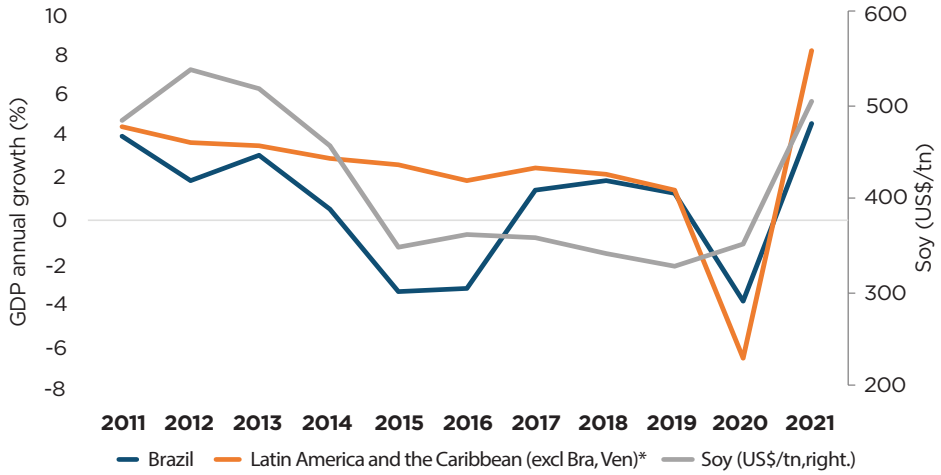
3 The 15 largest urban centers (with more than 2 million inhabitants) account for 40% of the population. São Paulo, with more than 25 million inhabitants, is one of the largest in the world.

4 Among other unprecedented challenges, by the end of 2022, Brazil had accumulated about 700,000 deaths from COVID-19 (0.3% of the total population), according to the World Health Organization.

Figure 2.1

Annual GDP growth

Source: World Bank, 2022.



Note: *Average of borrowing countries, excluding Brazil and Venezuela.

2.3 Macroeconomic policies have been strong; however, fiscal challenges remain relevant. Brazil has an independent monetary policy with an inflation targeting regime and a flexible exchange rate, and fiscal rules supported by constitutional and legal mandates.[5] Nevertheless, the fiscal deficit has been persistent, averaging 6.0% of GDP between 2011 and 2019. Federal public spending is subject to specific legal and/or constitutional mandates that force the coverage of pension deficits, public salaries, and mandatory transfers to more than 5,000 subnational entities with heterogeneous levels of institutional capacity, which execute almost half of total public spending (vs. 18.6% on average in LAC). In contrast, tax collection benefits from one of the highest tax burdens (31.6% vs. 21.9% in LAC in 2020) but is complex and has high levels of fiscal expenditure.

2.4 The country has ample access to external financing and one of the most developed capital markets in the region, although public debt has been rising. The fiscal deficit led to an increase in non-financial public sector gross debt, which reached 87.9% of GDP in 2019 (up from 61.2% in 2011). In 2021, it increased to 98.7% of GDP, largely as a result of the strong fiscal response to the pandemic. Brazil continued to have favorable access to international capital markets,[6] even after the pandemic and after having lost its investment grade rating at the end of 2015. In addition, the local capital market is one of the most developed in the region.[7]

5 These include a constitutional limit on real expenditure growth and a public pension reform. However, in response to the pandemic, the fiscal rule was suspended for 2020–2021.

6 For example, in June 2021, Brazil issued US$1.5 billion in 10-year bonds at a yield of 3.875% and US$750 million in 28.5-year bonds at a yield of 4.925%.

7 Based on the market capitalization of national companies, Chile leads LAC (73% of its GDP), followed by Brazil (68%), Colombia (39%), and Mexico (37%) (World Bank, 2020).

B. Social Development

2.5 Economic growth and social development policies have significantly reduced poverty, but still the country remains one of the most unequal in the world. Monetary poverty[8] had improved significantly (25.9% in 2019 vs. 47.3% in 2002) as a result of economic growth and the implementation of national social development programs.[9] The government's strong fiscal response to the pandemic further reduced the poverty rate (18.6% in 2020), but it increased to 28.4% in 2021 with the reduction of the main cash transfer program (Auxílio Emergencial). Other measures included subsidized loans, tax moratoriums, guarantees to the private sector, and tax exemptions and fiscal support to subnational governments. Despite these efforts, inequality levels remain among the highest in LAC and among the 10 highest in the world.[10]

2.6 Brazil has low levels of social mobility, sustained by a regressive tax system and marked inequalities in access to education and high-quality employment. Intergenerational social mobility in Brazil is among the lowest in LAC,[11] and it is one of the countries with the highest correlation between socioeconomic status and educational outcomes.[12] Private schools attended by the wealthy have better educational outcomes than public schools,[13] which increases the likelihood of access to better universities. The informality and precariousness of work for about half of the population also limits their opportunities for advancement. The tax system, which is based on indirect taxes, disproportionately affects the poorest while providing substantial benefits to the non-poor, such as pensions. The citizen security is another challenge, especially in the poorest regions and on the periphery of cities.[14]

8 The poverty rate is the percentage of the population living on less than $5.50 per day at 2011 PPP.

9 Bolsa Família, the Continuous Cash Benefit Program for the elderly or disabled and rural pensions, was launched in 2003 (and reformulated in 2021 and 2023) and has benefited more than 25% of the population, with an annual fiscal cost of about 0.5% of GDP.

10 The Gini index was 52.9 in 2021, making it the tenth most unequal country in the world (World Bank, 2023).

11 On average in OECD countries, a low-income family can expect to reach the median income in less than 5 generations; in Brazil, it would take 9 generations, and in Chile and Argentina, 6 generations (OECD, 2018).

12 Two-thirds of people whose parents lack basic education do not complete basic education themselves (OECD, 2020).

13 In Brazil, public school students are four times more likely to score below level 2 in reading than students in private schools (57% vs. 13%). In LAC, the ratio is between 2 and 3, and in the OECD it is only 1.5 (OECD, 2021).

14 Using data available for the entire region, Brazil was the tenth most violent country in the region in 2020, with a rate of 22.3 homicides per 100,000 inhabitants (UNODC, 2020).

2.7 There are significant inequalities in access to housing and services such as health, water and sanitation. The housing shortage affects nearly 6 million households.[15] Public spending on health is relatively high (3.9% of GDP compared to the LAC average of 3.4%), but 1 in 3 people use private health plans due to barriers to effective access to public health services. Access to drinking water in 2020 was 84.1% on average, with gaps affecting the poorest. Among the rural population, only 40% have access to improved water services, 20% have access to sanitation services, and only 31% have access to water 24 hours a day, seven days a week.

2.8 Inequalities also exist at the territorial level by ethnicity and gender. Brazil has marked regional disparities, with poverty levels in the northern and northeastern states three to four times higher than in the south and southeast. Similar disparities exist between urban and rural populations. Informal work and illiteracy are three to four times more prevalent in the poorest regions. In turn, Afro-descendants face poverty rates twice as high as the white population, while indigenous peoples suffer the highest rates of extreme poverty. In terms of gender equality, the country ranks 14th (out of 21 LAC countries) in the WEF's Global Gender Gap Index (2023).[16]

C. Productive Sector

2.9 Productivity growth has been slow due to structural factors such as a poor business environment, infrastructure bottlenecks and insufficient human capital accumulation. In 2019, Brazil ranked 71st out of 141 countries according to the World Economic Forum's Global Competitiveness Index (Figure 2.2). Low productivity affects most sectors, with the exception of the agro-export sector (which increasingly employs fewer workers). Several factors affect productivity. First, the distorted financial system, low internal competition,[17] and the complex tax system[18] have created a business environment that discourages innovation. Second, the low level of national savings and the reduction in public investment as a result Second, the low level of national savings and the reduction in public investment as a result of the

15 In 2019 according to the João Pinheiro Foundation and PNAD/IBGE. Available at: https://fjp.mg.gov.br/deficit-habitacional-no-brasil

16 The index compares gaps in economic, educational, health, and political leadership opportunities.

17 Regulatory complexity creates entry barriers and reduces competition. Brazil has a low level of integration with international trade (exports plus imports averaged 26% of GDP in 2011–2019) and maintains numerous tariff and para-tariff protections. The banking secto is highly dependent on the public sector and has regulations that encourage directed lending.

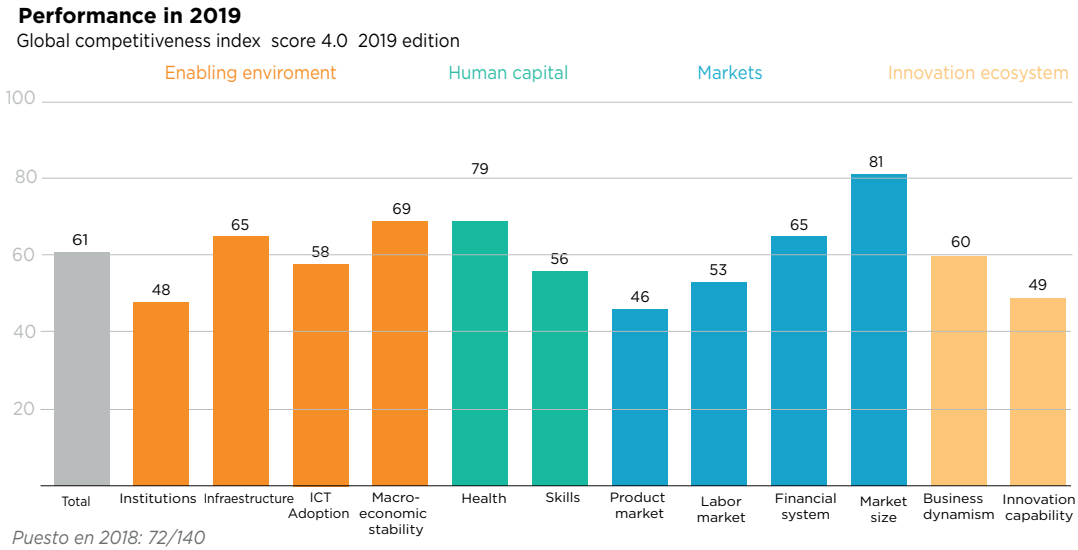
18 According to the World Economic Forum's Global Competitiveness Index, business leaders ranked excessive red tape (141st out of 141 countries) and overly distortionary taxes (136th) among the most pressing priorities for the country's competitiveness.

increase in current expenditure (pensions and public salaries) have exacerbated the infrastructure deficit, [19] leading to cost overruns for companies. Finally, although Brazil invests 6.2% of GDP in education (more than the OECD average), its educational outcomes are worse than those of other LAC countries with lower investments.[20]

Figure 2.2

2019 Global Competitiveness Index

Source: World Economic Forum.



Puesto en 2018: 72/140

2.10 Investment in infrastructure is still insufficient, despite progress in private participation in infrastructure (PPP). Infrastructure investment has been declining since 2014 and is less than half of the estimated amounts needed (OECD, 2020). This is a result of declining public investment in the face of tight fiscal space. Private investment has only partially made up for this shortfall. Although the PPP framework is considered developed, ranking seventh in the region, there are still challenges to improve project quality, risk allocation, and coordination among the entities involved (including subnational entities).[21]

2.11 Brazil is a key player in the fight against climate change. Brazil has committed to cutting its emissions in half by 2030 from their 2005 levels.[22] By 2021, per capita emissions were already 20% lower than the world average, and nearly half of the primary energy generated came from renewable sources. However,

19 Brazil was ranked 59th out of 163 countries in the World Bank's 2018 Logistics Performance Index. It was also ranked 116th out of 141 countries for road quality and 104th for port service efficiency, according to the World Economic Forum's Global Competitiveness Index.

20 According to the Constitution, early and primary education up to grade 5 is the responsibility of more than 5,000 municipalities, with significant differences in quality and educational outcomes (Todos pela Educação, 2018).

21 The federal government awards PPPs for energy and interstate transportation, and subnational governments are responsible for water, sanitation, and local road projects (EIU, 2019).

22 Brazil updated its Nationally Determined Contribution (NDC) in March 2022, for COP27.

key sectors of the country's economy, such as mining, oil and agriculture, still pose significant challenges to environmental sustainability. According to annual estimates of greenhouse gas emissions by the Ministry of Science, Technology and Innovation (MCTI), the agricultural sector was responsible for 28.5% of the country's liquid emissions in 2020 and was a key factor in the deforestation of the Amazon, whose control had been improving, but recently the trend had changed: the deforested area in 2021 was 11,700 km^2, the highest since 2006 (14,300 km^2).[23]

23 Based on PRODES by the *Instituto Nacional de Pesquisas Espaciáis* (INPE). Deforestation in the Amazon had shown significant improvements from 2006 to 2014.

03

IDB Group Country Strategy

3.1 The CS 2019–2022 identified four priority areas: (i) competitiveness, (ii) integration, (iii) fiscal, and (iv) social.[24] In each area, the CS set strategic objectives (SO)—13 in total—and for each SO, it defined expected results (ER)—32 in total—with indicators to facilitate monitoring their progress. Hereafter, these SOs and their ERs will be collectively referred to as the CS *objectives*. Table 3.1 shows the priority areas and their respective targets.

Table 3.1. Priority areas, SO and ER of the CS 2019–2022

Strategic objectives	Expected results
Competitiveness: Improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness	
SO1. Promote greater economic competitiveness	ER1.1. Enhanced competitiveness
SO2. Increase the role of the private sector by improving the quality of the business environment	ER2.1. Improve the business climate
	ER2.2. Simplify processes for opening and closing businesses
	ER2.3. Simplify tax payments
	ER2.4. Increase private sector investment in R&D
	ER2.5. Increase private sector access to credit
SO3. Narrow infrastructure gaps	ER3.1. Improve the quality of infrastructure
	ER3.2. Improve the quality of logistics
	ER3.3. Increase the share of renewables (wind and solar) in the energy matrix
	ER3.4. Enhance energy efficiency in the country
	ER3.5. Improve access to and conditions of water, solid waste and sanitation services
	ER3.6. Improve planning of sustainable urban mobility in the country
Integration: Promote national and international integration to boost productive capacity	
SO4. Promote trade liberalization	ER4.1. Increase the country's trade flow
	ER4.2. Lower tariff barriers
	ER4.3. Reduce red tape in international trade
SO5. Integrate the less developed regions	ER5.1. Reduce income disparities between regions of the country
	ER5.2. Increase the competitiveness of the less developed regions based on a sustainable development model
Fiscal: Build a more effective public sector that promotes fiscal sustainability	
SO6. Reform the structure of public expenditure	ER6.1. Reduce the pension system deficit
	ER6.2. Reduce tax expenditures
	ER6.3. Control over the increase in the consolidated public sector wage bill
SO7. Perfect the public investment system	ER7.1. Improve public investment efficiency
SO8. Promote e-government and digital solutions to foster transparency, accountability and efficiency in delivering services to citizens and enterprises	ER8.1. Increase adoption of e-solutions for public service delivery

24 CS 2019–2022 (document GN-2973), approved on August 28, 2019, was valid until August 31, 2022. Like all CS, it was automatically extended for 12 months. In August 2023, it was again extended until August 31, 2024 (document GN-2973-2).

Strategic objectives	Expected results
Social: Reduce social inequality and inequality of opportunity by enhancing public policy efficiency	
SO9. Build a more effective government	ER9.1. Increase the effectiveness of public policies
SO10. Improve management and the quality of spending and infrastructure in the education and health sectors	ER10.1. Improve student learning levels
	ER10.2. Prepare workers to compete in a dynamic labor market
	ER10.3. Increase citizens' life expectancy
	ER10.4. Improve access to and quality of primary care services
SO11. Enhance the effectiveness of citizen security services in the control and prevention of violent crimes	ER11.1. Reduction in the number of homicides
	ER11.2. Reduction in the number of violent crimes against property
SO12. Raise the efficiency of the public job placement system	ER12.1. Increase the effectiveness of job referrals at public job placement system offices
SO13. Implement efficient policies to increase access to housing	ER13.1. Reduce the housing shortage

Source: IDB Group Country Strategy with Brazil 2019–2022 (document GN-2973).

3.2 The objectives were in line with national priorities and the country's development challenges, covering almost all of them. The country's priorities were set out in the Multi-Year Plan 2020–2023 (MYP) (Annex II). The CS 2019–2022 was aligned with these priorities and covered almost all of them. Under the priority areas of *competitiveness and integration,* the CS set targets for improving the business climate, reducing infrastructure gaps, and trade integration. This addressed the stagnation in productivity and the regional disparities identified in the IDB Group's diagnosis (CDC) and in the MYP (which also identified the fight against corruption, the promotion of internal competition, and environmental sustainability as key challenges). In the *fiscal area*, the CS set targets for improving public spending and investment, and for using e-government to improve the efficiency of service delivery to citizens and businesses. It agreed with the CDC and the MYP on the importance of promoting improvements in the efficiency of spending (in particular in the pension system and tax expenditures) and of further improving the public investment system (including conditions for attracting private participation). In the *social* priority area, the CS set targets for improving public services in education, health and employment, improving citizen security and access to housing. The CDC and the MYP agreed that inequality was a key challenge for the country, so it was coherent to improve access to quality basic services, employment and housing, as drivers of greater social mobility.

3.3 Despite its consistency with the country's challenges and priorities, five factors decreased the relevance of the CS. The first was its lack of strategic selectivity, The CS set even broader

objectives than the previous CS (Box 3.1). There is no evidence that its selection was based on an analysis of what worked well or not in the areas that were continued, or of the IDB Group's capacity to contribute to the new areas. This analysis could have been based, for example, on the previous Country Program Evaluation (CPE) conducted by OVE (document RE-534-1), which showed better contributions in areas such as planning and e-government at the subnational, logistics infrastructure, or energy levels, while showing limited contributions in areas where work was continued but without analyzing how to improve their results (such as public expenditure management, education, or labor markets). On the other hand, the objectives did not reflect the IDB group's specialization or a clear division of tasks with other development actors. After the IDB, the most active multilaterals in Brazil were the World Bank and CAF, and the government sought to increase the participation of the New Development Bank (NDB) and Fonplata (see Annex VI). The CS mapped the areas of action of the main contributors but proposed objectives that overlapped with those of the latter, without an *ex-ante* analysis of their comparative advantages and expected synergies. The need for selectivity is particularly acute in Brazil, where all multilaterals use the limited space for sovereign guarantees to subnational entities that is set each year by the government.

Box 3.1. Expansion of objectives: CS 2019–2022 vs. previous CS

The CS 2016–2018 had set 10 SOs with 15 ERs in 3 priority areas: (i) increasing productivity and competitiveness; (ii) reducing inequality and improving public services; and (iii) institutional strengthening of the three levels of government. The CS 2019–2022 gave continuity to almost all of these objectives (except early and middle education) and added new ones. The integration and, to a large extent, the fiscal areas were not part of the objectives until this CS. In addition, the competitiveness area was expanded with ERs on business innovation, public-private partnerships (PPPs), energy and waste management; and the social area was also expanded with ERs on housing and a broader scope of ERs on citizen security.

3.4 Second, the CS formulated objectives that were too general, making it unlikely to serve as a guide for the CP. The CS objective structure consists of three levels (Priority Areas, SOs, and ERs) that require increasing specificity to fulfill the CS's primary purpose of "guiding [...] the IDB Group's operational support during [the] period" (paragraph 1.1.a, CS Guidelines, document GN-2468-9). However, even at the most specific level, the CS 2019–2022 included overly broad ERs such as *increasing competitiveness, life expectancy, infrastructure quality, and public policy effectiveness*. These objectives were too general to guide the program over the CS period, especially given the country's

long-standing competitiveness and infrastructure challenges, or the complexity of other objectives such as improving public policy effectiveness.

3.5 Third, the CS had weaknesses in vertical logic. The vertical logic in the CS defines the expected theory of change: the progress of the ERs is expected to contribute to their SOs, and the progress of the SOs is expected to contribute to their priority areas. A clear theory of change is important in any CS, but it is particularly critical for anticipating how the IDB Group expects to contribute in a context where its contributions are relatively small compared to those of the country, as is the case in Brazil. The CS presented errors in about 40% of these logic chains (Annex II).[25] These included cases of inverted, bifurcated, duplicate, and fuzzy logic that undermined the clarity of the theory of change (see Box 3.2).

Box 3.2. Examples of weaknesses in the vertical logic of the CS 2019–2022

Inverted: The promotion of ER13.1 (*reducing the housing shortage*) does not contribute to its SO13 (*implementing efficient policies to increase access to housing*); moreover, the logic is reversed: efficient policies that could eventually reduce the housing shortage should be implemented first.

Bifurcated: SO9 (*build a more effective government*) should advance the social priority area, but not the fiscal one, although it is clear that SO9 could advance both areas, especially the fiscal one.

Duplicated: ER1.1 (*enhance competitiveness*) is duplicated by five other ERs (2.2, 2.4, 2.5, 2.6, 10.3) and by seven SOs (3, 4, 7, 8, 11, 12, 13) because it included them in its definition (see Annex VII, Table I.7.1). ER2.1, improve the business climate, includes in its definition the ease of starting a business, paying taxes and obtaining credit (ER2.2, ER2.3, ER2.5). In turn, ER3.1, improve the quality of infrastructure, had overlaps with four other ERs (ER3.2, ER3.3, ER3.5, ER3.6).

Undefined: SO1 (*promote greater economic competitiveness*) is undefined because it is an action (to promote) whose scope is not made explicit; something similar occurs with SO4, SO7, SO8, SO9 and SO13.

3.6 Fourth, the CS had gaps in its monitoring mechanisms. The CS results matrix included 37 progress indicators (PIs). However, only the values of less than a third of them (11) were updated to 2022. In fact, the values of 40% of the PIs could not even be updated to 2021, making them ineffective for monitoring progress towards the CS goals. Some of these indicators relied on sources that have been discontinued (such as the World Bank's *Doing Business*) or updated infrequently (such as PISA tests, national surveys on housing deprivation, healthcare coverage or R&D investment). The low frequency of updating some of the PIs was evident ex ante, at the time the CS was prepared, as

25 According to the Country Strategy Guidelines (document GN-2468-9), the Office of Strategic Planning and Development Effectiveness (SPD) must validate the CS's Development Effectiveness Matrix (DEM) at the time of its preparation. Contrary to the findings of this ICPR, this validation showed that the CS had adequate vertical logic and risk mitigation, as well as a flawless accessibility of its results matrix (receiving a score of 100%).

the baseline values of half of them (18) had not been updated for two or more years. In addition, some PIs, such as the *Global Competitiveness Index or the Government Effectiveness Index*, did not meet the required criteria.[26] Furthermore, the CS did not set targets for the strengthening and use of national monitoring and evaluation systems, which could have provided evidence of the CP's contribution.

3.7 Finally, the CS had weaknesses in risk identification and mitigation. The CS identified two implementation risks: (i) the low technical and organizational capacity of some implementers, especially at the subnational level; and (ii) fluctuation in the price of the dollar. The proposed mitigation measures for the first risk were adequate, as diagnosing the institutional capacity of the executing agencies and following up on the implementation were expected, with participation of the federal government establishing agreements to ensure satisfactory performance and providing training opportunities. In contrast, the CS did not offer mitigation measures for the second risk, which was nevertheless addressed by encouraging the use of local currency financing and by supporting IDB Group treasuries in foreign exchange risk management through facilities and products. The CS also identified risks to the country, including macroeconomic, geopolitical, and global market risks. However, according to the CS Guidelines, "*the identification of key risk factors [should refer to those] that could hinder the achievement of the development objectives of IDB interventions*," not to general country risks (document GN-2468-9, paragraph 4.13). The CS offered to mitigate the impact of these risks through the implementation of the program itself.[27] In addition to being country- rather than program-related, it was unlikely that the potentially rapid emergence of these risks could be mitigated by the slower materialization of program results. For its part, the CS did not identify any risks specific to the private sector, despite recent transparency issues involving large private contractors and public counterparts. The CS also did not set targets for the strengthening and use of national environmental and social safeguard systems, despite the importance of these risks in the CP.

26 According to the CS Guidelines (document GN-2468-9), CS indicators should be specific, measurable, achievable, relevant, and time-bound (SMART). Given the breadth of the dimensions included in some of the CS indicators, they are neither sufficiently specific nor achievable in terms of what the IDB Group could accomplish over the period.

27 The CS anticipated "*mitigation of the fiscal challenge through strengthening public finances, a larger role for the private sector in the country's growth, and mitigation of socioeconomic impacts through more efficient public policies*."

04

Program Alignment

A. Program description

4.1 The Country Program (CP) consisted of 268 Sovereign Guaranteed (SG) and 108 Non-Sovereign Guaranteed (NSG) operations for a total of US$16.507 billion. In accordance with the Country Product Protocol (document RE-348-8), the ICPR considered all SG and NSG operations approved during the review period[28] (223 operations, equal to 59% of the operations in the CP) or carried over from previous periods (153 operations, or 41%). During the review period, the IDB approved US$5.247 billion in SG loans: 25% less than expected in the CS financing framework,[29] partly due to the impact of the pandemic on the country's institutional framework for external financing. It also approved US$60 million in non-reimbursable instruments, 7% less than in the previous period. For its part, IDB Invest approved US$4.461 billion, more than doubling the annual average of the previous period. In addition to these approvals (140 SGs and 83 NSGs), the 153 legacy operations (128 SGs and 25 NSGs) had a balance of US$6.737 billion pending disbursement at the beginning of this period (see details in Annex V).

4.2 Of the IDB CP amount, 99% was channeled through investment loans (INV) to subnational and federal entities. Policy-based lending (PBL) accounted for less than 1% of CP SG.[30] The remainder was INV to two types of borrowers:[31] subnational and federal (Figure 4.1). Meanwhile, 27% of the SG amount was approved under conditional credit lines for investment projects (CCLIP) (Box 4.1), and one INV was approved using the loan based on results (LBR) modality. Finally, the IDB presented the government with 11 operations that were to be cofinanced by other contributors, but only 3 were implemented (see Annex, Chapter VI).[32]

28 The review period spans August 28, 2019 (CS approval) to December 31, 2022.

29 The CS estimated SG approvals of $7.350 billion for 2019–2022 (measured in calendar years, slightly longer than the ICPR period starting in August 2019). Using full calendar years, the SG approvals for 2019–2022 were lower ($5.605 billion).

30 In 2022, the IDB approved its first PBL in more than a decade (for a municipality). Two planned PBLs (for states) were not approved. The low use of PBLs was due to several reasons: (i) the federal government discouraged subnational borrowing other than for investment, (ii) delays in the legislative approval process made the use of PBLs for federal budget support unpredictable, and (iii) when needed, the federal public bank served as a mechanism to channel resources that were disbursed within days.

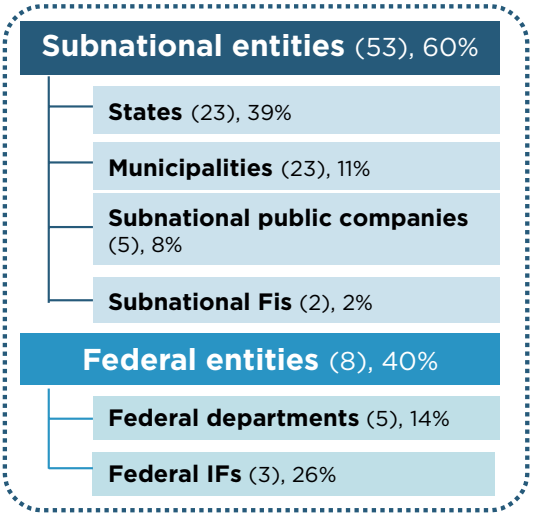
31 The 120 CP INVs had 96 different executing agencies, 29 which had executed previous INVs with the IDB.

32 The CS noted the country's concerns about coordinating the requirements of multiple funding sources in a single project. The SG CP included one INV to finance an emergency pandemic program involving five other cooperating parties (BR-L1554/2020), and two INVs co-financed with the International Fund for Agricultural Development (IFAD) for water security and productive development (BR-L1542/2022 and BR-L1608/2022). Another project co-financed with the French Development Agency was canceled in 2019 due to financial constraints of the Municipality of Manaus (BR-L1431).

Figure 4.1

SG counterparts of the CP

Source: OVE.



Note: About 20% of the program with federal financial institutions (FIs) was also designed to channel resources to subnational entities, mostly small municipalities.

4.3 The SG counterparts of the CP changed from the previous period as work with states was reactivated. In the previous period, the IDB had reactivated work with public FIs, given the fiscal constraints of subnational entities: 4 large operations with national public FIs accounted for 53% of the approved amount of SG loans. In contrast, during the same period, 7 smaller INVs with 3 public FIs accounted for only 26% of SG approvals. SG approvals with the states increased from 29% to 40% of CP between periods (see Annex V), including through the approval of 21 INVs under CCLIP. Meanwhile, the number of SG approvals with municipal entities decreased from 14% of CP in the previous period to 10% in this period.

Box 4.1. Conditional Credit Lines for Investment Projects (CCLIP)

The CP included 39 INVs under 9 CCLIPs, which promoted some standardization and a multisector approach: 5 CCLIPs approved before the period had more than US$2.2 billion for new approvals (but only 19% of this was used as of December 2022), and 4 CCLIPs for US$4.9 billion were approved in the period for rural development (BR-O0008), modernization of social spending (BR-O0009), digital transformation (BR-O0010), and citizen security (BR-O0011) (of which 25% was used in 14 INVs).

The PROFISCO CCLIP—launched in 2008—is the most diffused. PROFISCO has helped 22 of the country's 26 states, the District and the federal government modernize their fiscal management. In 2017, PROFISCO II, a second CCLIP of up to $900 million, was approved. PROFISCO II loans accounted for more than one-third of the number of INVs with subnational entities approved for 2019–2022. In addition, because of its focus on fiscal improvement, PROFISCO allowed the IDB to work with subnational entities with lower credit profiles but greater needs. The National Treasury assigns A, B, C, and D ratings to entities applying for the sovereign guarantee, based on a payment capacity assessment (CAPAG) system. Normally, only entities with a CAPAG A or B can receive the guarantee, but projects aimed at improving fiscal management are exempt from this requirement.

4.4 For much of the period under review, the impact of the pandemic determined subnational counterparts' access to IDB financing. The pandemic led to legal and regulatory changes—some of them temporary—that affected the IDB Group's operations in Brazil.[33] In turn, the National Treasury changed the use of the Payment Capacity Assessment (CAPAG) methodology for subnational governments, affecting their access to federally guaranteed loans. The Payment Capacity Assessment (CAPAG) evaluates the fiscal situation of states and municipalities to determine their eligibility to receive government-guaranteed loans from the federal government, dividing them into four categories (generally, only the top two are eligible for guarantees). The methodology has been under review since 2021, during which time the evaluation of new applicants has been suspended, in part to counteract the effects of transitional improvements in CAPAG resulting from the general increase in federal transfers during the pandemic.

4.5 Working at the federal level, the IDB used non-reimbursable resources and an active knowledge agenda, mostly for program development. Non-reimbursable technical cooperation programs (TCP) accounted for 0.8% of the SG program, almost three times as much as in other IDB A countries. Client support TCPs accounted for 92% of the total amount of TCPs, the highest proportion among all IDB borrowing countries. Of these, 80% were implemented by the IDB itself to develop lines of work, including new CCLIPs.[34] In contrast, operational support through TCPs was scarce (only 4% of ongoing operations). In addition, the IDB managed an active knowledge agenda with budgetary resources (see Box 4.2).

Box 4.2. The IDB's Knowledge Agenda in Brazil

The IDB executed a broad knowledge agenda during the period. In collaboration with the IDB's Knowledge, Innovation and Communication (KIC) Sector, the country office facilitated the production of some 120 knowledge products during the period. These responded to seven priorities of interest to the government: i) reducing barriers to the creation of productive enterprises; ii) strengthening skills for the labor market; iii) reviewing social protection policies; iv) improving the efficiency of social spending; v) supporting the digital transformation of the economy; vi) promoting actions against climate change and for the development of the Amazon; and vii) promoting diversity and gender equality. In addition, work has been done to disseminate this

33 In 2020, subnational entities filed a constitutional petition to suspend payment of their debts (including to multilateral banks). The Federal Supreme Court granted such a moratorium on a temporary basis, which was then approved by Congress in May 2020 (Complementary Law 173/2020). Other laws, including Complementary Law 194/2022, reduced the rate of the Tax on the Circulation of Goods and Services (ICMS), affecting this important source of state resources.

34 The number of approved TCPs with a focus on the federal government increased by 2.5 times compared to 2015–2018, while the number of subnational TCPs remained constant at 20 per period (see Annex, Chapter V). Most of the TCPs supported the area of competitiveness, especially SO3 (infrastructure).

knowledge through various channels, including the Ideação blog (which, according to IDB management, exceeded 130,000 visits in 2022) and the IDB Brazil newsletter (sent periodically to more than 1,500 subscribers).

This knowledge agenda was perceived as a differential feature of the IDB that sought to respond to government priorities, especially at the federal level. Government representatives agreed to highlight the knowledge agenda as a differentiating feature of the IDB compared to other multilateral organizations, especially because it was not tied solely to specific projects in the current portfolio. The country office organized the knowledge agenda around the seven priorities mentioned above, responding to specific interests of the Government, especially its counterpart at the federal level. The agenda resulted in technical dialogues, case studies, methodologies and, in some cases, follow-up via technical cooperation.

Despite its importance, the knowledge agenda presents management challenges. On the one hand, the knowledge agenda was not always connected to the objectives set out in the EBP. On the other hand, even if the country office in Brazil collects information on knowledge products, the IDB does not have a corporate system that allows registering and analyzing this type of products. There is no systematic information on their number, cost, purpose or results, nor their possible contribution to the objectives of the EBPs. Finally, this lack of information limits the possibility of sharing the knowledge generated within each country, between countries and within the IDB. These challenges are consistent with previous OVE findings regarding knowledge management at the IDB (see Review of Knowledge Generation and Dissemination at the IDB, RE-517-2, 2019).

Source: OVE, based on data provided by Management.

4.6 In a highly competitive market, IDB Invest doubled its approvals over the previous period. Of the total NSG amount, 60% were senior loans, with more than half being in local currency. Compared to the previous period, financing through FIs more than doubled, support to the corporate segment nearly doubled, and infrastructure grew by 32% (Annex V). In addition, Brazil was the country with the largest volume under the Trade Finance Facilitation Program (TFFP), with approvals totaling $1.777 billion (triple the previous period) with 5 Fis.[35] To a lesser extent, IDB Invest used guarantees (1.6% of NSG CP), equity (1.2%), and blended finance to create incentives based on inclusion and diversity outcomes.[36] Finally, although it has not yet materialized, IDB Invest worked in coordination with IDB to place private financing backed by the sovereign guarantee in a project of public interest, which has generated government interest in the mechanism.

4.7 In turn, the IDB Group, leveraging synergies between IDB Invest and IDB, promoted access to additional resources by supporting bond issues and mobilizing third-party funds. IDB Invest supported six thematic instruments[37] from financial institutions and investment funds, including the first social bond and the first Brazilian institution to issue a sustainable bond. These

35 Four other clients had TFFP lines but did not use them during the period.

36 These projects in the energy sector and with FIs included UK SIP, C2F and CTF funds to support inclusion and diversity objectives (12092-02/2020, 12092-03/2020, 13473-01/2022, 11488-03/2019).

37 The operations were 13484-01, 11488-04, 13113-01, 12979-01, 12976-01, 12236-01, 12313-01.

instruments were designed to increase access to financing for projects with environmental and social impacts and to encourage other entities to replicate their use (document CII/PR-853-3). In addition, the CP's NSG operations included the mobilization of US$3.682 billion in third-party resources:[38] through B-loans for US$2.370 billion, the use of credit insurance (unfunded credit protection) for US$655 million, and funds under management for US$337 million.[39] For its part, the IDB also attracted third-party resources through four Investment Grants (IGRs) focused on climate change[40] and actively worked with public banks to create the frameworks that allowed the issuance of the thematic bonds backed by IDB Invest.

4.8 The IDB Group also supported the country through other modalities not included in the CP. Clients highlighted the support and close follow-up provided by IDB Group specialists. The Brazil Country Office (CBR)—in Brasilia and São Paulo—is one of the largest in the IDB Group, with resident specialists in virtually all sectors and strong support from headquarters specialists.[41] In addition to the TCPs included in the CP, IDB approved an operation under the Fee-based Financial Advisory Service (FFS) modality.[42] IDB Invest, for its part, made heavy use of advisory services for client support, research and dissemination ($2.0 million in 24 advisory services) and operational support ($1.5 million in 20 advisory services). Of the NSG operations approved during the period, 41% were accompanied by non-reimbursable advisory services, which averaged 0.07% of the amount of these transactions.

B. Alignment of the CP with the objectives and integration of crosscutting themes

4.9 The CP was strongly aligned with 4 of the 13 CS SOs. Table 4.1 (and in more detail in Annex VII) describes the alignment of the CPs with the objectives. OVE rated the CP's alignment with 4 of

38 Three large operations (11984-02, 12710-01, BR-L1404) with cellulose companies accounted for 44% of the total funds mobilized.

39 China Co-financing Fund for Latin America and the Caribbean (83% of the amount), Canada Climate Fund for the Private Sector in the Americas (C2F, 7%), Clean Technology Fund (CTF, 5%), UK Sustainable Infrastructure Program (SIP, 3%), and China-CII SME Equity Investments (PRC, 2%).

40 Three of them (legacy, with 88% of their amounts to be disbursed) used the Global Environment Facility (GEF), and the remaining one (approved during this period) used the Clean Technology Fund (CTF).

41 In 2019–2022, Brazil had the highest number of missions, followed by Argentina, Panama, and Colombia.

42 The FFS supported the structuring of highway PPP projects. The IDB also approved a regional initiative involving Brazil for the sustainable development of the Amazon (document GN-3036-4).

the SOs as "strong" and with 9 as "weak".[43] In all priority areas, the CP had a weak alignment with at least one of the SOs. Finally, only a minimal part of the CP (4 non-reimbursable operations for US$29 million) was not aligned with any of the SOs.

Table 4.1. Program alignment by CS objective 2019–2022

SO Strong Weak	ER ●=Strong ●=Weak ●=Not covered		Legacy portfolio			Approvals 2019-2022			Total
			SG	NSG	NR[a]	SG	NSG	NR[a]	
Competitiveness: Improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness									
SO1. Promote greater economic competitiveness	●	#	76	25	38	43	37	69	288
		US$M	6,074	325	79	4,235	4,415	44	15,173
SO2. Increase the role of the private sector by improving the quality of the business environment	●●●●●●	#	13	13	8	18	18	12	82
		US$M	1,471	60	3	2,016	2,693	11	6,255
SO3. Narrow infrastructure gaps	●●●●●●	#	37	10	17	13	18	24	119
		US$M	3,429	254	12	1,241	1,826	14	6,776
Integration: Promote national and international integration to boost productive capacity									
SO4. Promote trade liberalization	●●●	#	10	3	1	10	9	3	36
		US$M	667	-	-	561	2,140	1	3,369
SO5. Integrate the less developed regions	●●	#	23	5	9	15		6	58
		US$M	1.,41	74	62	992		12	2,280
Fiscal: Build a more effective public sector that promotes fiscal sustainability									
SO6. Reform the structure of public expenditure	●●●	#	12		2	10		6	30
		US$M	415		1	619		3	1,038
SO7. Perfect the public investment system	●	#	4		1	4		3	12
		US$M	164		1	197		2	365
SO8. Promote e-government and digital solutions to foster transparency, accountability and efficiency in delivering services to citizens and enterprises	●	#	18		5	18		14	55
		US$M	762		2	1,064		13	1,841
Social: Reduce social inequality and inequality of opportunity by enhancing public policy efficiency									
SO9. Build a more effective government	●	#	9		6	7		13	35
		US$M	489		1	304		4	798
SO10. Improve management and the quality of spending and infrastructure in the Education and Health sectors	●●●●	#	14		7	9	4	12	46
		US$M	766		1	1,521	216	4	2,507
SO11. Enhance the effectiveness of citizen security services in the control and prevention of violent crimes	●●	#	7		1	5		6	19
		US$M	301			313		1	615

43 Alignment was "strong" if the CP had sufficient coverage (relevant operations were deployed for all ERs of the SO) and *feasibility* (progress could be made in all ERs of the SO if these operations were implemented as designed). In contrast, alignment was "weak" if the CP had some weakness in *coverage* or *feasibility* in at least one of the SO's ERs. The "no coverage" category applies when the CP did not deploy relevant operations for any of the ERs of the SO.

SO Strong Weak	ER =Strong =Weak =Not covered		Legacy portfolio			Approvals 2019-2022			Total
			SG	NSG	NR[a]	SG	NSG	NR[a]	
SO12. Raise the efficiency of the public job placement system	●	#	1		2	1		3	7
		US$M	32			100		1	133
SO13. Implement efficient policies to increase access to housing	●	#	10			1		3	14
		US$M	278			70		1	349
Total[b, c, d]		**#**	**79**	**25**	**49**	**47**	**39**	**93**	**332**
		US$M	**6,269**	**359**	**109**	**5,247**	**4,461**	**60**	**16,507**

Source: OVE, with data from IDB, 2022; IDB Invest 2016a, 2023.
Notes: [a] NR includes all non-reimbursable operations (TCP and IGR). [b] Includes NSG legacy operations with XSR during the period, even if they had no disbursements. [c] Includes duplication of operations where these were aligned with more than one SO (these duplications are eliminated in the total). d Does not include IDB Invest advisory services.

4.10 The CP's weaknesses in terms of alignment were due to its low feasibility in contributing to more than a third of the CS ERs. The CP covered almost all ERs (31 out of 32) but had a low feasibility of contributing to 11 of them for two reasons: focus and scope. Weaknesses in *focus* occurred when the CP could only contribute indirectly through operations that pursued other objectives (SO6); when the CP could only contribute incompletely to broad objectives that would have required the simultaneous advancement of all its elements[44] (SO1, SO2, SO9); or when the CP did not support the intervention logic envisaged in the CS because it was aligned with the SO but not with the ERs through which it was expected to contribute to it.[45] Weaknesses in *scope* occurred where the CP was limited in size relative to the ambition of the objective (SO3, SO4, SO6, SO10, SO13); or where the geographic scope of the CP was narrow or inadequately distributed relative to what would have been needed to contribute to most of the CS objectives, which had been formulated at the national level (all except SO5, see Box 4.3).

Box 4.3. Regional distribution of the CP

Two of the country's five regions, the Northeast and the North, have the largest development gaps that should be closed to achieve the expected progress towards national goals. In 2020, the Northeast region had 27% of the population and 14% of the national GDP, and the North had 9% of the population and 6% of the national GDP. The SG CP focused 15% of its total operations in the Northeast region and 8% in the North. This was in line with its share of the national GDP, but not with the needs of its population (especially in the Northeast). On the other

44 Competitiveness, business climate and government effectiveness are composed of several interdependent dimensions that need to be pursued simultaneously to achieve the overall objective. In some cases, the Progress Indicators (PIs) associated with these objectives are composed of factors that add up their different dimensions, which might suggest that partial improvements in some of them would be sufficient. However, the PIs do not determine the objective that does require simultaneous improvements.

45 Of all CP operations, only about 5% (8% of the amount) were aligned exclusively to the SOs of the CS, but not to their ERs. The largest was emergency aid due to COVID (BR-L1554/2020), aligned to SO10, and an INV for fiscal support to municipalities (BR-L1377/2014), aligned to SO8. The rest were mostly TCPs.

hand, the NSG CP concentrated only 6% of its operations in the Northeast region and none in the North, which was in contrast to its greater needs. In addition, 39% of the SG CP had a national focus (or no predetermined location), 22% focused on the Southeast region, 17% on the Northeast, 13% on the South, 5% on the North, and 3% on the Central-West. In comparison, 55% of the NSG CP (excluding TCP) had a national focus, 30% on the Southeast, 10% on the Northeast, and 5% on the South.

4.11 There were gaps in the integration of CS crosscutting themes into the CP (Annex VIII). Without defining in what way, three crosscutting themes were expected to be integrated into the CP:[46] (i) environmental sustainability and climate change, (ii) gender and diversity, and (iii) innovation and digital transformation. These were integrated into 53%, 40% and 32% of CP operations, respectively, but there were gaps in their integration. For example, only 32% of operations aligned with SO2 (*increasing the role of the private sector*) or 45% of operations aligned with SO10 (*improving education and health*) included a gender and diversity perspective; and only 29% of operations aligned with SO7 (*perfecting the public investment system*) included an environmental sustainability and climate change perspective. Meanwhile, innovation and digital transformation were included in only 23% of operations aligned with SO2 (private sector) and in 41% of operations aligned with SO10 (health and education). Among the reasons that hindered the integration of crosscutting themes in operations, the lack of a diagnosis of their relevance and the lack of specific activities or indicators stand out.

4.12 Although not a CS objective, the CP supported the pandemic response with 58 operations for US$4.1 billion. The IDB supported the country's pandemic response with 35 SG operations for US$2.753 billion (24% of the CP, Annex VIII): 5 designed under the prototypes that the IDB had developed as part of its institutional response (accounting for 67% of the total amount of the SG response, but two of the five did not receive legislative approval), 25 others that included elements of the pandemic response, and 5 previously approved that redirected resources to address the crisis. In 2020 and 2021, IDB Invest provided 23 long-term loans for US$1.317 billion to mitigate the impact on the private sector and intensified its support for foreign trade liquidity with US$1.153 billion (these two years accounted for two-thirds of the TFFP).

46 For the purposes of this review, a crosscutting theme is considered to be integrated into a CP operation if it has been considered in one or more of the following elements of its design: (i) diagnosis, (ii) general or specific objectives, (iii) proposed activities, or (iv) indicators of the results matrix.

Box 4.4. IDB Group support to COVID-19 response

The CS was broad enough to encompass the IDB's response, which included rapid approval of prototype operations and adjustment of the active portfolio. The IDB approved five fast-track prototype operations. These included a US$1 billion INV (BR-L1554/2020) to support minimum wage and employment levels through social transfers, which also had parallel financing of US$2.9 billion from other development agencies (WB, NDB, CAF, KFW, and AFD). Four other prototype operations for US$1.03 billion supported productivity and employment by financing MSMEs through public financial institutions (two of which have not yet received legislative approval). In addition, resources from five active operations for US$659 million (four INVs and one TCP) approved before the pandemic were redirected to the crisis (without reformulation), and 25 operations (three INVs and 22 TCPs) were approved that included crisis response components or products but remained aligned with one or more CS objectives. According to interviewees, IDB management reportedly maintained a close dialogue with the authorities and executing agencies, resulting in program adjustments and portfolio reviews, which allowed, for example, the approval of term extensions for 19 operations in 2020.

This response mitigated the impact of the pandemic on the most vulnerable populations, mainly through social transfers. To date, only the social transfer prototype (BR-L1554/2020) has a PCR validated by OVE. The operation resulted in about 1.1 million people receiving emergency assistance through the Bolsa Família program and about 460,000 direct beneficiaries of the program receiving regular transfers. The project also supported job retention through income transfers to nearly one million company employees under the Programa Emergencial de Manutenção de Emprego e Renda (PEMEI, Emergency Employment and Income Maintenance Program). According to the Project Completion Report (PCR), the operation may have prevented 9% of households from falling below the poverty line. Another of the prototype operations (BR-L1559/2020) reported supporting the survival of MSMEs as job creators, compared to what would have happened without support. Other operations that redirected resources to address the emergency allowed for the equipping of 52 basic health units in the metropolitan region of Salvador (BR-L1389/2014), the purchase of rapid tests and 209 individual protection kits, and the provision of respirators to 67 health units (BR-L1408/2016).

IDB Invest also supported key healthcare projects and provided short-term liquidity for international trade. The US$1.317 billion approved by IDB Invest in 2020 and 2021 included high social impact projects such as a US$38 million loan to Albert Einstein Hospital to support its COVID-19 response with the acquisition of intensive care beds and expansion of patient care capacity. In late 2022, BID Invest approved US$100 million to expand the vaccine production capacity of the Butantan Institute, a leading public biotechnology institution. During the pandemic, IDB Invest more than doubled its support through the Trade Finance Facilitation Program (TFFP). Finally, in a context where the market limited long-term credit, IDB Invest supported long-term projects such as the construction of the world's largest dissolving cellulose pulp plant in Minas Gerais, two new solar parks (in Bahia and in Minas Gerais), and the implementation of water treatment plants in the state of São Paulo (13069-01/2020).

Source: OVE, based on IDB Group data and interviews with counterparts.

05

Implementation and Results

A. Program Implementation

5.1 The program faced severe forecasting challenges. A total of 56% of the INVs and 100% of the PBLs anticipated in the annual programming exercises were not subsequently approved.[47] This unfavorably compares with rates reported by OVE in other countries (between 20% and 40%). Of the NSG operations preliminarily identified in the program, 75% were not approved. In contrast, the few anticipated TCPs (about 7 per year) were generally approved, but the vast majority of approved TCPs (about 20 more per year) were not programmed. Unsuccessful operations undermined the expected support for one-third of the SOs.[48] Reasons for the low predictability included the adjustment of IDB Group support in response to the pandemic, the Federal Government's decision to suspend the provision of guarantees to subnational governments, and the volatility of private-sector demand, both because of its access to alternative sources of financing and because of risks in its markets.

5.2 Thanks to active portfolio management, only 8% of the approved CP amount was canceled, but this disproportionately affected support for some objectives. The most affected objectives were reforming the structure of public spending (SO6) and reducing infrastructure gaps (SO3), each with 11% canceled, followed by improving the competitiveness of the economy (SO2, with 8% canceled) (Annex IX, Table I.9.4). The reasons for these cancellations included delays in legislative approval, low implementation rates, government interest in reducing the initial scope of operations, and regulatory changes that changed their logic, as well as the Bank's efforts to actively manage the portfolio. In fact, Brazil stood out as one of the first countries where the IDB established objective criteria for granting extensions of implementation time.[49] This also reduced the proportion of projects on "alert" or "problem" (Annex IX, Figure I.9.1).

47 In accordance with current guidelines, each November the IDB Group prepared a CPD, which sought to anticipate the operations to be approved in the next calendar year (see Annex, Chapter IX for an analysis of the CPDs for the period). In Brazil, the IDB also had multi-annual programming to facilitate the dialogue with the country.

48 The SOs most affected by unapproved amounts were SO2 *Business Environment*; SO6 *Quality of Expenditures*; SO10 *Education* (US$220 million for vocational training); and SO11 *Citizen Security* (US$200 million in a federal program—PROSEG Federativo—and US$100 million for violence prevention in one state—it was to be the start of CCLIP PROMOJUD).

49 In coordination with the national counterpart, since the previous strategic period, IDB has only granted term extensions when operations: (i) had a satisfactory rating in their last PMR; (ii) the total term did not exceed 150% of the original term; and (iii) in the case of "alert" or "problem" projects, the excess funds were canceled to make it likely that the remaining funds would be implemented within the additional term granted.

5.3 SG disbursements were below the previous period and below the expected financing framework in the CS, while NSG disbursements nearly doubled from the previous period. IDB disbursements for 2019–2022 amounted to US$5.032 billion (Figure 5.1), below the CS estimate of US$7 billion and a 23% decrease compared to the previous period. This was the case even with the boost from the pandemic, which increased disbursements in 2020–2021 relative to 2019.[50] In contrast, IDB Invest disbursements and guarantee issuances totaled US$3.726 billion in 2019–2022 (Figure 5.2), 83% higher than in the previous period. Short-term financing through the TFFP played a key role, accounting for 50% of total NSG disbursements (compared with 38% in the previous period).[51]Non-TFFP disbursements also increased by 45% compared to the previous period.

Figure 5.1 (left)

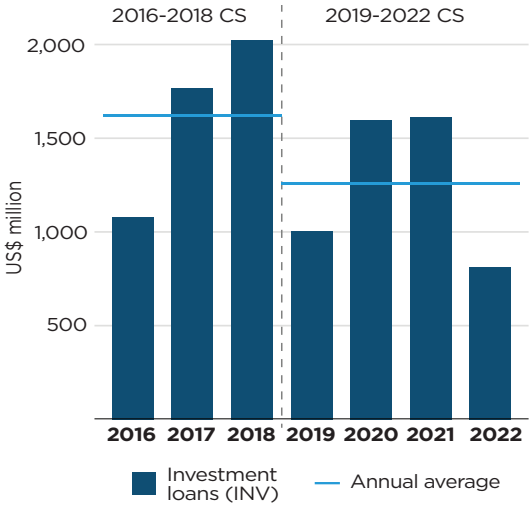
SG Loan Disbursements

Source: OVE, with data from IDB, 2023.

Figure 5.2 (Right)

NSG Disbursements and Guarantees

Source: OVE, with data from IDB Invest, 2016, 2023.



Note: SG disbursements are only validated by the Finance Department as of 2017.

5.4 INV preparation times were similar to the comparators, but execution was slower, in part due to the complex legislative approval process. The average INV in Brazil in 2019–2022 took 14.4 months to prepare, an improvement over the previous period but still slightly longer than the average for CSC countries (13.1 months) and the IDB (13.6 months) (see Annex, Chapter IX,Table I.9.2). The average INV took 14.5 months from IDB approval to signing by the country, almost twice as long as the IDB group of countries that require legislative approval (7.7 months on average);[52] Brazil

50 Part of this increase was due to an INV (BR-L1554/2020) for cash transfers to vulnerable populations, which disbursed US$1 billion (62% of total SG disbursements in 2021).

51 The largest share was due to three TFFP lines, which accounted for 45% of total NSG disbursements and issuance of guarantees for the period.

52 The process affected all INVs, but the times varied by type of executor: it took an average of 12 months for state executors, 13.5 months for federal executors, 15.7 months for municipal executors, and 17.3 months for public FIs. Prototypes approved in response to the pandemic had slightly faster approval (10.1 months on average),

has a sovereign debt approval process that involves more than 15 institutions (executive and legislative). Once signed, Brazilian INVs were slightly faster than their peers in reaching disbursement eligibility. Finally, more than 80% of the completed INVs were extended, averaging 50% of the original term.

5.5 Expenses increased, particularly preparation costs, but continued to be lower than comparators due to the larger size of INVs in Brazil. Compared to the prior period, INV preparation costs nearly doubled from US$1,680 to US$2,394 per million approved. [53]Implementation costs increased only slightly, from US$4,101 to US$4,277 per million disbursed (see Annex, Chapter IX, Figure I.9.2). Nevertheless, these expenditures are lower than the comparators: INV's preparation costs per million approved for Brazil were 83% of the CSC average and 40% of the IDB average, and its execution costs per million disbursed were 48% and 20%, respectively.

5.6 With respect to the five recommendations of the previous CPE, all remain relevant (see Annex, Chapter IV). The CPE called for the definition of a business model differentiated by borrower type (recommendation 1). The CS 2019–2022 proposed to address work differentiated by type of borrower but did not redefine the business model. The CPE called for improving project implementation (recommendation 2). The IDB continued measures similar to those taken in the previous period (biannual portfolio reviews, training for executing units with low institutional capacity, among others), but operations continued to face challenges similar to those identified in the previous CPE.[54] OVE found no significant differences in the use of instruments compared to the previous period (recommendation 3). Despite some operational synergies between the IDB and IDB Invest, no coordination guidelines were established, nor was it determined in which cases SG and NSG financing was justified (recommendation 4). Significant progress was made in emphasizing the control and quality aspects of spending at the subnational level (recommendation 5), with the adoption of components to improve the quality and control of public spending in half of the INVs during the period, but the fiscal constraints of subnational governments continued to pose a serious challenge to the programming and implementation of the portfolio.

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although 2 have not yet completed this process.

53 In Brazil, the average amount of INVs approved in 2019–2022 was 22% lower than in the previous period.

54 For each type of borrower (federal, state, municipal, private sector, and public financial institutions), the recommendation called for redefining aspects such as: (i) the objectives that the IDB Group seeks to achieve; (ii) the conditions for participation; (iii) the possible use of instruments; (iv) areas that require special attention or support; (v) success factors in working with each borrower that can be replicated; and (vi) how to articulate activities that require the participation of other borrowers.

5.7 Both IDB and IDB Invest faced implementation challenges due to COVID-19, weaknesses of their counterparts, and difficulties in procurement processes. A total of 84% of IDB INV operations and 42% of IDB Invest operations reported at least one serious implementation problem during the period (see Annex, Chapter IX, Table I.9.6).[55] Some factors were common between IDB and IDB Invest: the pandemic crippled infrastructure works, school activities, and supply chains, affecting support for infrastructure (SO3), education and health (SO10), and housing (SO13) objectives.[56] In this regard, the counterparts interviewed by OVE highlighted the speed of the IDB Group's response, the close monitoring by specialists, and its flexibility (extending deadlines, seeking solutions to new challenges, and making eligibility for financing by public FIs more flexible). The low capacity of some executing agencies and clients also affected implementation, particularly in the areas of citizen security (SO11) and housing (SO13); this created challenges in procurement due to gaps in their knowledge of IDB Group procedures and errors in the design and execution of bids. Other challenges were specific to each institution: the IDB was affected by delays in the legislative approval of the INVs, and IDB Invest was affected by external factors such as the post-pandemic economic downturn and the increase in international interest rates.

5.8 Three main mechanisms were designed to speed up implementation, but to date there is no evidence that they have worked. The first was the continued use of CCLIP, an instrument that from its inception was intended to accelerate the preparation and approval of INVs. However, in Brazil, INVs under CCLIP took 6 months longer to prepare than other INVs.[57] The second was to work again with 29 executing agencies that had already had projects with the IDB, hoping that this experience would improve their implementation. However, this was the case for only a little more than half of them.[58] The third was the use of a new instrument: the first PBR for Brazil (BR-L1528/2018), a modality that had accelerated times in other countries. However, the executing unit stated that it did not have timely access to resources or clarity on some of the characteristics of the instrument, which complicated

55 This analysis is based on the categorization of execution problems reported in periodic monitoring reports (PMR and ASR) and by project leaders in a survey conducted by OVE.

56 Some works were delayed by lockdowns and logistical complications with materials (highways in São Paulo, logistics in Paraná, and mobility systems in three states). In education, school closures halted teacher training and educational evaluation projects in two municipalities. In health, work on two hospitals in Ceará and São Paulo was temporarily halted.

57 INVs under CCLIP took an average of 16 months to prepare, almost 6 months longer than other INVs.

58 According to the performance ratings of the INVs in the PMRs: 16 executing agencies (55%) improved (or remained "satisfactory") over time, 8 (28%) deteriorated, and 5 (17%) had mixed results.

its execution.[59] Given the overlap of the reporting period with the pandemic, it is not possible to determine the extent to which the pandemic influenced the persistence of delays, which included extensions of bidding processes, challenges in the supervision of works, and suspension of resettlement processes.

5.9 The Bank made progress on its commitments to improve and utilize national fiduciary systems. As planned in the CS, the IDB continued to work with the national and subnational Courts of Accounts to strengthen and expand the use of financial management, public procurement, external audit and accounting systems, achieving progress through dialogue roundtables, memorandums of understanding, preparation of manuals, and technology portals. In addition, the Bank supported the development and implementation of the legal framework for public procurement through the National Public Procurement Portal, which promoted cooperation and transparency (see Annex, Chapter III, Box I.3.2).

B. Program Contribution to Objectives

5.10 The CP made a low contribution to 9 of the 13 objectives, mainly due to four factors: feasibility, maturity, implementation and evidence. First, on average, 30% of the CPs supporting each objective consisted of weakly aligned operations, which since its design had low *feasibility* of contributing to these objectives.[60] Second, 16% of the CPs were not mature enough to expect results at the end of this ICPR. Third, 6% of the CPs did not contribute, even when the projects were old, because their *implementation* was seriously behind schedule. Fourth, on average, 25% of the CPs did not report *evidence* of progress towards the objectives, although they had some degree of implementation (see Annex VII, Figure I.7.1). The remaining 23% of CPs were not affected by these four factors, but for more than a third of them, the evidence available to date shows a low contribution. The contribution of each SO to the CS is summarized in the remainder of this section and detailed in Annex VII, along with the classification criteria.[61]

59 IDB funds were first channeled through the National Treasury, delaying the executing agencies' access to them to accelerate implementation. In turn, the executing agency interpreted that disbursements were not against expenditure verification, but against the achievement of results (which in theory is the defining feature of PBRs). However, as investment loans, they are not exempt from expenditure controls for audit purposes (documents RE-549 and GN-2869-9), adding an unexpected operational challenge.

60 Some of these operations had strong alignment with at least some objective (due to the possibility of alignment with multiple objectives), but even so almost 20% of the PP had weak alignment with all, evidencing the weak connection between this important part of the PP and the objectives of the EBP.

61 Contribution is rated "high" if there is reliable evidence that the aligned program made progress towards all of the SO's ERs. "Middle" contribution means that there were weaknesses in (or no evidence of) progress towards some of the SO's ERs. A "low" contribution means that there were weaknesses in (or evidence of) progress towards most of the SO's ERs.

Table 5.1. Contribution of the Country Program to SOs and ERs

Strategic Objective	Contribution	Expected results ●= High ●= Middle ●= Low ●= No information
SO1. Promote greater economic competitiveness	Low	●
SO2. Increase the role of the private sector by improving the quality of the business environment	Low	●●●●●●
SO3. Narrow infrastructure gaps	Middle	●●●●●●
SO4. Promote trade liberalization	Low	●●●
SO5. Integrate the less developed regions	Middle	●●
SO6. Reform the structure of public expenditure	Low	●●●
SO7. Perfect the public investment system	Low	●
SO8. Promote e-government and digital solutions to foster transparency, accountability and efficiency in delivering services to citizens and enterprises	High	●
SO9. Build a more effective government	Low	●
SO10. Improve management and the quality of spending and infrastructure in the health and education sectors	Middle	●●●●
SO11. Enhance the effectiveness of citizen security services in the control and prevention of violent crimes	Low	●●
SO12. Raise the efficiency of the public job placement system	Low	●
SO13. Implement efficient policies to increase access to housing	Low	●

Source: OVE, based on the analysis of Annex VII.

5.11 The CP achieved high or medium contributions to 4 of the 13 SOs, which was related to four factors: *complementation*, consistency, experience, and signaling. The CP made better contributions when: (i) there was complementation between the scope of the objective and the dimension of the CP that supported it (renewable energy, exports, competitiveness in the regions, where the objective was narrower, or in water and sanitation, where the CP was significant); (ii) there was *consistency* with state policies promoted at the federal level (such as in fiscal management or health);[62] (iii) there was *experience* gained that allowed for the improvement of evidence-based interventions (as in digital government);[63] or (iv) the IDB Group's quality label provided a *signaling* effect in complex projects that required mitigation of environmental, social, or financial risks (as in infrastructure or capital markets).

62 The IDB supported reforms that had been decades in the making. In line with the Fiscal Responsibility Law (2000), the IDB supported almost all states through the National Fiscal Management Program for Brazilian States (PNAFE), initiated in 1996, and the PROFISCO (2008) and PROFISCO II (2017) CCLIPs. In health, the consolidation of the Unified Health System (SUS), created by the 1988 Constitution, and its consolidation under the Health Networks (RAS) model have been supported.

63 In digital government, transformation and interoperability standards were created for subnational governments.

SO1: Promote greater economic competitiveness

5.12 The CP had a low contribution to *increasing competitiveness* (ER1.1), largely because of the low feasibility of advancing this multidimensional objective. Advancing the objective required coordinated progress in 12 dimensions.[64] The CP covered only some of them, although the diagnosis indicated that addressing the dimensions not covered, e.g., institutions, was also key to improving competitiveness. The aligned CP had low contributions due to its incomplete focus on only some of the competitiveness dimensions. Most of this CP is discussed in the paragraphs on other SOs, as the CS also set specific objectives in several of the competitiveness dimensions. Nine other operations were exclusively aligned with SO1, supporting several dimensions of competitiveness, but only one reported relevant results: it extended fixed broadband Internet access to more than half a million households (0.07% of national households).

SO2: Increase the role of the private sector by improving the quality of the business environment

5.13 The CP had a low contribution to *improving the business climate* (ER2.1) and *simplifying the process of opening and closing a business* (ER2.2) due to its low feasibility, maturity, and performance. There was an average contribution to simplifying tax payments (ER2.3). To *improve the business climate* (ER2.1), the CS also required coordinated progress on several dimensions.[65] The CP covered only 3 of these 10 dimensions, with low contributions due to a mix of underperformance and recent operations. One INV (BR-L1176/2012) contributed to ER2.2, but its scope was limited to *business opening processes* (not closing) in four small cities in Ceará[66] (not at the national level as stated in the objective). In two of them, the average time for business registration and formalization was reduced from 20 days to 8 days, while in the other two cities, the planned actions were not implemented. Of the 18 aligned PROFISCO projects, 3 have succeeded in integrating the state systems and processes for business registration into the National Business Registration Simplification Network. However, there is no

64 The World Economic Forum's Global Competitiveness Index, selected by the CS to measure progress towards this goal, defines 12 dimensions necessary to improve competitiveness: (1) institutions, (2) infrastructure, (3) ICT adoption, (4) macroeconomic stability, (5) health, (6) skills, (7) product market, (8) labor market, (9) financial market, (10) market size, (11) business dynamism, and (12) innovation capacity.

65 The Ease of Doing Business Index used by the CS to measure its progress has 10 dimensions: (1) starting a business, (2) getting construction permits, (3) getting electricity, (4) registering property, (5) accessing credit, (6) protecting minority investors, (7) paying taxes, (8) trading across borders, (9) enforcing contracts, and (10) resolving insolvency.

66 With a cumulative population of approximately 320,000 inhabitants (or 0.14% of the country's population).

verifiable contribution to this ER and the remaining projects are still in the implementation phase. Regarding the *simplification of tax payments* (ER2.3), the CP implemented 18 PROFISCO loans in different states around the country. Although all included different tax payment simplification interventions, they are still in the early stages of implementation (34% disbursed on average, and the most advanced operation has less than 60% disbursed). However, four projects have already implemented tax obligation simplification systems (the others have reported operational progress but no evidence of progress towards this objective).

5.14 The CP had a low contribution to *increasing private investment in R&D* (ER2.4) with the partial cancellation of the only older project. All but one of the projects aligned with this ER are newer, with no evidence of contribution. Only one INV (BR-L1490/2017), which supported a national public FI to promote investment by private companies in science and technology projects, matured during the period. After a 45% write-off (almost US$270 million), its results were mixed: there was a slight improvement among the program's beneficiary companies—the investment rate of the program's beneficiary companies increased slightly (from 2.3% to 2.35%, against a target of 8%), and the percentage investing in innovative products also increased slightly (from 54% to 56%, against a target of 66%)—but there was a deterioration at the general level (the FI's innovation portfolio contracted by 8%).

5.15 Approximately one-third of CP resources supported *increasing private sector access to credit* (ER2.5), achieving an average contribution even in the difficult context of the pandemic. The CP contributed about US$6 billion to this nationwide objective (about 0.5% of private sector credit in Brazil) through 15 IDB operations with development banks (national and regional) and 29 IDB Invest operations (mostly through banks). These operations promoted private sector access to credit (especially SME) for productive and foreign trade projects. Only about two-thirds of these operations (26 out of 44) reported evidence of results in terms of the growth of relevant portfolios: 9 increased their portfolios while meeting their targets; 9 increased their portfolios but at a lower level than their targets; and 8 did not increase their portfolios or even decreased them.

5.16 The contribution to *strengthening the framework for PPPs* (ER2.6) was low due to the cancellation of the main INV operation, the recent implementation of TCP, and the difficulty of attributing improvements in the overall framework for PPPs to the specific operations supported. The only INV of the CP aligned with this ER was canceled (BR-L1549/2021), so support was provided

through the TCP.[67] These operations funded collaborative research with strategic actors for PPPs, such as national and subnational development banks, development agencies, the federal government's PPP unit, subnational governments, and public enterprises. Some of these actors were supported in structuring specific projects, while others were supported in their institutional and financial capacity to promote PPP projects. However, there is no evidence that support for specific projects has contributed to the overall objective of strengthening the framework for PPPs in the country, and TCPs with a more general approach, such as the one that supported the creation of a public guarantee facility for PPPs, have not yet achieved results.

SO3: Narrow infrastructure gaps

5.17 More than a third of the CP resources supported the *improvement of the quality of infrastructure* (ER3.1), achieving an average contribution. The CP included operations to improve the quality of logistics and transport, renewable energy, and water and sanitation, whose contribution is discussed in the following paragraphs, as the CS also set specific targets in these sectors. The contribution of these operations to the CP was average, with progress at the regional level adding up to significant national coverage.[68] Another 4% of the CPs, which also supported infrastructure (e.g., non-renewable energy, urban development) but not in the specific sectors mentioned above, had an average contribution.

5.18 The CP's contribution to *improving the quality of logistics* (ER3.2) was average, affected by implementation issues related to the pandemic, works contracts, and changes in government priorities. Two INVs in geographical areas that account for a significant proportion of national logistics (BR-L1336/2012 and BR-L1373/2013) had significant results in reducing average travel times and costs and improving road safety.[69] Feasibility studies for rail transport at the federal level (BR-T1434/2020) and in the State of São Paulo (BR-T1418/2019) were financed

67 Brazil also received support for structuring PPP projects through five regional TCPs. In line with OVE's Country Product Protocol (document RE-348-8, paragraph 1.14), these are not part of the country program analyzed in the ICPR; moreover, their results matrices do not have indicators disaggregated by country to verify progress in Brazil.

68 There were projects with average or high contributions in states that together contain three-quarters of Brazil's population. Only the southern and southeastern states had more than two projects each.

69 The operations supported the development of a multimodal transport system in Santa Catarina (BR-L1336/2012) and São Paulo (BR-L1373/2013), important hubs for the country's logistics. The Santa Catarina operation achieved its indicator targets for improving road infrastructure by an average of 75%, below expectations, and does not report progress on other expected outcomes such as reductions in traffic or pavement defects. Other advanced operations supported the construction and rehabilitation of state highways in São Paulo, Paraná, and Ceará, but have not yet reported results on reducing travel times and costs (BR-L1401/2014, BR-L1434/2017, and BR-L1363/2014).

with TCP. Finally, an operation for a ring road in São Paulo faced procurement challenges that prevented its completion (BR-L1296/2011).

5.19 Nearly 10% of CP resources were devoted to the relatively narrow objective of *increasing the share of renewables (wind and solar) in the energy matrix* (ER3.3), with a high contribution through direct progress in installed capacity and indirect progress in improving their financing schemes. Seven IDB Invest solar, wind, and biomass[70] projects achieved advances in installed capacity and generation that represent about 5% of Brazil's total installed renewable capacity, in line with the country's long-term policy.[71] In turn, two IDB Invest operations with financial institutions (11488-03/2019, 11488-04/2021) expanded access to credit for renewable energy projects, exceeding the expected growth in their portfolios. In addition, two TCPs contributed to the diagnosis of trends and definition of scenarios for the energy transition (BR-T1340/2017) and to the implementation of sustainable energy measures in São Paulo for the deployment of distributed solar generation (BR-T1432/2020). Installed solar and wind power capacity increased significantly, from 8.8% of the total in 2018 to 13.9% in 2021.[72]

5.20 The CP's contribution to *enhancing energy efficiency in the country* (ER3.4) was low due to its limited scope and the cancellation of the largest related operation. Only two INVs were directly related to ER3.4.[73] One (BR-L1491/2017) had a higher execution (85%), exceeding the targets for the quality of distribution services in Santa Catarina (reducing the duration and frequency of interruptions and electrical losses). Another INV (BR-L1503/2018) for US$600 million sought to finance municipal works (including efficient urban lighting) through a federal public bank, but there is no evidence that it contributed to RE3.4 and its cancellation is currently being processed, having implemented only 20% of its funds.[74] Two TCPs supported studies to promote

70 BR-L1404/2014, 11924-01/2017, 11924-03/2017, 11984-02/2019 (and associated anchorage 11984-01/2019), 12009-02/2017, 12092-02/2020, 12092-03/2020. Some had below-target generation.

71 In line with the 2024 Ten-Year Energy Expansion Plan, Ministry of Mines and Energy.

72 The total installed capacity of the electricity matrix, as reported by ANEEL in December 2021, was composed of 11.41% wind energy-based generation and 2.53% solar energy-based generation.

73 Several of the water and sanitation projects also set energy efficiency targets for their operations. Only one (BR-L1425/2015) reports improvements in the energy efficiency of its water treatment (20% above target) and sanitation (22% above target) plants.

74 According to the PMR, a partial cancellation was agreed (not yet effective) mainly due to product design flaws that resulted in low demand from municipalities.

energy efficiency at the municipal level (BR-T1395/2018) and to improve service continuity in three state distribution companies (BR-T1422/2019).[75]

5.21 The CP made a high contribution to *improving access to improved water, solid waste, and sanitation services* (ER3.5), although implementation delays were observed. The CP included more than 35 INVs at the state, municipal, and public utility company levels. The average INV took almost 9 years[76] to implement, so only the oldest ones (approved between 2011 and 2014) could be implemented before the pandemic. Most of them achieved significant results in improving access to or quality of some services, while some did not achieve all their goals.[77] IDB Invest supported the operating companies in São Paulo and Rio de Janeiro by financing their work plans with resources in addition to those of the local development banks, which were subject to an exposure ceiling due to prudential regulations. The CP also promoted ER3.5 in the state of Pernambuco (one of the poorest), supporting through IDB Invest one of the largest PPPs in the country (12249-01/2018), which increased the number of households served by about 50%. The lessons learned in this sector allowed the expansion of collaboration between IDB and IDB Invest for joint support packages to other public enterprises, although it is too early to observe the results of these operations. Several TCPs financed studies, particularly in the solid waste sector, where they supported a comprehensive diagnosis of the legal and regulatory framework (BR-T1408/2019).

5.22 The CP made a high contribution to the relatively narrow objective of *improving planning of sustainable urban mobility in the country* (ER3.6) through INVs with municipalities and TCPs to promote sustainable urban mobility at the national level. The CP included about 10 INVs, mostly for large and medium-sized municipalities, with evidence of contribution to the objective in about half of them. These contributed to improving urban planning in São José dos Campos (BR-L1160/2010), promoting the use of the metro in São Paulo (BR-L1227/2010), and public transport in Blumenau

75 Partly as a result of the recommendations of one TCP (BR-T1395/2018), the State of São Paulo launched the Integrated Energy Management Program to reduce electricity expenditures by 30%. The other TCP (BR-T1422/2019) identified measures to improve the resilience of three distribution companies to severe weather events, thus improving their service quality indices.

76 Several INVs have experienced delays due to the pandemic, extending their implementation deadline by more than two years.

77 The programs in Manaus (BR-L1297/2011), Joinville (BR-L1405/2014), Belo Horizonte (BR-L1335/2013), Niterói (BR-L1386/2013), Distrito Federal (BR-L1215/2014) and Pernambuco (BR-L1295/2012) had more comprehensive results, which were in line with the scope of ER3.5. In contrast, in Maués (BR-L1314/2012), although the quality and coverage of water services improved, the coverage of sanitation services was below target (from 8% to 51%, against a target of 85%); in Paraná (BR-L1372/2013), the number of connections increased but was below target; and in Ceará (BR-L1176/2012), more than 500,000 inhabitants benefited from certified sanitary landfills.

(BR-L1272/2012) and São Bernardo do Campo (BR-L1315/2012). In Ceará, 17 of the 42 small municipalities of Valles de Acaraú and Jaguaribe were able to prepare or update their urban master plans (BR-L1176/2012). The TCP (BR-T1394/2018) developed a technical study on sustainable urban mobility in Brazil and implemented a methodology with pilot projects in five municipalities. At the national level, the number of cities that have developed sustainable urban mobility plans increased from 193 to 367 between 2018 and 2022, but there is no information on their adoption or the extent to which they may have improved planning.

SO4: Promote trade liberalization[78]

5.23 The CP made an average contribution to *increasing the country's trade flow* (ER4.1) through improvements in port and logistics infrastructure, as well as financing for exporting companies. Among the oldest operations, IDB Invest (12216-01/2018) supported the increase in the container capacity of a port (Itapoá, the third largest in the country, from 500,000 TEU[79] per year in 2017 to 1,200,000 in 2020) and financed the construction and capacity expansion of various factories (paper, pulp, sugar, vaccines and other immunobiological products), which led to an increase in exports, although somewhat lower than expected.[80] Through the TFFP, IDB Invest financed short-term international trade operations for an average of US$560 million per year (about 0.09% of the value of the country's annual international trade). The remaining aligned operations (including a recent operation to expand the capacity of the country's largest port) are in the early stages of implementation.

5.24 The CP did not have a portfolio to support the *lowering of tariff barriers* (ER4.2) and the contribution to the *reduction of red tape in international trade* (ER4.3) was low, although progress has been made in the agricultural sector and efforts are ongoing through PROFISCO. The 17 PROFISCO II loans were aligned with ER4.3, in particular through a mandatory module for the centralized and automatic payment of foreign trade-related taxes. Although two of the operations have already delivered these products, there is still no evidence of their contribution to ER4.3. Apart from these, two operations (mostly limited in scope to the agricultural sector and not to international trade in general) were also aligned with

78 In addition to support through the CP, the IDB carried out a training and events agenda to promote trade liberalization, including training sessions with officials from the 27 states to attract investment and promote exports, and the organization of investment forums with the federal government and the Trade and Investment Promotion Agency (ApexBrasil). It also supported international trade through Mercosur and the Connect Americas platform.

79 [TEU: twenty-foot equivalent unit, or the size of a container].

80 For example, one project (with Klabin, BR-L1404/2014 and 11984-01/2016) increased the value of its pulp exports, but below its targets. For reference, the value of pulp exports from this project represented about 0.5% of the country's total exports in 2019.

ER4.3. One was the first PBR in Brazil (BR-L1528/2018), which managed to reduce the average time for inspection, registration and authorization services for beverage exports (from 45 to 2.9 days), as well as the average time for importing animal genetic material and live animals (from 20 to 6.4 days). The other was a TCP (BR-T1443/2020) that supported studies to promote investment and exports, but there is still no evidence that these studies have contributed to ER4.3.

SO5: Integrate the less developed regions

5.25 The contribution to *reducing income disparities between the country's regions* (ER5.1) was low due to delays in the implementation of the limited program that directly supported this objective. Few operations to promote the productive sector in the lagging regions directly supported this objective. One INV (BR-L1289/2013) facilitated the integration of rural producers into forestry value chains in the state of Acre and reported improvements in the income of beneficiary families, although it is difficult to attribute this result.[81] Two INVs that aimed to increase income and formal employment through tourism activities in the state of Sergipe and the municipality of Salvador experienced a reduction in their contribution due to the cancellation of 72% of the approved amount (in BR-L1256/2013), as well as delays due to changes in the executing agency and the bidding of works. The CP also contributed indirectly to ER5.1 through its regional focus: 56% of the CP amount had a regional focus, but of this portion, the Northeast region received 26% of the amount and the North received 5.5%.

5.26 The CP made an average contribution to increasing the competitiveness of the less developed regions (ER5.2), with a large portfolio focused on the Northeast and North regions. Fifty-three (53) operations aligned with ER5.2 were identified for US$2.1 billion (13% of the CP), with mixed results in the different dimensions of regional competitiveness.[82] Nearly a third of them have information on results. In the infrastructure sector, the increase in basic electricity generation capacity in Sergipe, the increase in access to the telecommunications network in the region, and the construction of sanitary landfills and rehabilitation of urban areas stand out. In human capital, a reduction in the hospitalization rate for diabetes mellitus and stroke was achieved as a result of the construction of basic healthcare units and emergency care

81 Its PCR (not yet validated by OVE) reports that the income of beneficiary families increased by 28% compared to non-beneficiaries (the target was 12%). However, OVE was unable to verify the credibility of the comparison between the treatment and control groups because the PCR does not include supporting evidence.

82 The State Competitiveness Ranking, the indicator selected in the CS to measure ER5.2, consists of 10 pillars: (1) public safety, (2) infrastructure, (3) social sustainability, (4) fiscal soundness, (5) education, (6) environmental sustainability, (7) government efficiency, (8) human capital, (9) market potential, and (10) innovation. As with the

units in Fortaleza (BR-L1414/2016), and progress is reported in the performance indicators of the healthcare system in Ceará (BR-L1408/2016). On the other hand, no progress was registered in improving the efficiency and control of public spending in Tocantins (BR-L1255/2012), nor was the objective of linking producers to competitive and sustainable value chains achieved in the State of Acre (BR-L1289/2013). The rest of the active portfolio is still young (28% average disbursement) and has not yet reported results. The competitiveness of Brazilian states in the North region will improve from 38.8 in 2017 to 43.2 in 2022, while in the Northeast region it will improve from 40.9 to 44.8.

SO6: Reform the structure of public expenditure

5.27 The CP aligned with *public expenditure* (SO6) had a low contribution to its three ERs due to its low feasibility and implementation. Seven operations supported the *reduction in the pension system deficit* (ER6.1): five PROFISCO II INVs sought to implement an accounting and human resource management model focused on pensions, including updating the cadastre, but did not yet report results (none exceeded 50% disbursement); one PBL (with no disbursement) sought to approve a pension supplement regime and limit the maximum value of pensions; and one TCP (BR-T1357/2017) reported progress on products to support the retirement system for public employees at the federal level, but no information on its use to advance ER6.1. Fourteen operations supported the *reduction of tax expenditures* (ER6.2): 12 PROFISCO INVs supported the implementation of models, methodologies and systems for the management of fiscal benefits, of which two have already implemented the products, but without evidence of contribution; one TCP aims to identify and quantify fossil fuel subsidies and their fiscal impact on the three levels of government, but has not yet been disbursed; and another supports the analysis of fiscal benefits granted by states to attract investment. Finally, the 21 operations under PROFISCO I or II (with an average disbursement of 30%) indirectly supported the *control over the increase in the public sector wage bill* (ER6.3):[83] there is evidence that only three of them contributed to a human resources management model, homogenizing the competency profiles of the Treasury Secretariats of Tocantins (BR-L1255/2012), of the Federal District, although partially (BR-L1349/2013), and of the National Ministry of Finance (BR-L1250/2013). Finally, it should be noted that the CP includes

other goals, some of these 10 pillars were included as specific CS objectives in SO2, SO3, SO4, SO5, SO6, SO7, SO8, SO9, SO10, and SO11. The CP aligned with these SOs also supports ER5.2.

83 The PROFISCOs were more focused on increasing revenue collection, so their direct contribution to the three ERs (related to tax spending, pensions and the public wage bill) was more limited.

several actions aimed at reforming the structure of public spending more broadly than through the three ERs identified in the CS. These actions include, for example, structural reforms of public finances and public procurement models. Many of these initiatives are reflected in SO8, as technology has often been used to strengthen the efficiency of public spending.

SO7: Perfect the public investment system

5.28 The CP made a low contribution to *improving public investment efficiency* (ER7.1) because it supported operations that were still in the early stages of implementation. Eight INVs and four TCPs addressed the objective by developing plans, methodologies and systems (e.g., digital transformation initiatives) that could have some impact on public investment but were not specifically designed to do so. Almost all are still in the implementation phase. Operations are still in the early stages of implementation, with some experiencing delays in signing and personnel changes. Only three INVs managed to disburse more than 40% (against an average of 21%), and only one of them (BR-L1511) implemented a proposed public investment management methodology, but there is still no evidence of its contribution to the objective. Of the four TCPs, the only completed TCP developed knowledge activities, but no evidence of their potential impact on the efficiency of public investment has yet been reported.

SO8: Promote e-government and digital solutions to foster transparency, accountability and efficiency in delivering services to citizens and enterprises

5.29 The CP's contribution to *increasing the adoption of e-solutions for public service delivery* (ER8.1) was high, with significant progress in the digitalization of government administration in several sectors. Six INVs and seven TCPs contributed to the development and implementation of e-solutions in different sectors and levels of government, involving coordination between different levels of government and public institutions. Four INVs under PROFISCO I increased the efficiency of tax and accounting management in the states of Bahia, Tocantins and the Federal District through the implementation of the electronic consumer bill, tax collection management systems, a new citizen service model, and the implementation of the Brazilian Public Sector Accounting Information System (SICONFI, used by more than 5,000 Brazilian municipalities, 26 states, the Federal District and the Federal Government). TCPs that benefited from the federal government's leadership supported the implementation of the public procurement portal, which brought together information from 2,541 government entities[84]

84 It included activities for the review of legal frameworks, technological developments, training and subsequent dissemination to federal and subnational public entities, allowing for greater transparency in public procurement and acquisitions with the

(BR-T1414/2019), as well as the inclusion of 105 municipalities in the national digital government network by receiving training from the federal government to carry out their digital transformation (BR-T1470/2021). Another TCP piloted the digitalization of primary and secondary school enrollment in the state of Bahia, which was later implemented in other states,[85] as well as other services such as the processing of driver's licenses, identity documents, and work permits (BR-T1332/2016). Other TCPs supported improvements in cybersecurity (BR-T1512/2022) and strategies to promote the digital transformation of subnational governments (BR-T1442/2020). The remainder of the portfolio is, on average, 23% disbursed and has yet to report results.[86]

SO9: Build a more effective government

5.30 The contribution to *increasing the effectiveness of public policies* (ER9.1) was low given the small size of the CP compared to the breadth of the objective.[87] The CP promoted some progress without a common focus. These included strengthening the management processes of some state health secretariats and governance in the security and education sectors.[88] In housing, the quantity and quality of real estate records were increased by improving management systems (BR-L1224/2011).[89] In agriculture, the agricultural and livestock insurance program was implemented (BR-T1404/2018), and the modernization of the management systems of the federal animal and plant health laboratories was supported (BR-T1370/2017). Similarly, proofs of concept for the digitalization of public services were carried out (BR-T1332/2016) and a web platform for best practices in tax administration was created (BR-T1417/2019).

SO10: Improve management and the quality of spending and infrastructure in the education and health sectors

5.31 The contribution to *improving student learning levels* (ER10.1) was low, affected by slow implementation and cancellations, exacerbated by the pandemic. Most of the projects aimed at improving learning levels suffered delays, a situation exacerbated by school closures

publication of notices of requirements, prices and contracts.

85 To date, in Santa Catarina, Federal District, Pará and Goiás.

86 Half of these (15 operations) were approved in the last two years of the CS.

87 The CS progress indicator—the World Bank's Government Effectiveness Index—includes perceptions of the quality of public services, the quality of public administration, the degree of independence from political pressure, the quality of policy formulation and implementation, and the credibility of government commitment. At the country level, the score remains unchanged from 2018 to 2021.

88 Some TCPs have produced results such as the technological improvement of the management system of the *Criança Feliz* program, the reduction of the waiting time for emergency care at the General Hospital of Salvador (from 30 to 5 minutes), and the creation of a knowledge platform on citizen security.

89 With TCP, nine pilot projects and action plans were carried out in three states to provide rent subsidies.

and pandemic-related restrictions.[90] Only two INVs were closed and are showing results. One INV supported training for teachers in Florianópolis (BR-L1329/2013), but the results in student learning levels were not achieved.[91] Another INV (BR-L1328/2013) in the State of Amazonas reported mixed results: Portuguese and mathematics scores on the 2021 Brazil/SAEB test for 9th graders improved (although below target) and virtual instruction was facilitated during the pandemic, but average scores in the same areas for 3rd grade middle school students were reduced. Another INV with advanced execution, which implemented a school strengthening program and supported teacher training in Pará (BR-L1327/2013), reported improvements in the percentage of students reaching the minimum learning level in 9th grade in Portuguese and math (although below target), as well as improvements in the high school graduation rate of 19-year-olds (above target). The CP's contribution was affected by the cancellation of an INV aimed at strengthening federal education policy (BR-L1543/2020) due to delays in its legislative approval. The CP had eight TCPs, most of which aimed to generate knowledge to improve the quality of education, but without evidence of results towards the ER of improving learning levels.

5.32 The contribution to *preparing workers to compete in a dynamic labor market* (ER10.2) was low due to the small size and age of the CP.[92] A single INV supported this ER: in the state of Paraná, it sought to facilitate the transition from basic to higher education and from higher education to the job market; it supported technical vocational education courses related to technology and better links between schools and private companies (BR-L1551/2021). Two TCPs sought to provide technical training, including a mobile app developed in São Paulo that uses a vocational test to guide students towards digital careers. Both the INV and the TCPs are at an early stage of implementation (22% disbursed) and have not yet reported results.

5.33 The CP had a low contribution to *increasing citizens' life expectancy* (ER10.3) due to its weak alignment, and a high contribution to *expanding access to and quality of primary care services* (ER10.4), where it continued to support the consolidation of the country's sectoral policies. Five INVs increased the coverage of health services

90 This ER was served by seven INVs to support the strengthening of subnational education policies (with a focus on the northern and northeastern regions), and one INV to support federal education policies. These INVs faced implementation challenges due to the constraints imposed by the pandemic, in addition to capacity depletion due to staff turnover in the Ministry of Education (BR-L1327/2013 and BR-L1328/2013) and executing agencies (BR-L1329/2013 and BR-L1372/2013).

91 The PCR (not yet validated by OVE) reports that the learning level results were not measured as originally planned (using the *Prova Floripa*) due to resistance from the teachers' union of the municipality of Florianópolis. However, results were reported based on the *Prova Brasil,* but with measurements only until 2017, while the project was implemented until 2022.

92 The previous CS had set a similar ER (increasing the proportion of students in vocational technical schools), which, according to the previous CPE, was also not supported by the CP.

and reduced the annual rate of hospitalizations requiring primary care in two states and three municipalities[93] through the construction of Basic Healthcare Units (UBS) and Emergency Care Units (UPA). All operations supported long-term policies promoted at the federal level. Other INVs report progress in terms of products, but not in terms of results.[94] In terms of *increasing life expectancy* (ER10.3), the results of completed projects on premature mortality due to diabetes mellitus or stroke are mixed. While the results of improving access to and quality of primary care services have a positive impact on *life expectancy*, the program was limited in scale compared to the ambition of the ER, so its contribution was small.

SO11: Enhance the effectiveness of citizen security services in the control and prevention of violent crimes

5.34 The CP made a low contribution to *reducing the number of homicides* (ER11.1) and *violent crimes against property* (ER11.2) due to regional targeting failures and implementation delays. Nine INVs supported the strengthening of citizen security policies at the subnational level, with a focus on the southern and southeastern regions,[95] and one had a national focus. Most suffered delays,[96] and only two at the municipal level completed their implementation and reported results:[97] it contributed to the reduction of the homicide rate in the municipality of Novo Hamburgo (Rio Grande do Sul), from 89 to 22 homicides per 100,000 inhabitants between 2010 and 2019 (BR-L1187/2012); and generated a change in the risk behavior of young people in vulnerable situations in the municipality of Fortaleza (Ceará), as evidenced by the decrease in the propensity of individuals to carry a firearm (BR-L1414/2016). At the federal level, following the approval of the Unified Public Security System in 2018 (SUAS), support was provided to the government to guide the country's public security policy.[98] With TCP, a platform has been developed with solutions in the design of public policies for citizen security,

93 The states are Ceará (BR-L1408/2016) and São Paulo (BR-L1376/2013), and the municipalities are Salvador (BR-L1389/2014), Fortaleza (BR-L1414/2016) and the city of São Paulo (BR-L1429/2018).

94 Two active INVs report progress on products, through the construction of hospital infrastructure in São Bernardo do Campo (BR-L1415/2014), as well as the construction of the Brasilândia Hospital and the construction of 6 UPAs and 81 UBSs in São Paulo. Two other INVs suffered delays with suppliers (logistics chains and shortage of medical equipment after the pandemic) (BR-L1519/2018), as well as weaknesses in the delivered pre-investment projects (BR-L1518/2019).

95 Violence is concentrated in the North and the Northeast, while the CP is concentrated in the South and Southeast. In 2021, an INV was approved in the Northeast: Ceará (BR-L1546/2021), the fourth state by homicide rate.

96 Mainly due to high turnover of implementing personnel and procurement problems.

97 Together, the two municipal-level operations concentrate 1% of the country's population. In addition, two state-level INVs have reached advanced execution (BR-L1343/2014 with 100% disbursed and BR-L1406/2014 with 88% disbursed) but have yet to report progress on results.

98 Transferring responsibility for subnational sector policies to the Federal Government.

which will be used by a federal INV (BR-L1547/2021, pending legislative approval) that will finance a long-term credit line from BNDES for citizen security projects.[99]

SO12: Raise the efficiency of the public job placement system

5.35 The CP had a low contribution to increasing the effectiveness of *job referrals at public job placement system offices* (SR12.1) due to modifications, a young portfolio, and lack of evidence. The aligned portfolio included two INVs and five TCPs. Only one INV (BR-L1406/2014) reached advanced implementation, and it focused only on the state of Ceará (concentrating 3.7% of the country's unemployed population). The other INV (BR-L1523/2020), which aimed to cover municipalities in three states, did not achieve advanced execution during the review period. Some of the TCPs financed relevant research to identify improvements in the use of resources in the job placement system, to measure the performance of employment agencies and to evaluate the impact of the system on beneficiaries. Proposals for practical solutions to improve various aspects of the job placement system have been developed, but there is no evidence yet that these have been translated into concrete improvements.

SO13: Implement efficient policies to increase access to housing

5.36 The contribution to *reducing the housing shortage* (ER13.1) was low given the narrow geographic focus and the delay in the related CP. The entire CP aligned with SO13[100] faced implementation challenges, mainly due to the impact of the pandemic and compliance with environmental and social safeguards. Of the two INVs with advanced implementation, one (BR-L1372/2013) contributed to increasing the percentage of families living in improved houses in Paraná (76% of the target), while the other (BR-L1160/2010) had contractual modifications that abandoned the focus on housing in São José dos Campos.[101] Other INVs managed to increase property ownership in the municipality of Niterói (BR-L1386/2013), housing improvements in São Luis (BR-L1117/2012), urban improvements in Rio de Janeiro (BR-L1175/2010) and an increase in the relocation of families in São Paulo, although below the planned level (BR-L1241/2010).[102]

99 The federal PROSEG platform (https://prosegfederativo.com.br/) allows all subnational governments (without credit rating restrictions) to analyze their security situation and access technical and financial solutions to implement evidence-based policies.

100 The CP focused on reducing the qualitative housing shortage by titling informal settlements and improving construction materials. Few sought to build new units.

101 The project underwent modifications, including the elimination of activities to reduce the housing shortage (due to non-compliance with the Bank's environmental and social safeguards policies, as verified through a MICI investigation process).

102 In turn, some TCPs improved housing programs (BR-T1436/2019) and provided training (BR-T1441/2019), but there is no evidence that they contributed to reducing the housing shortage.

06

Conclusions

6.1 The CS set objectives relevant to the country's needs and priorities, but their breadth and generality prevented them from serving as a guide for the CP. The CS set targets that were relevant to the country's needs and government priorities. However, these objectives were ambitious (more than doubling the ERs of the previous CS, even though the previous CS had identified unresolved challenges to contribute to this smaller set of ERs), unselective (encompassing almost all of the country's priorities), and broad (attempting to address complex multidimensional challenges such as competitiveness or government effectiveness).

6.2 The CS positioned the IDB Group as a generalist financier, although in practice it managed to differentiate itself by developing some public-private synergies and innovation in its product offerings for the private sector. The objectives of the CS did not reflect the demonstrated capabilities and comparative advantages of the IDB Group. Despite efforts to adapt its business model (as recommended in the previous CPE), it continued to seek access to a portion of the country's limited fiscal quota of sovereign guarantees, as did a growing number of financiers. Similar to the previous period, the amount of SG financing approved in the period was lower than anticipated in the CS, limited by the debt absorption capacity of subnational entities and the challenge of adding value (beyond the cost of financing) at the federal level. Although the CS did not anticipate how to leverage the Group's comparative advantages, such as the synergies between the IDB and IDB Invest, nor the remarkable innovation in IDB Invest's product offering, both took place later during the period.

6.3 The IDB Group also managed to differentiate itself through its knowledge agenda, although there are challenges in managing it and measuring its contribution. The IDB managed a knowledge agenda that was characterized by its breadth and responsiveness to the needs, mostly of the Federal Government. Government representatives highlighted it as differentiating in comparison with other multilaterals, especially because this support was not tied only to specific projects in the current portfolio. Despite its perceived importance by both the Government and the IDB, there is not enough information on its results or possible contribution to CS objectives. In the case of Brazil, the country office made efforts to organize this agenda, but the IDB does not have a corporate system for recording and analyzing knowledge products to facilitate sharing the knowledge generated. These challenges are consistent with previous OVE findings on IDB knowledge products.

6.4 The CS also failed to adequately articulate how it would contribute to the objectives, monitor progress and manage risks. In addition to selectivity challenges, the CS had flaws

that undermined the intended theory of change (relevant for anticipating how a country-scale limited CP would contribute to the broad objectives). The CS's monitoring mechanisms were ineffective: only one-third of its PIs could be updated to 2022, a foreseeable challenge when the CS was prepared. Finally, the CS proposed mitigation measures with an inadequate logic and timing for some risks (such as mitigating program risks through slower execution of the program itself) although in practice, it managed to mitigate the risks of low technical capacity of executors (through diagnostic work and capacity building of counterparts, in coordination with the Federal Government) and foreign exchange risk (encouraging the use of local currency financing and the support of IDB Group treasuries through specific facilities and products).

6.5 The CP managed to cover all SOs, but had weak alignment with more than two thirds of them. The CP was strongly aligned with 4 of the 13 SOs: integration of the less developed regions, e-government, citizen security and public job placement system. The CP had weak alignment with the rest of the SOs for two reasons that affected the feasibility of its contribution: focus and scope. In some cases, the CP's focus was indirect in relation to the objectives or incomplete in terms of certain broad objectives that required the simultaneous promotion of several elements. In other cases, the scope of the CP was geographically limited while the objective was national in scope, or the CP was very narrow compared to the ambition of the objectives.

6.6 Although most of the period passed under the impact of a global pandemic that could not have been foreseen when the CS was formulated, the CP maintained its focus on objectives, favored by a relative *status quo* in the interaction with the country. Although the previous CPE recommended an adjustment of the instrument mix and business model by borrower type, the pandemic led to drastic changes as the country continued to seek IDB support mainly through INVs for subnational entities and public financial institutions. The complex legislative approval process (which takes twice as long as the IDB average) was not modified during the pandemic, and as a result, some of the planned support in response to COVID-19 (including through prototype operations) was not signed.

6.7 Despite this difficult context, the CP achieved notable successes in areas such as e-government and renewable energy. Even without the guidance of a focused CS, the IDB was able to establish itself as a benchmark in e-government issues. The PROFISCO CCLIP differentiated the IDB's value proposition, allowing it to work with virtually all states and the federal government, and to benefit from preferential treatment in terms of legislative approval. By

doubling the number of TCPs and intensifying its work with the federal government during the period, the IDB continued to open lines of work that could mature in the future. This was coupled with a near doubling of IDB Invest financing, including in local currency, which promoted complex projects where it helped mitigate environmental and social challenges, and with thematic bond issues and structures that succeeded in attracting third-party capital. The TFFP was also used to provide important countercyclical support, particularly during the pandemic.

6.8 Four factors were associated with better CP contributions: correspondence, consistency, experience, and signaling. The CP made better contributions when: (i) there was *correspondence* between the scope of the objectives set in the CS and the CP dimension that supported them, (ii) there was *consistency* with government policies promoted at the federal level, (iii) there was *experience* gained that allowed for the improvement of successive interventions based on evidence, or (iv) the IDB Group used its *signaling* capacity to provide a quality label to projects of technical complexity that it helped to improve, thereby mitigating external perceptions of environmental, social, and financial risks.

6.9 However, the CP made only a low contribution to most of the multiple CS objectives due to four factors: feasibility, maturity, implementation, and evidence. First, on average, 30% of the CPs supporting each objective consisted of weakly aligned operations, which by design had low *feasibility* to contribute. Second, an average of 16% of the CPs were not mature enough to expect results. Third, 6% of the CPs did not contribute because they were severely delayed projects, although they had been under *implementation* for a considerable time. In fact, execution problems also affected younger INVs (84% suffered some serious problems, the most common being those related to delays in legislative approval, the pandemic, the capacity of some subnational executing units, and those related to procurement processes). Fourth, an average of 25% of CPs reported progress on products but did not link them to contributions to CS objectives—a notable evidence gap that the CS did not seek to mitigate by strengthening or making greater use of national monitoring and evaluation systems.

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