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Country Program Evaluation BRAZIL Period 2000–2008

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ABBREVIATIONS

BN	Banco do Nordeste do Brasil
BNDES	Banco Nacional de Desenvolvimiento Econômico e Social [National Economic and Social Development Bank]
CCLIP	Conditional credit line for investment projects
CEF	Caixa Econômica Federal
COFIEX	Comissão de Financiamentos Externos [External Financing Commission]
CPE	Country Program Evaluation
ESP	Specific investment loan
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LRF	Fiscal Accountability Act
MCIDADES	Ministry of Cities
MSMEs	Micro, small, and medium-sized enterprises
PCR	Project completion report
PFM	Multiphase program
PNAFE	National Fiscal Administration Program for the Brazilian States
PNAGE	National Program to Support Modernization of Public Administration and Planning in the States and Federal District
PPMR	Project Performance Monitoring Report
PROCIDADES	Lending Facility for Financing Brazil's Municípios
PRODETUR/NE	Northeast Tourism Development Program
PRODEV	Program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness
PROFISCO	Program for Management and Integration of Tax Administration
PROMOEX	Program to Modernize External Control of the States
PROPREV	Project to Modernize Management of the Pension System
PSL	Private-sector loan
SEAIN	Department of International Affairs of the Ministry of Planning, Budget, and Management
SECAD	Department of Continuing Education, Literacy, and Diversity
STN	Brazilian National Treasury
SWAp	Sector-wide approach
TCU	Tribunal de Contas da União [Federal Court of Accounts]
TFFP	Trade Finance Facilitation Program
TFRP	International Trade Finance Reactivation Program
UNIAFRO	União de Cultura Negra em Santa Catarina [Union of Black Culture in Santa Catarina]

EXECUTIVE SUMMARY

CONTEXT AND COURSE OF DEVELOPMENT OF THE PROGRAM

The Country Program Evaluation (CPE) analyzes the recent performance of the Bank's portfolio of operations. Accordingly, it must cover a period of time that is long enough to provide sufficient information to evaluate the development outcomes. In this case, the period evaluated was 2000–2008. Two country strategies were approved during that time,[1] which were prepared in two very different contexts in Brazil.

The 2000–2003 strategy was prepared following the 1999 crisis that had led to difficulties in terms of flows of resources to the country, high levels of debt, and macroeconomic uncertainties. The program, reflecting those constraints, focused on investments by the federal government. In 2003–2004, the new administration undertook a portfolio review that entailed a significant cancellation of resources.[2] Among other things, this reflected a change in the government's strategic approach.

The 2004–2007 strategy was approved when the government had the macroeconomic situation under control and an agreement had been reached with the Bank to reduce the amount of resources in the portfolio. The country strategy established development guidelines similar to those set in the previous strategy, but introduced the content and emphasis dictated by the context and policy thrust. A scenario was selected that maintained the importance of the federal government portfolio, since constraints on the financing of expenditures and growing needs for infrastructure investment were projected to continue.

The result—that the country would require a program comprised primarily of projects with the federal government—did not materialize. The program's structural adjustments reduced the importance of the country's traditional financing requirements from the Bank. Macroeconomic factors and fiscal measures, aided by growth in aggregate demand, also improved the performance of internal resources in the budgets. Moreover, the increased financial capacity of the subnational governments[3] suggested that they would emerge as increasing beneficiaries of international cooperation.

Confidence in the government's commitments to achieve stability and bring about equitable growth with balanced external accounts made it possible to reverse and diversify the flow of financing to the country.[4] The firm commitment to stability was associated with the establishment of very demanding primary surpluses. This meant there was little fiscal headroom to increase public investment, in particular that associated with external borrowing.

In this context, lending to borrowers prioritized by the government (subnational governments for the reasons cited above and the private sector), with complex, disparate problems but better positioned to take on debt with the Bank, began to grow in importance. This offset the decline in federal government financing and increased portfolio concentration.

In 2006, we began to see reactions to the strategic changes proposed by the government in its dealings with the Bank. Those changes were made in a context of solidifying progress in poverty reduction, sustainability of macro and fiscal stability, a current account surplus, and greater access to the capital market. The previously prevailing concern over the fiscal impact of investment projects on public accounts was reduced.

Those improvements made it possible to strengthen growth acceleration[5] as a strategic objective, as growth was trailing other similar countries and the region. More opportunities were created than in previous years to develop relationships with the states and municípios behind public policies in the context of the Fiscal Accountability Act (LRF). The Growth Acceleration Program was created with fiscal reserves to reduce the wide infrastructure gap, aiming for greater involvement by the private sector and the states in tackling that challenge.

The Bank was pragmatic, albeit not without difficulties, in adapting itself to demand from the country. In that process, it was an active participant in creating effective mechanisms and instruments to resolve problems of efficiency in implementing the program with new development stakeholders, imbuing its work in different environments and with specific problems with greater flexibility and capillarity. Approval and execution delays continued to be significant, widening the gap between expected and actual results and reflecting difficulties in the approval of initiatives. Delays in the project cycle are a distinctive feature of doing business with Brazil. Difficulties in enhancing efficiency and value-added within the planned timeframes for the operations reflect the influence of other problems, mainly institutional and country context problems, together with Bank issues, that are not given sufficient consideration in the diagnostic assessments. Achievements were not clear in measuring the portfolio's development effectiveness, reducing the rigidity of the Bank's contractual and operational obligations, or increasing integration with country systems.

In **2007**, the Bank's realignment began to be implemented in Brazil. Its initial impact made the relationship somewhat erratic, creating confusion there as to who would be responsible for making decisions on the future strategic and operational agenda. In practice, this increased delays and created uncertainty with respect to aspects that were being agreed upon to overcome problems related to the portfolio and its growth.

The system for coordinating the relationship and institutional dialogue established between the Bank's Country Office and the Department of International Affairs (SEAIN) of the Ministry of Planning, Budget, and Management and the Comissão de Financiamentos Externos [External Financing Commission] (COFIEX) as a result of those misunderstandings was a clear, timely response by the Bank to those initial unfavorable impacts of the realignment.

Recent developments in the Bank's dealings with the country are reflected in sustained growth in demand for investment financing, which contrasts with the decline in the country's total gross financing requirements. The programmed business plan is being expanded and diversified, reducing the risk of portfolio concentration in a few sectors or in large clients.

This trajectory is bringing about a shift in emphasis towards increasing the development effectiveness of the current strategic partnership. Emphasis is placed first on the need for concrete commitments to streamline the project cycle and the disbursement process, and second, on the need for the program's impact to be achieved through the selective and replicable approval of resources in niches. Portfolio growth is contingent on there being more flexible and less transactional platforms and financial instruments, combined with the possibility of utilizing country systems. Efforts are being made to improve implementation of the substance of operations and the availability of resources resulting from their approval, ensuring greater consistency between programming and budget execution.

The Bank is recognized as an effective and suitable partner for improving the efficiency of beneficiaries. Not as clear is whether it has achieved less transactional operations, there is certainty regarding the programmed versus actual flow of resources, and it is a Knowledge Bank.[6]

RESULTS AND THE BANK'S CONTRIBUTION

The main conclusions and lessons learned drawn from the evaluation of the program's results are discussed below. Two issues considered to be important for the Bank's relationship with the country in structuring the next country program are highlighted at the end.

A. Conclusions and lessons learned

The evaluation found that the impacts on the country's development were not measured, despite the number of indicators established in the programs and projects. This does not mean that the program did not obtain results, but rather that it is difficult to conclude that those results can be attributed to the Bank's support.

The Bank's main contribution was its ability to transform its country program into a relevant business plan, filling niches and developing financing mechanisms that were consistent with institutional changes and changes in the country's policy priorities.[7] In 2006, the Bank began to craft a partnership with the country that led to programming of interventions with future development potential. That program was consistent with continuing to use the Bank to strengthen investment and applied knowledge, and with incorporating the new national stakeholders acting on priority policies as direct borrowers. Given the limited amount of time that has passed, it is premature to make categorical assertions as to the effectiveness of the portfolio on the new course. We can, however, confirm that a more consistent and orderly strategic partnership with the government has been achieved, creating favorable expectations for a more catalytic, knowledge-centric role for the Bank. Likewise, the groundwork is being laid to boost the transactional efficiency of the financial mechanisms created within the country focus.

Contributions were mainly the result of a change in the vision for the strategic relationship with Brazil that began to materialize in 2006. That vision recognized the interplay of the country's challenges and limitations and that, to be effective, they must all be taken into consideration, acting first and foremost on those that pose the greatest threat to the program's success. Until that time, the program contained a series of actions for each development issue, without establishing a hierarchy of the multiple goals and priorities set based on what the Bank could potentially contribute to the country. It was assumed that separate action on each area/problem would add to the effectiveness of the whole. This view failed to recognize the interplay of the challenges and limitations, and that it is necessary to act first and foremost on the issues that most hinder the progress of the program. Ultimately, effectiveness was identified with maintaining a certain level of business (approvals and disbursements) irrespective of the relevance of the program and the timeliness of the interventions.

As a consequence of the problems resulting from implementation of the Bank's realignment starting in 2007, progress was made in the system for coordinating the relationship and institutional dialogue with the government counterpart. This has expanded the possibilities for leveraging the programming actions with all of the Bank's windows within a results-based approach.

Niches are currently being solidified, including: in the fiscal area, deepening of the federalization of tax systems in relation to tax administration and the quality of spending; financing of urban development to improve quality of life in cities; and financing of micro, small, and medium-sized enterprises (MSMEs) through development banks. In areas where there was a greater lack of continuity in the program for the period—financing of federal social welfare, social spending, and infrastructure programs—there is a clear line of thought that infrastructure can become a sector niche linked to the financing of private sector concessions under the Growth Acceleration Program and the transportation portfolio with the states.[8]

Also part of this trend are the knowledge requirements for building capacity for analysis and public administration at the sector level. In particular, there are requests for technical cooperation projects in education to evaluate educational quality, which is a fundamental need for the country. With respect to social spending, there is a need to find solutions to a host of specific issues related to policy optimization.[9] In the area of building of the institutional capacity of the State, significant work needs to be done to make public spending more efficient, by strengthening management improvements and applied knowledge, and optimizing policies (policy holes). To the extent that greater resources are available, greater relative importance is anticipated of performance-based management and participation in renegotiation of the states' debt that was reformulated in 1997, which while very successful from a stability standpoint takes up a lot of fiscal headroom.[10]

One sector that is growing is the non-sovereign guaranteed portfolio. The Bank's recent efforts to involve the private sector in programming to prevent the erratic situation that had been occurring with this portfolio are notable. For Brazil, private sector financing must be aligned with the government's strategies and priorities, involving the Bank in private projects of public interest. In these times of tight credit and systemic risk aversion, the ability to access resources in the international market is more important than the cost of financing for this sector. It is crucial to find solutions that avoid competition between the public sector window and the Bank's private sector window, as well as to relax the requirement that 100% of the amount of loan guarantees be considered committed funds.

The problems associated with the design and approval of operations[11] and with inadequate integration of disbursements with country systems, together with the handling of constraints derived from the political-institutional cycle and the unexpected influence of the clients' agenda on the program, become a key part of the aforementioned new vision of country program effectiveness. For several of those issues, it is not the exclusive responsibility of the Bank to help find a solution.[12]

Flexible and less transactional investment lending instruments (mainly the conditional credit line for investment projects (CCLIP)) have been more beneficial for programming than when structured as operations. The country does not see efficiency gains from the CCLIP since each operation is independent and the concept of a line of credit is lost. This reduces the certainty of attaining the objectives for which the CCLIP was established, particularly at the federal level, and raises the uncertainty that the country can program the resources in its financial plans and targets.

The asymmetries and tensions between the expected logic of the program implemented and the conditions on the ground (delays in execution, gaps between expected results and results achieved by the operations designed using new lending instruments, lack of project sustainability, etc.) were largely due to the influence of institutional and contextual factors. Those factors were given insufficient consideration as problems in the diagnostic assessments. Their effects are what cause imperfect outcomes and unexpected behaviors. The Bank's programs largely had sound technical logic, but have not given enough merit to the influence of institutional constraints. Those issues are important and common to all areas of action. They are not derived exclusively from problems with legislation, the political cycle, or consistency with national oversight procedures, but rather also from the Bank's institutional framework.

Nonfinancial products have not been properly targeted for the range of demands for innovative and sophisticated development solutions. The country's complexity cannot be remedied by looking at similar experiences in the region. The country is wisely endeavoring for the Bank to play a catalytic and complementary role in this regard as well. Not only is the volume of resources important, but also their quality and impact on results. For nonfinancial products, this means scattering them less across different areas and ensuring a more direct relationship with national programs, irrespective of whether they have financing as loans. The Bank is not seen for its knowledge contribution, but rather because it provides efficient access to information networks and knowledge sources, and because it has faster procedures for such purposes.

B. What type of Bank is needed in the new country strategy?

The Bank is a small player in financing the Brazilian economy. In a large country, this has meant that the value-added of its role is identified with **the ability to establish a selective contribution to investment in niches within the priority development challenges where Brazil requires its involvement**. Small changes in the economy or in Brazilian policies have a very significant effect on the quantity of resources and the type of support required from the Bank. When those requirements emerge in periods that are sharply impacted by external crises or external debt restructuring, the country needs the program to concentrate on the public sector and be geared toward generating annual net positive cash flows that, at a minimum, offset its debt service.[13] During periods of growth, the Bank has a limited capacity to meet Brazil's potential demand for resources based on the levels of exposure and risk involved.

But Brazil does not change its demand for Bank resources for investment and technical cooperation projects even when facing short-term contingencies in its business cycles. That characteristic, which is rare in other countries in the region, creates a context of continuity and stability for the Bank's role in supporting long-term sustainable development actions.

Integration of the Bank's financial and nonfinancial products has been increasing in importance and complexity. Authorizations to take on debt and approval of the country program increasingly depend on how much the Bank adds to the financial resources it provides. The knowledge and analytic work derived from its advantages as a specialized organization in economic policy in the region, the capacity to devise solutions for key issues, and the building of national institutional capacity to improve the quality of services and outcomes are a key part of the contribution sought from multilateral institutions. In these areas, Brazil presents a complex situation. On the one hand, it has its own capacities and genuine experience of excellence in various areas of economic and social activity, which the Bank should bear in mind when determining where to carry out its analytic work and in what areas to act. On the other hand, there are sectors and levels of government with less developed analytic, institutional management, and knowledge implementation capacity. That asymmetrical progress, added to the selective role of the programmatic relationship, made the growing demand for knowledge more diverse, specialized, and sophisticated.

Being a small development stakeholder acting in specific niches has been creating an ever pressing need for a **Bank that is administratively nimble and flexible in the business cycle.**[14] Reducing transactional costs and delays through better adaptation to the speed of changes in demand and to the volatility resulting from the institutional context is a strategic objective of working with multilateral organizations. This situation, in addition to the priority given to more complex and sophisticated borrowers, will continue requiring efforts to use more innovative instruments in the fundamental relationship, stimulating greater harmonization and use of country systems and procedures and greater consistency with the multiyear plan for budget execution and the quality of the country's execution.

The Bank is facing the challenge of exploring **new paths for designing the country program** based on a hierarchy of objectives and instruments where it is a priority for the Bank to intervene, based on country needs. This means that the focus must move beyond programming for what the Bank could potentially contribute, or based on what is understood to be best for all the countries in the region or on replicating best practices, assuming their effectiveness *a priori*. The program's attribution should be supported by the rationale that the prioritized scenario best addresses the issues that most compromise its effectiveness. Those issues include the most suitable implementation modalities, acknowledging that the program's development effectiveness is also a product of the means used to achieve the established goals.

C. Emerging risks: The international crisis and growth sustainability in Brazil

The prospects for growth sustainability observed in 2008 have deteriorated in the context of the impacts felt by the country since the second half of that year due to the deep and real financial crisis affecting the developed world. Conditions for access to the international credit market have worsened, capital outflows have accelerated, the *real* was abruptly devalued, commodity prices have dropped sharply, and domestic credit has tightened significantly after growing without major constraints and becoming a stimulus for aggregate demand. The new pattern of capital market financing, which was highly compatible with and suited to the growth being sought by Brazil, is being heavily influenced by the international slowdown. The external situation that had turned the country into a net foreign creditor is rapidly reversing course. Fortunately, the financial oversight systems are good and modern, so there is no additional risk exposure on that end.

Moreover, the problems that pre-dated the international crisis—while not significant in the past—have newfound relevance in the current scenario. Specifically, GDP was growing by 4% above the potential GDP. Installed capacities were being used at record levels and it was not known whether investments in key sectors would be received in time, above all in the electricity and gas sectors. Domestic savings was growing faster than investment, and Brazil had avoided reliance on foreign savings for several years. Now the positive current account balance is reversing. The needs for medium- and long-term reforms in the labor market, social security (first and foremost), and public administration to make permanent social spending more efficient appear closer because of their contingent impact.

The sound fiscal position, as well as external accounts and a very low net debt-to-GDP ratio, had made it possible to build a large cushion of reserves to withstand the problems of normal global cycles. At the moment, it is very difficult to predict the scope and duration of the impact of the crisis, or the Bank's prospects for its work with the region. This will increase the uncertainty of the context in which the programming will be carried out with the country, which will be highly influenced by the sustainability of its recovery.[15] The only thing we can expect is that this critical situation is far from normal and will have a very significant impact on the certainty of the projected scenarios and on the quantity of resources and the type of operations required by the Bank's largest client.

RECOMMENDATIONS

The recommendations stemming from the evaluation are presented below.

First. Explore adopting a more flexible and specific approach in the programming of long-term loans that uses shorter-term business plans and considers institutional constraints and consistency with strategic and budgetary programming.

Second. Improve the analytic formulation and managerial use of the model for identifying challenges and institutional constraints in Brazil and the Bank that inhibit the program's effectiveness. That model should be supported by an analysis that considers their interplay and the established hierarchy of issues and risks on which priority action is required.[16]

Third. Provide an approach for evaluating results based on the established hierarchy and prioritization of objectives and targets for the issues that most hinder the effectiveness of the business plans. Project the horizon over which the results would be produced, taking into account the expected impacts of the context and external risks.

Fourth. Explore the possibility of reaching agreements with the country on targets for reducing project cycle times and for greater integration with country fiduciary systems. This reflects a finding of this study that the more complex the analytical, administrative, and decision-making processes are, the less important their content tends to be, making the evaluation of results less timely and relevant.

Fifth. Provide explanatory guidelines and parameters on the types of risks the Bank faces and those that it should agree to assume in the case of Brazil for a performance-based and risk-based management approach, as mandated by the realignment. This should include both the sovereign and nonsovereign portfolio, considering the net benefits of the solution implemented.

Sixth. Incorporate indicators in the program that justify the effectiveness of the lending instruments and other financial mechanisms used, evaluating their contribution to transactional considerations and project results.[17] Verify that the objectives for which those new financial instruments are used are consistent, not only with the programming, but also when they materialize in the operations.

Seventh. Concentrate the Bank's nonfinancial products on the knowledge identified in the lessons learned, bearing in mind the areas where Brazil does not have advantages, knowledge leadership, or recognized experience. The analytic work should focus on how things are done and on the operational and managerial skills of who does them.

Eighth. Strengthen monitoring of the *new modus operandi* for work with the municípios and states, with or without sovereign guarantees, emphasizing consistency between strengthening the participation of subnational governments in public policy, deepening integrated financial intermediation, and equitable development of decentralized institutional capacities.

Ninth. Reduce asymmetries in the management capacity of beneficiaries in each niche of the program as a way to reduce inequities that affect the quality and performance of the public administration.

Tenth. Build intersector coordination capacity in the Bank to participate in multisector initiatives with the plurality of stakeholders in the country program, increasing the synergy of the whole. Projects are assigned by division in each sector but can touch other sectors or divisions. For interventions in this program to be effective, they may require additional efforts for internal technical consistency, budget adjustments, streamlining of responsibilities in the project process, and improved supervision.

I. Country Context and Development Challenges

A. Course of development and main achievements in the country during the period

1.1 Following the 1999 crisis, Brazil adopted a policy framework to ensure macroeconomic stabilization based on three pillars: establishment of inflation targets, a flexible exchange rate, and primary surplus targets that are consistent with the levels of debt and uncertainty concerning changes in the future. This policy was adopted in the framework of a program with the International Monetary Fund (IMF) signed in 1998 and extended until 2005. At the same time, the country continued to devise ways to address the structural barriers to resuming its economic development.[18]

1.2 Growth stepped up only moderately, although greater stability was achieved, bringing with it significant improvements in the purchasing power of Brazilians. An active social welfare policy helped solidify reductions in poverty and indigence levels, but income inequality worsened slightly during the period.[19]

1.3 The Fiscal Accountability Act (LRF) was enacted in May 2000, prohibiting subnational governments from taking out new loans from another level of government. Accordingly, foreign sovereign loan programs that were transferred from the federal level (and state level in the case of the municípios) faced greater difficulties.[20] External loans could be taken directly by the subnational governments but with a sovereign guarantee, and approval had to be authorized by the Brazilian National Treasury (STN) pursuant to the provisions of the LRF.[21]

1.4 The large public debt, which was one of the most significant contributing factors to the overall fiscal deficit, forced the government to maintain considerable primary surpluses to offset interest payments and reduce the debt-to-GDP ratio, thus restricting financing options, which helped keep interest rates high. Net public debt of around 55% of GDP at that time also limited the capacity for public investment, increasing reliance on private investment to support growth and productivity gains. Private investment had to contend with the lack of a long-term credit market to finance the development of physical capital that would make it possible to overcome the aforementioned limitation on public investment, except for direct lending instruments with regulated interest rates (e.g. Banco Nacional de Desenvolvimiento Econômico e Social [National Economic and Social Development Bank] (BNDES)).[22]

1.5 In the second half of 2002 and the first quarter of 2003, growth was affected by capital outflows resulting from a crisis of confidence surrounding the change of government. That situation required an even more rigorous monetary policy. Uncertainty in the international economic environment and concern over the course that economic policies would take following the presidential elections exerted great pressure on financial variables, including the exchange rate and interest rates, thereby affecting economic growth.

1.6 Despite existing fears and the drop in foreign investment, the period was marked by a successful presidential transition, with Brazil benefiting from extraordinary performance in the balance of trade. Brazilian exports posted good results, growing by more than 50% in U.S. dollars between 1999 and 2003. As a result of growth in exports, exported goods and services increased from 22.9% of GDP in 2000 to 30% in 2003. Although this percentage is lower than its peers, it confirms the country's increasing insertion in the global economy and the benefits that has for Brazil.

1.7 In the second half of 2003, there were initial signs of an uptick in activity. The fact that the new administration was honoring its commitments won both national and international credibility, demonstrating continuity in macroeconomic policy and committing to social security and tax reform as the key anchors of its reform process.

1.8 The results of the economic and social policy implemented began to show in 2004. The economy grew moderately and inflation improved substantially, with marked progress in poverty reduction and income equity. Significant and sustained macroeconomic performance was achieved based on sound policies, favorable global economic conditions, and consolidation of the downward trend in inflation. Large fiscal surpluses and the trade surplus created a situation in which more resources were available for growth and those surpluses progressively became the government's priority, without endangering the stability that continued to be the core objective.

1.9 The country continued the growth trend, and in 2007 it had seen 18 quarters of consecutive growth, with low inflation and a flexible exchange rate. Growth was fueled not only by increased consumption, but also largely by investment. Export diversification reduced concentration by product and destination region and produced significant growth in foreign direct investment, technology upgrades, and the importation of capital goods. The capital market expanded very quickly. Some companies increasingly began to finance their operations with stocks and bonds. Total factor productivity and the potential growth rate improved significantly, markedly reducing the economy's external vulnerability.[23]

1.10 Successive improvements in risk ratings also helped, following progress made in savings/investment conditions. More options were also available for coping with the adverse impacts of the cycle given the large accumulation of international reserves (currently US$200 billion), improvements in the financial system, reduction in net external public debt to levels close to 0,[24] and the sharp decline in the public sector's gross financing requirements in the context of a flexible exchange rate. Financial problems had more to do with how to create fiscal headroom for spending than with how to finance that spending.

1.11 Although the economy grew at a more modest pace than other similar emerging countries (3.8% cumulative annual growth in 2000–2007), the incomes of the poor grew much more significantly (8% cumulative annual growth in the same period). This is closely related to the success of the country's social programs and wage increases, which also were nearly fully financed with current resources.[25] The country decided to finance social spending (which is primarily a permanent expense) without incurring debt.[26]

1.12 The achievement of primary fiscal surpluses hinged mainly on increasing the tax burden (which nonetheless continues to be high and distortive) and reducing public investment. Improvement in the performance and efficiency of management of that spending became a priority objective.

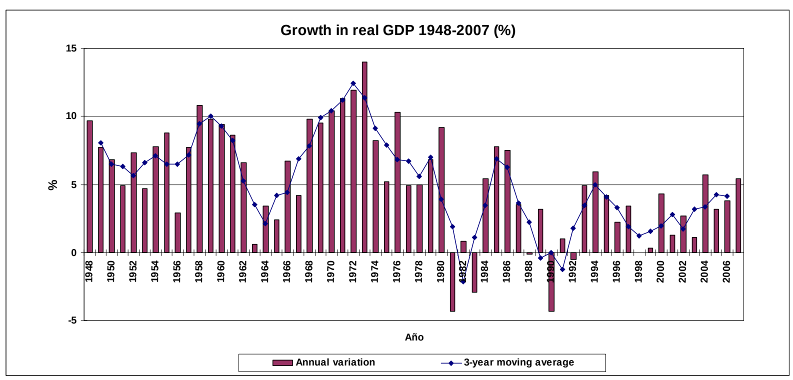
1.13 The government also decided to use some of the reserves accumulated as a result of its excellent fiscal performance to continue promoting and implementing social inclusion policies, and financing key public and private investment projects that would help reduce the large gap in physical and social infrastructure (Growth Acceleration Program).[27] The partnership with the private sector also became clearer, seeking synergies with the public sector to support growth and reach the targets for closing the infrastructure gap.

1.14 The risk remains that the speed of growth in investment, which is planned and encouraged to reduce the infrastructure gap and deepen the equity of opportunities under federalism, will not be fast enough to meet potential growth requirements without undermining the objectives of a primary surplus and an investment grade rating.

B. Development challenges

1.15 This section summarizes the main elements of the Brazilian economy that are believed to determine its long-term growth. Those elements do not appear in isolation but rather are interrelated, which means that not all constraints are equally significant. Those described below were determined to be key.

1.16 From a long-term perspective, Brazil's growth performance has weakened since 1980, after having been considered one of the countries with the highest relative growth in the last 50 years. That weaker performance appears to be due to failure to recover fully from the second oil shock and the foreign debt crisis.[28] Average growth since 1980 was appreciably slower and more volatile, with a cumulative annual rate hovering around 2.5%, well below the range of 6% to 10% that was prevalent from the post-war period to 1980.



1.17 From 1980 to 2002, Brazil's growth slowed and became more volatile, heavily influenced by the impact of more frequent external shocks. However, for most of the period, its growth rate lagged behind the region and the world. Those trends suggest that Brazil's relatively closed development model produces slower growth than does the global economy. The impacts of external shocks since 1994[29] appear to confirm that Brazil's growth

Growth in real GDP by periods (% per year)

	1948-1980	1981-1994	1995-2002	2003-2007
Brazil	7.5	2.0	2.3	3.8
LAC	5.2	2.2	2.2	4.8
World	4.5	3.0	3.6	4.9

Source: IMF, IBGE, LatinFocus

is highly susceptible to the impacts of the international financial markets and that, like most countries in the region, its low domestic savings rate makes it dependent on foreign savings to meet its financing needs.

1.18 The recent economic expansion since 2003 confirms that the determining factors of Brazil's economic performance were not explained by the externalities that prevented it from recouping its past levels of economic growth. In a period of strong economic growth, Brazil became an exporter of savings, with a current account surplus in 2003–2007,[30] which would not have been expected in an economy with abundant human and natural resources. Despite the fact that Brazil benefited greatly in that period from growth in global demand and higher commodity prices, the rate of GDP growth continued to trail the average for the region and the world.[31]

1.19 These trends suggest that the most active barriers to growth come from within the national economy, without overlooking the importance of deepening the insertion in global markets of Brazil, which continues to be a relatively closed economy.

1.20 One of the main internal barriers to stepping up growth has been the low rate of capital accumulation, which is a reflection of low levels of investment, primarily in human capital.[32] Despite recent trends, the low domestic savings rate continues to be one of the main factors leading to low levels of investment. Also important are fiscal constraints owing to growth in current expenditures, which puts pressure on monetary policy and affects the already lower levels of public investment due to the impact of large primary surpluses. Insufficiently developed infrastructure and public goods are also factors that could limit the sustainability of growth in the near future.

1.21 The lower public investment that helped widen the gap in infrastructure and levels of human capital ultimately causes lower returns on private investment. Levels of infrastructure investment have dropped substantially in recent years and, although they have been trending upward since 1999, growth in electricity generation and transportation capacities (except communications) has flagged. While Brazil is well-positioned vis-à-vis the rest of the countries of Latin America and the Caribbean (LAC), it is on par with countries with a similar degree of development and income, except with respect to paved roads and transportation networks, where it generally lags behind. With growth rates like those seen of late, the lack of expansion of the installed capacities of infrastructure will become an important barrier to growth.

1.22 Brazil has historically had problems with its level of human capital. This situation has been improving, moving in the right direction but not at the required speed. The average number of years of schooling for the total population over 25 has been rising since 1981 from 4 to 7 years. The World Bank's Investment Climate Survey reports that the level of education and skills of workers was cited as the main obstacle to growth by 40% of the companies surveyed. Compared to other countries, Brazil has made less progress, with differences widening significantly in some areas (complete secondary education). Other indicators continue to be cause for concern, such as the low proportion of the population that completes secondary school (less than 15%).[33] Compared to the level of development (per capita growth rate), education coverage is low.

1.23 Social programs like Bolsa Familia have been highly effective at alleviating poverty in the short term and have a significant redistributive impact. However, despite its effects on school enrollment and attendance, as yet there has been no observable impact on the intergenerational transmission of poverty.[34]

1.24 With respect to government flaws, indicators on the environment for doing business[35] show that Brazil is below the average for LAC and trails far behind the developed world. Comparatively, the cost of doing business in Brazil is relatively high with respect to its level of development (measured as per capita GDP).[36] With respect to middle-income countries, those differences are not as significant, although this is in contrast to other research findings indicating that the significance of this constraint is appreciably greater in Brazil.[37] Perceptions of the business community confirm the above, although they do not place the quality of labor regulations and the informal economy at the top of the list of barriers to development even though they are significant overall.[38] High levels of informality and the lack of competition affect investment,[39] the economy's output, and/or the innovation that makes it possible to scale operations and achieve technological development to gain access to a larger market. All of this ultimately affects fiscal performance, thus determining public policy.

1.25 An important barrier is the tax burden, which has been increasing nearly continuously since the 1990s (in 1991 it was 24% of GDP) and currently stands at 36%, varying widely by sector. There is significant variation in the tax burden among different sectors of the economy, and payment of taxes involves a host of lengthy and costly procedures. This helps keep the costs of capital high and encourages informality.

1.26 With respect to market imperfections, the low rate of innovation in most companies reflects a serious problem in terms of adopting technology and insufficient levels of investment. The difference with developed countries is considerable. Moreover, the level of private sector participation in the construction, administration, or operation of public goods and services has been constrained and is inadequately regulated. With respect to the financial system, real interest rates are falling but remain high. The high cost of intermediation reflects the high rates of financing and microproblems associated with high operating costs and the costs of sustaining the heavy portfolio. Directed credit under more favorable conditions than the market[40] still makes up a large proportion of bank loans (30%). It is mainly for physical capital that is not financed with nondirected funds.[41] The largest and most dynamic companies promoted significant capital market development in recent years, generating a source of financing that was reliable but concentrated in a small number of companies. Access to credit from the private financial system for long-term financing of investments by MSMEs is virtually nonexistent. That segment is mainly served by BNDES.

1.27 From a fiscal standpoint, the country is facing certain dilemmas. Many things have improved, such as institutional aspects, transparency, and fiscal responsibility, the consistency of macro policies, debt management—considerably reducing foreign exchange exposure—and, more recently, interest rate risks.

1.28 However, the need to maintain the large primary surplus to prevent the debt-to-GDP ratio—which is currently sustainable—from growing, the high tax burden, and high interest rates, as well as the need to increase public investment, put the moderation of current expenditure at the center of the problem.[42] In the medium term, there is uncertainty as to growth in those expenses, particularly those related to increases in social security spending.[43] All of this makes the performance and efficiency of the public sector a main policy priority.[44]

1.29 Brazil has been requiring fewer resources from the **Bank** for the central government and greater involvement with the subnational governments. The emphasis on the role of new stakeholders (states, municípios, development banks, and the public and private business sector) and on the development of fiduciary mechanisms more suited to the country's characteristics are the backbone of the process of negotiating and approving the Bank's sovereign and nonsovereign resources.[45] The Bank is viewed as a partner to complement and optimize implementation of national policies.

1.30 With respect to the use of fiduciary and financial mechanisms that are consistent with national regulations, emphasis is placed on the objective that the party responsible for operations with the public sector be the end beneficiary. That party must comply with the fiscal responsibility conditions, national regulations governing the execution of resources, and the Bank's regulations. This imposes serious limitations on the flexibility of execution, which is aggravated by inequality in the management capacities of each entity.

1.31 Decentralization to the subnational governments will increase the number of interventions, expand operations for smaller amounts, require new lending facilities to consolidate them and make them manageable, and require oversight mechanisms that are consistent with the greater capillarity required for the Bank's actions. The central government believes it is important to rely on the Bank's capacity and instruments to develop these new forms of execution,[46] whereby the country strengthens the coordination of institutional capacities for implementing public policies and actions at the decentralized level.

II. THE PROGRAM'S CONTRIBUTION

2.1 The Country Program Evaluation (CPE) is of particular importance because Brazil has been the Bank's largest borrower, influencing its flow of funds, exposure, and experimentation with operational aspects. The 2000–2007 program design included US$10 billion in loans for the period, touching a large number of economic and social sectors and all levels of government.

A. The program's intent

2.2 New conditions in the country after 1999—particularly the Fiscal Accountability Act (LRF) and the government's decision to maintain primary surpluses—dictated a new focus for the 2000–2003 program. The assumption was that the Bank would no longer act through large social sector investment operations with the federal government[47] that were channeled to the subnational governments, permitting extensive coverage. The new approach meant smaller, more innovative operations focused on priority issues and linked to protected budgetary expenditures, and greater concentration in subnational governments with the capacity to assume new financing.

2.3 In 2003, the government's "Brazil for All" Multiyear Plan, complemented by state multiyear plans, established the country's strategy for the following four years. The plan assumed continued efforts to ensure fiscal solvency and the external balance, to achieve stability and growth. It was built around three objectives: (i) social inclusion and reduction of inequalities; (ii) growth with job creation and income generation that is environmentally sustainable and reduces inequalities; and (iii) promotion and expansion of citizenship and strengthening of democracy. The government sets its implementation priorities in the multiyear plan.

2.4 The program reflected the convergence of political and institutional maturation with more suitable economic conditions that made it possible to consider a sustainable growth cycle with poverty reduction and enhanced equity. This prompted a review of the portfolio that led to a significant cancellation of resources, reflecting the change in the strategic approach of the government, which preferred operations linked to support of public policies over isolated projects; the scaling down of certain oversized projects; more suitable financial instruments for the times; and the foreign exchange situation, which generated an excess of available resources.

2.5 Another strategy was approved with the Bank in 2004 when the government had the macroeconomic situation more under control. The country strategy established development objectives similar to the 2000–2003 strategy but introduced the limitations dictated by the context and policy orientation.

2.6 In brief, those objectives were to: (i) support sustained per capita growth, supporting credit programs for small producers, competitiveness, and factor productivity, infrastructure while preserving the environment, and deepening of work with the private sector and partnerships with the public sector; (ii) support social programs to reduce poverty, achieving a less unequal country and human capital formation; (iii) improve living conditions in cities, supporting subnational governments to enhance equity in access to and the quality of public services for the poorest segments of that population; and (iv) strengthen the performance of public sector institutions at the three levels of government, shoring up fiscal federalism and oversight agencies.

2.7 In 2006, reactions began to be observed to the strategic changes introduced by the government in its dealings with the Bank that had not been fully anticipated in the programming. Those changes occurred in a context marked by progress on poverty reduction, the sustainability of macro fiscal stability by restructuring external liabilities, a current account deficit that could be financed locally, and greater access to the capital market. The previously prevailing concern over the fiscal impact of investment projects on public accounts was reduced.

2.8 The change in the fiscal environment made it possible to think more about strategic projects with subnational governments that complement investment programs with domestic resources. Acceleration of growth[48] created more opportunities than in previous years to develop relationships with the states and municípios on the basis of public policies, without infringing on financial targets. This permitted a more balanced ratio of financial to nonfinancial products, increasing their adaptation to an expanding country program, focused on growth and consolidation of social and stability gains.[49]

2.9 In 2007, implementation of the Bank's realignment in Brazil initially made the relationship somewhat erratic, creating confusion as to who was responsible for strategic and operational decisions. In practice, this extended delays and increased uncertainty with respect to aspects that were being agreed upon to overcome past problems related to the portfolio and its growth. This made it necessary to review the system for coordinating the relationship and institutional dialogue established between SEAIN and COFIEX with the Country Office to resolve those misunderstandings.[50]

2.10 That system, currently in place, created a symbiotic relationship between the policy and strategic management of those government agencies and the operational aspects of all the Bank's windows.[51] This made it possible to expand the capacity for leveraging the programming and institutional dialogue at all levels of government[52] and with the private sector.[53] It also helped improve communication—not just regarding fiscal matters—between the government's counterpart organizations and the Bank's direct borrowers, reducing the problems created by their lack of involvement in the origination of the operations.[54]

B. Capacity of the program to anticipate results

2.11 The analysis found that the program was more a way to express what each sector of the Bank could do or had been doing based on the identification of numerous work issues that were not organized around a unifying model that first and foremost established a hierarchy of objectives. The program was not conceived around concrete public policies and programs that put it into context, and the institutional and macro constraints on the program were not clearly identified.

2.12 In the context of the persistent fiscal constraints and the need to replace limited and obsolete federal intermediation mechanisms, the Bank was checked by the need to design new mechanisms that allowed it to expand and replicate its experiences.[55]

2.13 Added to that was the volatility of demand from the country and its generality. Frequent political changes and steep learning curves made it more difficult to intermediate and implement project content, further heightening that volatility. As a result, the established development objectives were broad and imprecise, adding to the difficulty of not having a hierarchy of goals.

2.14 Consequently, the programming was not articulated in the form of objectives defined around a hierarchy of prioritized goals to be achieved. Because expectations for results were not precise, they were normally inflated and referred more to national goals than goals specifically attributable to the Bank's support. That limited the possibilities of measuring the program's actual contribution.

2.15 Signficant effort was put into the analytic work and studies (knowledge) related to the program, but their usefulness was limited. Close integration with the proposed allocation of financing or with the analysis of the risks of more autonomous implementation of the resources in the country was not observed in the internal logic of the planning for knowledge generation.

2.16 The results frameworks in the programming documents were imprecise. Although a large number of indicators were defined, which is a virtue, they were of little use because they were poorly linked to attribution and to a model of hierarchical goals. Moreover, operational definitions were insufficient for measurement, and there was no systematic discussion on the availability of timely information on those indicators to indicate their origin and the quality of the sources that would be used.

2.17 This pervasive flaw in performance data could be seen in the ex ante evaluability exercise applied to the country program documents, which are corroborated by the results of the ex post evaluability of the operations.[56]

Brazil: Evaluability of country program

Period	Evaluability index	Indicators	Baselines	Intermediate milestones	Targets
2000-2003 program	30%	56%	20%	4%	40%
2004-2007 program	32%	63%	11%	0%	55%

2.18 The program evaluability results show that development issues were not adequately considered in the results frameworks in the programming documents. The rationale of those results frameworks is highly unbalanced. The lack of baselines indicates widespread difficulty in measuring the progress attributable to the Bank. The lack of intermediate targets confirms the high degree of rigidity of the programming documents. The low level of specific targets for the program objectives, considerably less than for the indicators defined, suggests a lack of coordination for verifying the agreed-upon results.

Loan instruments anticipated in the programming and actually used

Type of lending instrument	Programmed (US$ mill)			% of total programmed			% of total approved	
	2000-2003	2004-2007	July 2008 pipeline	2000-2003	2004-2007	July 2008 pipeline	2000-2003	2004-2007
Public sector investment loan	6018	3855	5112	92%	84%	75%	78%	73%
Policy-based loan			409	0%	0%	6%	11%	0%
NSG investment loan	533	736	1293	8%	16%	19%	11%	26%
Total	**6551**	**4591**	**6814**	**100%**	**100%**	**100%**	**100%**	**100%**
Flexible (INO, SEF)	0	45	20	0%	1%	0%	0%	0%
Programmatic (PFM, PDL, CLP, SWAp)	203	1238	1889	3%	27%	28%	5%	56%
Traditional investment (ESP, GCR, GOM	5815	2572	3203	89%	56%	47%	72%	17%
Policy-based loan (PBL)	0	0	409	0%	0%	6%	11%	0%
NSG (PSL, OMJ)	533	736	1293	8%	16%	19%	11%	26%
Total	**6551**	**4591**	**6814**	**100%**	**100%**	**100%**	**100%**	**100%**
ESP	4370	2372	1871	67%	52%	27%	42%	17%
GCR	680		500	10%		7%	24%	
GOM	765	200	832	12%	4%	12%	6%	
INO		40	20		1%	0%	0%	0%
PBL			409			6%	11%	
PDL		10	100		0%	1%		
PFM	203	178	162	3%	4%	2%	5%	2%
SWAp								18%
PSL	533	736	1285	8%	16%	19%	11%	26%
SEF		5			0%			
TCR								0%
CLP		1050	1627		23%	24%		36%
OMJ			8			0%		
Total programmed (US$000,000):	**6,551**	**4,591**	**6,814**	**100%**	**100%**	**100%**	**100%**	**100%**
					Total approved (US$000,000):		**4,466**	**5,676**

2.19 In this context, Management's main concern was to consolidate work niches, particularly after 2006 when the program showed clear signs of obsolescence. The emphasis on reconverting the work with new development stakeholders like the subnational governments and the private sector, in an environment of greater flexibility in the instruments to be used, increased efficiency in determining ways to act that were more pragmatic and consistent with a more catalytic approach by the Bank.

C. Relevance, coherence, and consistency of the program

2.20 In terms of the program materializing into loans, if the programmed amounts for the entire period are added, the total figure is similar to that for actual approvals. However, the program was not executed in either of the periods as anticipated when it was designed. This means that the Bank has been a good partner in addressing the country's needs, but that its programming was of little relevance.

2.21 In the first period (2000–2003), the country did not implement the amounts programmed (principally in infrastructure and various areas of federal public services), and this was not offset by other allocations because of a macroeconomic situation that required a reduction of portfolio execution. That strategy did not correctly anticipate the political change in 2002. The new administration that took office in 2003 considered that a large part of the portfolio it acquired was ill advised because there was a change in the strategic orientation of the government—which preferred operations linked to support for public policies over isolated projects; it also found that projects were oversized, unsuitable financial instruments were being used, and the foreign exchange situation generated an excess of available resources.

2.22 In the second period (2004–2007), although approval amounts exceeded the amounts programmed, the reduction in the country's financing needs was not anticipated, particularly at the federal level. The macroeconomic situation was quite different from the previous programming period, which meant there were no financing problems and reserves grew. Fortunately, the reduction in the public sector portfolio was more than offset by other allocations (mainly BNDES and the private sector window).

Institutional allocation of program resources and approved loans

Level of government	Programmed (% of total programmed)			Programmed-Approved (% of total programmed		% institutional allocation of total programmed	
	2000-2003	2004-2007	July 2008 pipeline	2000-2003	2004-2007	2000-2003	2004-2007
PUBLIC SECTOR	81%	62%	59%	30%	68%	67%	38%
FED	13%	34%	4%	42%	74%	31%	22%
STATE	43%	17%	41%	35%	58%	31%	8%
MUN	26%	11%	14%	16%	67%	5%	8%
PRIVATE SECTOR	19%	38%	41%	76%	83%	33%	62%
PSL	9%	16%	19%	39%	60%	11%	26%
BD and AU	10%	22%	22%	108%	100%	22%	35%
TOTAL	100%	100%	100%	39%	74%	100%	100%
Total programmed (US$000,000):	**6,166**	**4,561**	**6,814**	**Total approved (US$000,000):**		**4,466**	**5,676**

2.23 In both periods, institutional demand for the program was anticipated incorrectly, primarily in 2004–2007, when public sector demand was expected to be 62% of the total portfolio, but actual demand was only 38%. If the July 2008 pipeline is used as a preview for the new program, unlike what occurred in the past, we see that the economic demand expected by the Bank is consistent with what has been expressed by the country. Fewer resources are desired to finance the federal government, together with a greater role working with new development stakeholders.[57] A crucial challenge is to overcome the low quality of spending and of services provided at the subnational level.[58]

2.24 The Bank correctly anticipated its role in the program as the provider of investment financing. This is consistent with the country's vision of not relying on the Bank to address liquidity problems caused by short-term contingencies, or to financially support policy reforms.

2.25 Regarding whether interventions were consistent with the means for achieving the objectives, in the 2004–2007 programming, the Bank ascribed importance to introducing more flexible, less transactional, and lower cost investment instruments, as well as programmatic instruments focused on results, trying to apply the innovations pursued by the objectives of the New Lending Framework (NLF). Examples include the use of sector-wide approaches (SWAps) for the Bolsa Familia program,[59] CCLIPs (as a more transactional and timely facility for investments in a single sector or multiple sectors and multiple levels of government), and multiphase programs. The use of traditional instruments continued to be significant in the program design, but was not confirmed in the implementation of operations.

2.26 The significant growth in programmatic instruments through the intensive use of more flexible instruments like multiphase loans and CCLIPs in approvals was not anticipated. SWAps were not fully available when the program was formulated. Expansion of their use in other areas came up against a lack of one of the prerequisites for its use, namely confidence in working with country systems to implement projects with shared resources. Specific investment loans continued to be used intensively, albeit for smaller amounts.

2.27 The CCLIP has become a programming instrument due to its flexibility and adaptability for work at the federal policy level with the states and municípios, and its ability to adapt to multistakeholder and multisector environments. The use of this type of line of credit is rapidly increasing, not just in this area and not just in Brazil. CCLIPs transcend a project because they represent a temporary strategy for a sector, the benefits (that justify the Bank's participation) of which must be properly planned in the multiyear programming exercise and the country's annual budget. Although the portion of the credit lines that is not approved does not affect the indicative figures for credit to the country or commitment fee payments, they are contingent obligations that if not fulfilled will prevent the development objectives from being reached.

2.28 However, when an operation is structured as a CCLIP, the concept of a line of credit is lost since each operation is approved independently and there is no assurance that the figures committed for the entire operation can be realized based on the multiyear plan for the country's budget execution. From the standpoint of the federal public sector, the use of the CCLIP over any other type of lending instrument from the Bank is immaterial. At the subnational level, if SEAIN does not participate in the origination of these operations, initiatives are received with economic support from the Bank that respond to a local or sector agenda, sometimes with ambitious and complex designs and with inflated resources.

2.29 Consequently, growth of the most flexible and programmatic instruments is identified in the designs with the fact that they are not used with the fundamental objective for which they were created, i.e. to have a greater focus on results and further integrate disbursements with country systems. The reasons had more to do with the fact that their use would reduce the transactional restrictions in processing and executing the interventions[60] and meeting the program approval targets.

2.30 Moving forward, this approach to flexible and programmatic instruments is the backbone of the programmatic exercise. The need for the Bank to support long-term development commitments that are more focused on results based on government policies and programs is confirmed by information gathered from the successive pipelines. The latter also confirm that the use of traditional investment instruments will continue to be important. This reflects progress in the transactional aspects of those instruments and the growing importance of the results-based focus of operations as central to program effectiveness, but less so to program realization.

2.31 The approach of adding a new lending instrument or financing mechanism to reduce the impact of the excess procedures and country restrictions led the Bank to focus its efforts more on the means and internal regulations than on the relevance of the instrument for the country. The analysis of the experience shows that building the program with a greater focus on results will require that the lending instruments be not only useful for the program design, but also when they are structured operationally.

Sector allocation of programming and actual operations

Sector	Programmed (US$ million)			% of total programmed			% of total approved	
	2000-2003	2004-2007	July 2008 pipeline	2000-2003	2004-2007	July 2008 pipeline	2000-2003	2004-2007
AG	270	165	292	4%	4%	4%	3%	1%
CE							1%	2%
CM		195			4%			3%
CO	25	75	50	0%	2%	1%		3%
CR		1000	5		22%	0%	20%	35%
CT	50			1%				
DU	255	123	819	4%	3%	12%	10%	3%
ED	150	42	150	2%	1%	2%	0%	
EN	784	336	712	12%	7%	10%	11%	16%
IN	650	30	210	10%	1%	3%	3%	2%
IS	50	1026	95	1%	22%	1%	13%	18%
ME	30			0%			1%	0%
OS	900	234	790	14%	5%	12%	8%	3%
OT								
PA	531	37	38	8%	1%	1%	2%	0%
PS		85	1510		2%	22%		0%
SA	85	85	720	1%	2%	11%		
RM	77	164	92	1%	4%	1%	15%	3%
TR	2135	771	953	33%	17%	14%	6%	11%
TU	500	200	379	8%	4%	6%	5%	
Total programmed (US$000,000)::	**6,492**	**4,568**	**6,815**	**100%**	**100%**	**100%**	**100%**	**100%**
				Total approved (US$ million):			**4,466**	**5,676**

2.32 The analysis of the pipeline of lending initiatives reflects this new reality. The remarkable progress observed in some areas[61] has made it possible to solidify a niche focus, at the same time that the country is more precise and selective in focusing the Bank's role. That progress is driving up the demand for knowledge from the Bank that is more integrated with the financing in areas where Brazil does not have that knowledge or does not have the capacity to obtain it on its own. This heralds a better environment for a program more focused on results and on lessons learned from experience, while there are still unknowns as to the lack of consistency of the interventions with the use of country systems in implementation. It will also help mitigate imbalances between projects approved but not ratified (see paragraph 4.40).

III. EXECUTION PERFORMANCE

3.1 Of the 88 loans approved in the period 2000–2007 for US$10.142 billion according to the Bank's database, a total of US$6.356 billion was disbursed as of 31 December 2007 (63% of the total), of which US$5.735 billion (57% of the total) corresponds to 23 projects that were concluded at that date. Of that US$5.735 billion, a total of US$3.9 billion (61% of the total disbursed) corresponds to four projects, three with BNDES for US$2.9 billion and the Bolsa Familia SWAp for US$1 billion. If the 14 complete private-sector projects for

US$754 million are added, this together accounts for 81% of the total for completed projects.

3.2 As of 30 December 2007, 26 projects approved in the period for US$1.376 billion had 0% execution. Of that total, 11 projects for US$599 million were approved in 2007 and the remaining US$777 million were approved before 2007, including two projects for US$265 million that were approved in 2000–2003.

3.3 In the period 2000–2007, cancellations in those 88 projects amounted to US$412 million, of which US$259 million corresponded to five projects that were canceled in full. However, total cancellations for the period amounted to US$1.752 billion, which indicates a considerable restructuring of oversized projects with very low execution for the period 1995–1999, mainly from the federal portfolio (education), equivalent to US$1.34 billion (this occurred in 2003–2005 when there were significant maturities of debt with the Bank).

3.4 For the remaining 34 projects approved and not yet completed for US$3.031 billion, a total of US$621 million has been disbursed as of 30 December 2007. On average, this is a gross execution rate for this group of just 20%. Although the overall disbursement rate has been increasing in recent years,[62] such improvement is mainly explained by fast-disbursing and private sector operations (including BNDES).

A. Timeliness and efficiency of execution

3.5 Results reflect the low performance of most of the projects in the period under analysis both in terms of **preparation and approval times** and **the speed of disbursements**. In order to address these issues, which were not unique to Brazil, the Bank implemented the New Lending Framework (NLF) in an effort to further diversify types of financing by introducing new and more flexible investment lending instruments, while at the same time incorporating more programmatic instruments that reflected the significant streamlining of the project process. That tended to improve the mix of options available to the country. Together with the World Bank, which faced similar problems, stable working groups were formed to introduce new mechanisms, develop streamlined processes that cut times, and expand the use of country systems for making disbursements, thus protecting against fiduciary risks.

3.6 However, the results in terms of **delays** indicate that—despite progress—Brazil continues to be one of the countries with the longest processes for the approval and start of implementation of projects. That process starts with identification of an idea, its inclusion in the pipeline, approval by the Bank's Loan Committee, negotiation with the country, approval by the Bank, signature by the country, and fulfillment of the eligibility conditions to initiate disbursements.

3.7 The data show that over 30 months elapsed from formulation and approval of operations to the first disbursement, especially when traditional investment instruments were used. Differences are observed when comparing this to the results for the Bank on average. Brazil did not follow the convergence between the times for flexible instruments and traditional instruments seen in the Bank as a whole. Its downward trend in times is much less steep than for the Bank overall. However, from the standpoint of the use of more flexible and programmatic instruments, Brazil had better results than the rest of the Bank. In fact, while the Bank average was 20 months, in Brazil the average time between inception and the first disbursement ranged from 10 to 20 months, depending on the instrument.[63]

3.8 Breaking down the process into project preparation times and negotiation, approval, and disbursement times helps identify where the most significant problems lie. Trends show faster times in becoming eligible for the first loan disbursement once approved by the Bank and signed by the country, both in Brazil (especially when the good macroeconomic results were solidified) and for the Bank as a whole. In contrast, in the subperiod running from inception to approval, recent trends do not show significant improvements owing to the use of flexible instruments by the Bank, and Brazil shows worse results than the rest of the Bank when using traditional lending instruments (specific investment loans (ESP) and global multiple works (GOM)).

3.9 Another way of looking at these restrictions is dividing total times into phases **based on who bears primary responsibility,** the borrower or the Bank, in each phase. This criterion is also useful for identifying who is responsible for fixing flaws, if any, and increasing the effectiveness of the whole. Based on available information, two phases were identified: the first runs from project formulation to signature of the contract, which is mainly the responsibility of the borrower; and the second runs from inception to approval of the project by the Bank's Loan Committee, which is mainly the responsibility of the Bank.

3.10 Following this same line of thinking, Brazil's times from project formulation to signature of the contract widely exceeded the Bank average.[64] In the phase where the Bank is primarily responsible,[65] trends show a convergence with the Bank's average times, although this does not mean that those times are optimal.

3.11 The case is similar for the **disbursement** process. For projects completed each year in 2000–2007, there were long delays between the originally planned loan execution times and actual times. The new financing instruments, i.e. flexible and programmatic instruments, tend to be disbursed more quickly than other investment instruments and, the difference with traditional instruments is **not** diminishing over time.

3.12 Compared to the Bank average, the longer execution period in Brazil is greater in the case of the most used traditional loan instrument (ESP). The reverse is true for multiphase loans (PFMs) and CCLIPs.

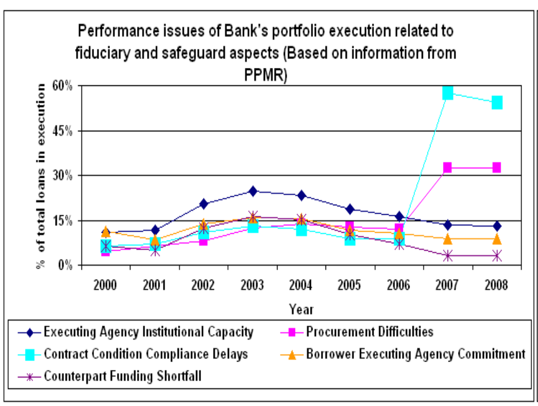
3.13 These conclusions drawn from the analysis of the projects completed in the period are complemented with an analysis of the **flow of annual disbursements** for projects that began execution in 2003–2007, broken down by the three lending instruments used most often: CCLIP, multiphase, and investment. The objective is to verify whether the results obtained in the historical analysis are the same for the projects started more recently.[66]

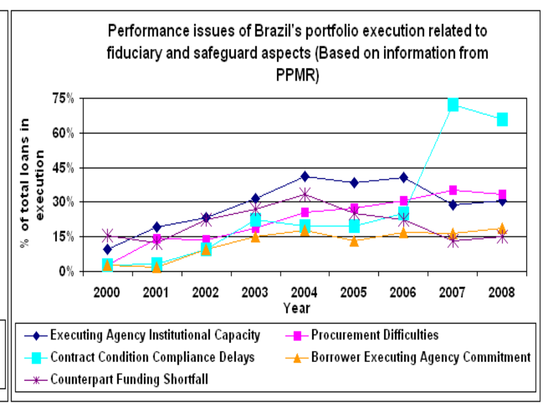
3.14 A number of patterns emerged from the analyses. First, the year the operation was approved appears to affect the course of subsequent disbursements, underscoring the importance of municipal and federal political cycles. The data suggest that insofar as macroeconomic progress was made, funds were disbursed more quickly. Second, multiphase operations generally disbursed more quickly than specific investment loans, even though that advantage disappeared in 2006 and 2007.[67] Lastly, CCLIPs appear to produce the fastest disbursements. However, if we exclude Brazil's influence (due to the size of operations with BNDES), disbursements have been much slower.

3.15 Consequently, both flexible and traditional lending instruments show a rising trend in the speed of disbursements for the most recent operations. The new financing instruments tend to disburse more rapidly than the other instruments, but that gap is shrinking over time. The greater demand for flexible and programmatic lending instruments is also justified by the terms of their implementation frameworks.

3.16 However, this should not lead to an emphatic assertion that the most flexible investment instruments are less affected by disbursement problems than traditional lending instruments. Information gathered by the evaluation suggests that those factors affect implementation of investment projects with the same intensity, irrespective of their type and transaction modality.

3.17 This latter assertion is borne out in an analysis of changes over time in **problems with disbursements** faced by approved projects and reported by Management in its semiannual Project Performance Monitoring Reports (PPMRs). The evaluation determined that the most significant problems affecting disbursements are the same, and their impact is not reduced in the projects approved most recently. Instead, in some cases, that impact was significantly greater.





3.18 The data indicate that until 2005, the main factor explaining execution problems in Brazil (cited by nearly 45% of projects in execution) was the institutional capacity of the executing agencies. Since 2006, that factor remains significant, albeit for a somewhat smaller percentage, with two new factors surpassing it: one associated with delays in meeting the contractual conditions (more than 60% of the portfolio in execution and up to 75% in 2007), and the other related to procurement difficulties after the Bank modified its policies in 2005.[68] Those factors affect all of the Bank's instruments and there is no advantage to being a new investment lending instrument. The trend is similar for the Bank as a whole, although there are fewer projects with each of these problems. In 2007 and 2008, the predominant factors have figures similar to those for Brazil, indicating a change in the trend.

3.19 This interpretation suggests that problems with the Bank's procedures, national procurement legislation, compliance with the Bank's regulations for controlling project spending, the limited use of reliable country financial management systems, and special contractual clauses take on importance when explaining disbursement obstacles. Various projects have found ways to minimize those problems, but those arrangements do not constitute a change in the trend.

3.20 Consequently, there is nothing to indicate that the use of the new lending instruments considerably reduces the impact of those execution problems. The emphasis on integrating the disbursements in country execution systems is crucial to reducing the main factors affecting disbursements. The prevailing work approach has been more focused on improving the mix of instruments and simplifying regulations to reduce the impact on transactional costs than on finding ways to solve the country's problems in executing the investment resources.

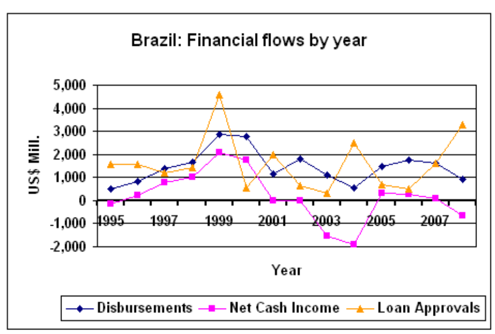
3.21 This does not take away from the importance of the impact on development effectiveness when projects span more than 30 months between inception and the first disbursement, or when execution times are extraordinarily excessive compared to the planned times and cost overruns must be paid to hold the undisbursed balances for a long time. It does, however, add to that poor performance by establishing, as a whole, strong disincentives that weaken the commitment of the loan beneficiaries and the government to project results, which are affected by a very short national political cycle, making it difficult to adopt a culture of effectiveness in the program with the Bank.

3.22 Fast and flexible responses, programs and projects that are agreed upon and signed in a timely manner, and substantive and verifiable execution of their content within the mandate of the beneficiaries will produce results and improve the country's commitments to development effectiveness.

B. Value-added of execution

3.23 This section analyzes whether execution added value to the country both in terms of the financial resources from the interventions and the knowledge transferred to improve utilization of the factors of production.[69]

3.24 Those calculations were limited by the lack of ex ante and ex post measurements of the flows of net benefits produced by the interventions, and, consequently, of the value of their return. That prevented a comparison of the value created by the interventions with the value originally anticipated and measuring whether that difference was significant to handle the resulting debt service (golden rule).

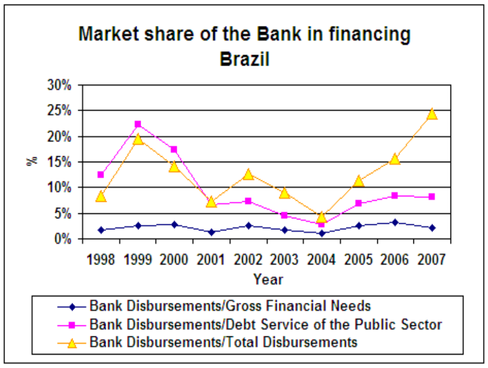


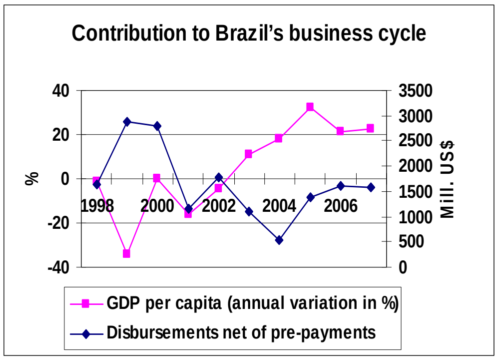
3.25 There were no studies providing information on the gap between the value-added reported by the executing agencies versus the value-added perceived by the users or beneficiaries, except in the case of opinion surveys for BNDES and certain urban development projects. Execution problems with other similar institutions (World Bank) were, indeed, taken into consideration, in several cases defining coordinated strategies to address them.

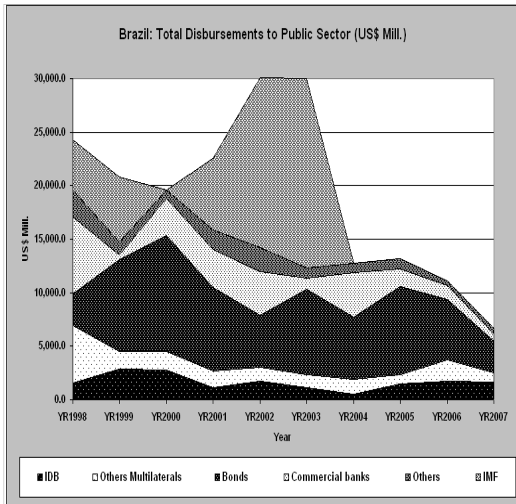
3.26 Given the lack of such information, a series of indicators were used that are an approximation of the Bank's value-added but not of its effectiveness. First, changes in net transfers of resources over time were considered. That indicator is net cash income (disbursements less the debt service to the Bank), which was approximately neutral in the period 2000–2007. On average there were annual disbursements of US$1.531 billion aligned with an average debt service (principal plus interest) of US$1.653 billion. The difference is explained by the situation in 2003–2004, which was offset by approvals at end-2004. In the most critical period for the Brazilian economy, the Bank maintained a more significant positive net flow.

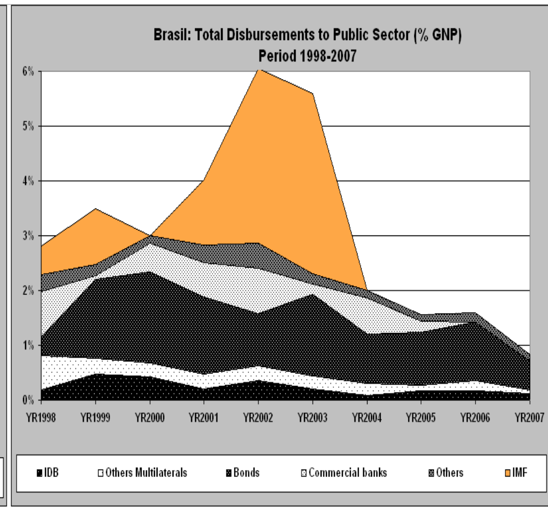
3.27 Another indicator to visualize the value of the Bank's contribution is to compare the course of execution of its financial resources to the evolution of the country's business cycle. That contribution was approximated based on the relationship between the cycle of disbursements and the country's economic cycle, expressed by the rate of variation in per capita GDP. The contribution is not very significant and is constant for the period, tending to decline in significance compared to growth of per capita GDP since 2003. Before that time, the contribution was greater and countercyclical.

3.28 Lastly, a series of indicators were considered on the relative importance of the Bank's share of Brazil's financing. The measurement indicates that the significance of Bank disbursements with respect to total gross annual financing needs remained constant in the period 2000–2007 (2.2%). The average share of disbursements with respect to the public sector debt service is somewhat higher than that figure (7.7%), although appreciably less than in the period 1998–2000. Lastly, the significance was measured of the Bank's share of total disbursements from sources of financing for the public sector through the ratio of Bank disbursements to total disbursements and GDP. In the period 2000–2007, the Bank accounted for 12.2% of total disbursements, excluding those from the IMF (0.22% with respect to GDP) with a clear uptick since 2004. The trend is similar for all multilateral lending organizations.









Source: based on information of Latinfocus

3.29 In short, although the Bank is a small player in public sector financing, its relative importance increases when external disbursements fall as the economy expands, fiscal performance improves, and debt pressures diminish. This would indicate a more permanent role for the Bank in long-term financing, which reflects not only its favorable conditions compared to other sources, but also its contribution to development, as discussed in later chapters. It is also clear that in times of heavy liquidity requirements, that role is essentially fulfilled by the IMF, followed by bond issues.

IV. RESULTS ACHIEVED

A. General overview

4.1 The significance of the contribution to results in a large country like Brazil was not based on the quantitative amount of the resources,[70] or on their contribution to the design of public policies.[71] The latter were set by the country and were tailored to the problems they addressed. In that context, the Bank, as a small player, achieved greater value-added in the country insofar as it could be selective and work on issues that enabled it to have an impact through the leveraging or replication derived from its association with government policies and programs.[72] In the past, projects reflected the lack of selectivity and small size of the programming, coupled with the fact that the country did not have a precise, hierarchical investment plan for the Bank.

4.2 Bearing this in mind, the evaluation considered loans to both the public and private sectors,[73] including loans that disbursed all or nearly all of their resources in the period 2000–2007. It also looked at projects that—while their disbursements were not significant—were important for justifying the results sought by the program. In the most recent cases where it was premature to make a determination on the effectiveness of innovative projects and financing mechanisms in how the Bank worked with the country,[74] an ex ante analysis was performed to project the criteria that determine the expected net benefits. Lastly, loans that had significant cancellations were considered.

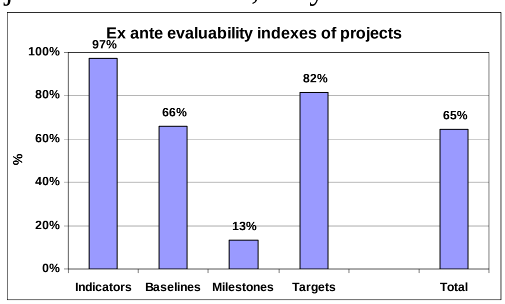
4.3 The evaluation methodology did not measure impacts based on counterfactuals, but rather used reliable, faster procedures based on interviews with key respondents, direct field visits, semi-quantitative structured surveys, and analyses of background documents and of national and international databases.

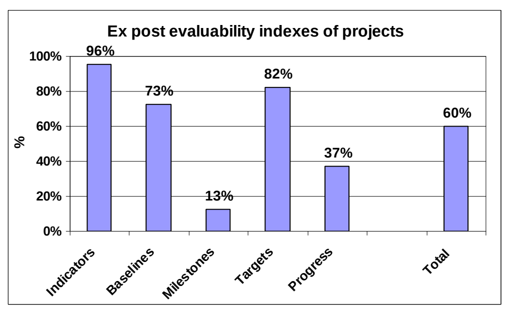
4.4 The following sections summarize the contribution of projects that had significant execution during the review period, broken down by strategic pillar of the program.[75] The first section reports on the evaluability of operations approved during the period, i.e. to what extent the project documents make it possible to benefit from the evaluation (ex ante evaluability). That result is compared to a similar analysis based on the project completion report (PCR), or on the most recent PPMR if execution is not yet complete (ex post evaluability), to determine whether the designs were improved during implementation and whether progress in results achieved by the Bank was demonstrated. The following sections present project results, as well as the achievements and lessons learned in each strategic area.

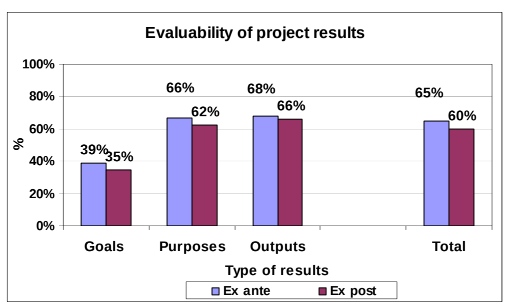
B. Analysis of project evaluability

4.5 The aggregate analysis of evaluability of the project documents (ex ante) and of the PCRs and PPMRs (ex post) reveals two different situations from the standpoint of evaluability indices.[76]

4.6 In the project design, while nearly 100% of projects had indicators, only 66% had metrics for their value at the outset in order to measure progress. Moreover, while targets were established for 82% of indicators, progress will not be measurable for a large number of them because there is no baseline. Lastly, the widespread absence of intermediate targets (milestones) evidences a lack of planning of activities based on outputs and outcomes and fails to recognize that they are achieved progressively and their measurement is crucial to monitoring project performance.







4.7 Although the results of ex post evaluability following execution are similar for the four criteria into which the index is broken down, the variations in the number of them compared to those established in the ex ante results framework were significant. An average of 52% of changes to initial figures were made during execution, mainly due to eliminations (32% of objectives, 59% of purposes, and 62% of outputs were modified). This made it possible to improve the relationship between baselines and established targets, but potential achievements will be appreciably less than anticipated in the designs.

4.8 The most surprising finding is that after such a significant reformulation, the Bank only had metrics in the PPMRs and PCRs for 37% of outcomes to demonstrate progress over the initial situation. The significant delays in the original execution periods mentioned in the preceding chapter further limit the possibilities of benefiting from the results of the evaluation. Prolonged project execution makes their evaluation less relevant. This contrasts with the government's assertion that in these areas the country relies on the evaluation capacity of the Bank and the executing agencies.

4.9 The weakness of this exercise in demonstrating projects' development outcomes in the monitoring reports and self-evaluations of performance used by the Bank is more marked in the case of development objectives (only 36% can be measured) than for purposes (62%) and outputs (66%). This should not lead us to think that the projects cannot be evaluated, but rather that the Bank does not produce the information needed to demonstrate its achievements. If the government relies on the Bank's systems to evaluate project performance, both the country and the Bank can benefit little from the evaluation after the interventions. These results are not an improvement over the findings of the previous CPE.

C. Contribution of projects to program results

1. Improvement in living conditions in cities and financing for subnational governments

a. Project results

4.10 In the case of *Improvement of Living Conditions in Cities and Financing of Subnational Governments* (see Annex I), some projects in the area of Urban Development and Quality of Life in Cities have been key to creating a work niche for the Bank. Those include Favela-Bairro I (BR-0182) and II (BR-0250), Paraná Urbano I and II (BR-0374), and Habitar-Brazil. Those projects charted a course for how to address the challenges of poverty in low-income neighborhoods in large metropolitan areas. The work niche that began with those projects was consolidated in PROCIDADES, an urban development program that is viewed as a consistent, flexible, and adaptive means to tackle those challenges through direct financing to municípios.

4.11 **Favela-Bairro I (BR-0182) and II (BR-0250)** are part of a comprehensive strategy to tackle poverty by improving services in the poor neighborhoods of large urban conglomerations, which has been widely adopted in Brazil and other countries in the region. Its design and results were tailored specifically to Rio de Janeiro. There are no measurements based on target indicators that show the effectiveness of the approach used. There are only surveys of public perception that point to doubts as to the sustainability and future viability of the actions. That perception, which is not an assessment based on objective evidence, indicates that the problem of security has not been resolved with infrastructure and social interventions alone. Moreover, the integrated multisector investments require a consistency that was not achieved with institutionally and technically efficient providers that guarantee sustainable access to services. The lack of income generated by the project and the weakness of regulatory and rate frameworks in addressing the characteristics of that population are among the most significant limitations that prevent achievement of the development outcomes. One of the expected outcomes of the project is that the resulting increase in the value of homes with better access to services would be a net benefit. That expectation did not materialize. Due to institutional problems, land titles were not recognized, which is a key factor to achieving the aforementioned outcome.

4.12 **Paraná Urbano I and II (BR-0374)** had a similar objective to *Favela-Bairro I and II*, which was to improve the quality of life of the poor population in municípios. However, more emphasis was placed on mechanisms for transferring technical and financial capacities to enable smaller municípios to deliver services to the public. Given their similarities and purposes, it is interesting to consider this mechanism for partnering with the municípios (Paranacidade) as an efficient alternative to management and monitoring of PROCIDADES projects in various small municípios within a single state.[77]

4.13 **Paraná Urbano II** (BR-0374) is an interesting case in the Bank's portfolio because it was executed within the planned timeframe, mostly due to the capacity and good practices of the executing agency (*Paranacidade*) in project preparation, supervision, and tendering.[78] The operations had the following noteworthy results: (i) contribution to reducing the incidence of respiratory infections as a result of paving of urban roadways; (ii) reduction in crime as a result of public lighting; (iii) decrease in the levels of malnutrition in preschool-age children as a result of introduction of daycare centers; and (iv) increase in property values in the vicinity of improved roads.

4.14 **Habitar-Brazil (BR-0273)** is the first urban development experience with a multisector approach *on a national scale*. It included housing, water, sanitation, and environment actions focused on improving the living conditions of poor urban communities in small municípios. The purpose of the operation was to improve the housing conditions of families living in substandard neighborhoods located in metropolitan areas, state capitals, and urban centers. Although execution of *Habitar-Brazil* had not been satisfactory at the time of the evaluation,[79] four strengths are recognized for both the municípios and the Ministry of Cities (MCIDADES). First, the program introduced the concept of environmental management into the capacity of the municípios, which had never before been practiced.[80] Second, the community was involved in the design and execution of subprojects, e.g. the *Lagoa dos Santos* and *Planaltina Immigrants* projects. Third, the municípios hired professional support teams that included psychologists and social workers to make a diagnostic assessment of the community (education, health, security, domestic violence, etc.), sparking a planning process based on an analysis of local needs in order to address them. Fourth, the few positive experiences of *Habitar-Brazil* are associated with the effectiveness of the project coordinators hired, with high capacity and the necessary experience to intermediate with the bureaucratic obstacles of Caixa Econômica Federal (CEF), MCIDADES, and the Bank, and who identify with the needs of the community, which is what legitimizes their action. This presence appears to be sufficient reason for the success of the subprojects with poor urban communities in small municípios.

4.15 The **Program to Support Pará Urbe (BR-0357)** is notable for its mobilization of local resources through greater fiscal efforts associated with gains in administrative efficiency and attracting private investment. Its main lesson has been the risk of extrapolating a model that works in one area but not in another. Indeed, the operation was designed similarly to *Paraná Urbano II*, but was not tailored to the socioeconomic conditions of the municípios in the state and to their institutional capacity. The original targets were not very realistic, and achievement of the objectives and purposes of the operation was far beyond the reach of the state. Consideration was not given to the difficulties of this operation feasibly serving most of the municípios of Pará under a single project in a heterogeneous environment from the standpoint of the LRF and institutional capacity. This project is another precursor that contributed to the creation of **PROCIDADES.**

4.16 **Water and sanitation** projects helped improve the quality of service in the locality served, but did not necessarily contribute to the formation of a replicable work niche in this sector. This is the case of the **Goiânia Water and Sanitation Program (BR-0351)**, **the Ceará Sanitation Program (BR-0324), the Acre Sustainable Development Program, and the Social and Environmental Program for the Igarapés in Manaus (BR-L1005).** The purpose of the first project was to improve sanitation conditions for the residents of Goiânia and neighboring urban areas by improving public water and sewerage services. It is one of the few operations signed by the Bank with a public utility as the direct borrower. It is difficult to be conclusive about the results and effectiveness of this operation given its low level of execution. The program was never aligned, as was intended, with private participation in public utilities in the State of Goiás. This contradiction in the design of the operation was exacerbated by failure to anticipate all of the institutional risks[81] and the failure to manage those risks, which affected other areas of the project that depended on strengthening the utility’s management. The indicators and targets were optimistic, assuming that the intervention of a private operator would contribute to attaining the established efficiency indicators. The reality is that the private operator has still not been hired, the Bank’s conditions were viewed as interferences hindering execution, and the Bank was not recognized as a source of knowledge.

4.17 The general objective of the **Ceará Sanitation Program (BR-0324)** was to improve the quality of life of the residents of Ceará through better and more efficient delivery of water and sanitation services. This operation is currently facing difficulties, with the positive aspects of its execution being very limited. However, it teaches important lessons in the sense that it is not enough to have the support of the company responsible for providing the public service; the project also needs to be a priority for the state government. Moreover, analyses of the risks of direct operations with public utilities at the subnational level should not be minimized, particularly with respect to coherence and consistency with the institutional and legal framework that affects execution of the outputs.

4.18 The objective of the **Acre Sustainable Development Program** was to improve the quality of life of the population and to preserve the natural resource endowment of the State of Acre. The operation represented a challenge for the Bank, requiring it to integrate its work with sustainable management of natural resources in a forest-covered state. This characteristic of the design is an important achievement, since for Acre it constitutes a mechanism for sustainable development planning by the government and civil society. Execution of the program has been slower than expected (the geographic location of Acre makes it difficult to supply both physical and human resources), but the Bank has regained its role as the financial backer of sustainable development in the Amazon region.

4.19 Lastly, the **Social and Environmental Program for the Igarapés in Manaus (BR-L1005)** addressed the environmental, urban development, and social problems caused by informal settlements along the streams known as igarapés. By way of comparison, this operation has achieved results in a period of time in which other sector operations were only able to fulfill the conditions precedent to the first disbursement. A reduction has been achieved in the levels of water contamination around the streams (the level of coliform bacteria in the water fell by 50%) and in the number of people affected by flooding (30% fewer people). Targets for reductions in the incidence of acute diarrheal disease and hepatitis A have also been surpassed considerably.[82] The operation has also strengthened the Housing Policy of the Government of the State of Amazonas and has increased housing solutions for low-income families throughout the city. The resettlement of families living in high-risk areas has been satisfactory.[83] Community leaders also played a key role in facilitating organized and peaceful resettlements. The success of this operation led to approval of a second phase in 2008 (BR-L1164).

b. Achievements and lessons learned

4.20 The Bank's program in this sector defined different methods for working with municípios and states, which are milestones that extend beyond Brazil and should be considered as precedents for the entire organization.

4.21 The effectiveness of the projects depended on: (i) their being part of the budget priorities and possibilities of the municípios; (ii) the efficiency of public utility providers; (iii) the capacity of the end beneficiaries to pay for the cost of services; (iv) the capacity for replication in the community; and (v) the existence of institutional capacities to generate and manage investment plans.[84]

4.22 The main weakness of the programming is that the Bank's urban development sector approach was not linked to financing for subnational governments. The methods adopted by *Habitar-Brazil, Paraná Urbano II*, and PROCIDADES most contributed to reducing that weakness insofar as: (i) they were part of a public policy; (ii) they focused directly on the municipal governments; (iii) they emphasized mechanisms that reduced implementation and supervision problems, avoiding redundancies and red tape; and (iv) they stressed work with the community.

4.23 PROCIDADES created a mechanism for lending directly to subnational governments that permits the use of debt to implement sector public policies at that level, however only for those that comply with the fiscal restrictions established in the LRF. That mechanism also permitted the use of the local currency facility, which was another requirement of the federal government. It contains goals related to the reduction of transactional costs compared to conventional work methods. It is still too early to be conclusive about the effectiveness of its results.

4.24 Another noteworthy aspect is the foray into the progressive use of country systems and institutions for project monitoring and execution, supporting a capillarity that the Bank did not have. The remaining challenge is to adopt a form of risk management for this different method of working with country institutions that do not have the Bank's management standards.[85]

4.25 The Bank's current organizational structure does not respond to the demand for multisector actions in these operations. The new mechanism is also not the same as the one established in the new project cycle, which causes rigidities.

4.26 Added to the lack of performance evaluation systems for the projects was the absence of diagnostic assessments at the municipal level, creating imperfect knowledge and difficulties anticipating problems.

4.27 The evaluation had problems obtaining sufficiently objective information to draw relevant conclusions as to the effectiveness of the fight against urban poverty.[86]

2. Modernization of the State and strengthening of fiscal federalism

a. Project results

4.28 In this area (see Annex II), the main outcome of the Bank's activities is the emergence of a new type of relationship with the states that is simpler and more autonomous as a result of capitalizing on the experiences of intergovernmental projects in the fiscal arena (PROFISCO). In the design of this work niche, issues concerning the management and effectiveness of spending were added to the traditional tax administration content, incorporating more of a "public finance" vision.

4.29 A series of projects were precursors to that outcome, not always associated with positive performance. Those changes began to come about in 1996[87] with the **National Fiscal Administration Program for the Brazilian States** (**PNAFE) (BR-0171),** which was geared toward improving tax administration in all states and financial management in 23 states. That program was evaluated in the previous CPE. The causes of the slow implementation of the project, which spanned the entire review period, were considered to be a weakness that was corrected in the design of PROFISCO. The **Program to Modernize the Federal Government (BR-0220)** was approved in 1997 and sought to restructure the federal administration, build the capacity of human resources, and serve the citizens. While this project was originally aimed at reforming the entire federal apparatus, it was restructured seven years after approval and its scope was confined to the Planning Ministry. Like other projects, it was affected by the change of government, staff turnover, and replacement of staff with less experienced individuals. This notwithstanding, the expectations for the revised design are considered to have largely been met and certain achievements are acknowledged, such as headway in the modernization of information systems (especially the country's real estate information system, which helped increase the collection of real estate tax revenue in São Paulo), changes in administrative structures and procedures, training of human resources, and improvement in the logistical resources of the federal government. Seven ministries, 10 decentralized agencies, and 13 social organizations were restructured under this project.

4.30 In 1999, the first phase of **PNAFE-M (BR-0286)** was approved along similar lines as PNAFE, with a view to replicating the state model (PNAFE) for the majority of Brazil’s municípios. Its objectives were to increase the efficiency of municipal public administration and to heighten transparency. Its coverage objectives were highly ambitious. However, until 2005, execution was very low and there were problems with the design, related to both the number of beneficiary municípios and implementation of the products it offered, which were not very attractive to the large municípios and were not within the reach of the small ones. It cannot be proven that the increased tax revenue and efficiency gains measured by the decline in administrative costs are the result of the operation. Because of its problems, this project was a good preliminary step to designing PROCIDADES and PROFISCO. In particular, it demonstrated the limited operability of working simultaneously with a large number of disparate municípios and of offering too many technical assistance options that have been rigidly defined, without taking into account the different needs and capacities of each município. Specifically, it was determined that the quality of the human resources of state governments is not replicable at all municipal levels, where heterogeneity and scale make it difficult to find public officials with the capacity to successfully implement public policies.

4.31 Two other projects that have contributed to the aforementioned niche are the **Program to Strengthen the Fiscal Administration of the State of São Paulo (PROFFIS) (BR-0372**) approved in 2004 and the **Program to Support Fiscal Management Modernization and Transparency in the State of Bahia (BR-L1026)** approved in 2006. The first program was conceptualized as a second phase of the PNAFE in that state and sought to strengthen the state’s tax, budget, financial, and human resource management. Although execution has been slow and has had to contend with the effects of changes in the government and problems with delays in tendering and other procedures, disbursements are currently on pace and expected to accelerate. The State of São Paulo formally joined PROFISCO, and the compatibility of the two programs is being analyzed. The program to support the State of Bahia (BR-L1026) emphasized improvement of its tax and financial area, including enhancing the quality of spending and transparency in public administration. It was also conceptualized as a continuation of PNAFE/Bahia.[88] Affected by state elections and the fact that the new administration took a while to establish itself and to define the strategic plan for the Ministry of Finance, the project really began in early 2008. Faster execution is expected due to experience working with the Bank and agreement on the needs identified in the design of the operation. Nonetheless, this case exemplifies the difficulties of complying with both the state’s legal requirements and procedures for execution and with the Bank’s regulations.

4.32 **PROFISCO** was approved as a CCLIP in November 2008. The objective is to continue improving the tax system and the system of tracking spending by the states. It is too early for a reliable evaluation of the results since there has been practically no execution. Given the significance of the change, an ex ante evaluation has been made of PROFISCO, which found that the main barriers in prior experiences had been eliminated. It is also a more cohesive solution insofar as it incorporates the disparate priorities and capacities of the different subnational stakeholders. It takes into account where technical cooperation is and is not required, reducing the impact of rigid components. PROFISCO has certain risks, which are analyzed in the annex.

4.33 Expected benefits include: integration of technology platforms between the states as a way to reduce the existing bureaucracy; an increase in tax revenue; and improvement in the expense tracking system. The program has fewer restrictions on the use of resources, favoring the quality of taxpayer services and of human resources. The Bank's role facilitates dialogue among federal government agents, contributing knowledge and solutions to operational problems. Greater autonomy and responsibility under PROFISCO minimizes the bureaucracy of the previous mechanism, which required each state to negotiate access with the federal government and, if no agreement was reached, the project was halted. By sharing solutions and experiences, this program helps cut implementation costs and builds management capacities.

4.34 In the same vein, other projects were carried out that, while not contributing to the niche, enhanced the services they delivered. In this regard, the **Program to Support Modernization of the Federal Court of Accounts (TCU) (BR-0365)** was approved in 2002 to support the modernization and institutional strengthening of the TCU. Although execution took longer than anticipated,[89] the project met the proposed development objectives. Training and dissemination of the TCU was achieved, strengthening social oversight. Greater regulation and modernization of its functions was attained, the areas of audit and oversight were expanded, and professionals from the units responsible for decentralized activities were trained. Important changes were made through this operation that will take time to take root. Attainment of the objectives was related to two unusual factors in Brazil: first, the continuity of executing unit staff and the commitment to the project, which were not affected by political changes due to the autonomous nature of the TCU; and, second, the proximity of the Bank to the executing agencies.

4.35 Another project for which the contribution to service was below expectations was the **Support for Modernization of Pension System Management (PROPREV) (BR-0327)** approved in 2001. Its objective was to support modernization of the pension system in the context of the reform adopted by the National Congress in 1998. It had two subprograms: Modernization of Administration of the General Pension System (RGPS) and Public-sector Pension Schemes (RPP). This project did not achieve[90] the main proposed objective of modernizing and implementing a computerized system to manage the pension system on a new technology platform. However, good progress was made in specific areas, including implementation of a new customer service system, reducing lines, and at the municipal level in six larger municípios where action was needed (the World Bank did it in another 28 larger municípios), streamlining procedures, strengthening management models to purge the tax rolls and reduce tax evasion, reenrolling beneficiaries, purchasing new equipment for the agencies, etc.

4.36 With the same characteristics, the **Program to Modernize the External Oversight System for States (PROMOEX) (BR-0403)** approved in 2005 can also be included in this group. It seeks to strengthen the external oversight system as a tool of citizen participation, including heightened intergovernmental and interagency relations with a view to compliance with the LRF. This loan tries to replicate the objectives of the TCU operation in each auditing office in the 26 states, the Federal District, and six municípios that have that oversight agency, covering all of the subnational entities. The central purpose is to reduce the asymmetry of capacities, interpretations, opinions, decisions, and conceptions of the different state auditing offices. The challenge of execution was to manage 29 projects (at least initially) that, although they have similar content, ultimately have their own complexity. Until March 2007, budget allocation problems prevented the transfer of resources to the offices and eligibility was slow to be approved because of delays in the monitoring and tracking system. Like most projects reviewed, the difficulties of complying with country regulations in parallel with Bank regulations prevented greater disbursements of the loan proceeds such that more money was spent from the counterpart resources than from the loan proceeds. Towards 2008, the Bank took corrective measures; however, it is still too soon to evaluate the results.

4.37 Lastly, there is a group of projects that exemplifies highly optimistic and poorly targeted designs. This is the case of the **National Program to Support Modernization of Public Administration and Planning in the States and Federal District (PNAGE), Phase I (BR-0405)** approved in 2006, focused on enhancing the effectiveness and institutional transparency of state governments in order to make expenditure more efficient. That project faced countless obstacles, most of which were derived from the fact that it provided for a very complex execution mechanism that was difficult to manage and not very viable, which meant that the resources arrived late and had problems, and did not spark interest in using them.[91] The complexity of the conditions precedent to the first disbursement delayed the start of execution until 2008. In the interim there was a change in governors, which meant execution began with technical and political teams who had not participated in the genesis of the project. The project has undergone significant reformulations that began to produce some practical achievements. Along these same lines is the nonreimbursable technical cooperation project, the **Strategy and Action Plan for Development Effectiveness (PRODEV) (ATN/OC-9736-BR)**[92] to build managing-for-results capacities at the three levels of government. The main outputs were a diagnostic of the monitoring and evaluation system for policies and programs, the capacity of the states and municípios in that area, the status of training opportunities, and formulation of an action plan for development effectiveness that responds to those weaknesses at the three levels of government. The outsized objectives vis-à-vis the approved resources led to priority being given to strengthening management with a focus on the municipal governments. That required knowledge of the technical capacity, services, and the financial standing of the municípios, which was not available, the diagnostic of which was contributed by this operation. However, there was a disparity between the resources and the magnitude of the task, which led to the use of a sample of municípios.[93] Managing-for-results was not the main priority of the municípios, which instead prioritized deep weaknesses in more fundamental areas. Lastly, changes in the management of the program introduced more institutional constraints into the project.

b. Achievements and lessons learned

4.38 Despite the low level of execution in most operations, some achievements and *lessons* learned from interventions in the sector can be identified: (i) the operations have been relevant and conceived as phases based on a medium- and long-term vision for the country in this area; (ii) the Bank has established itself as an important player in introducing the instruments of that intergovernmental policy, making this a work niche;[94] (iii) the Bank's role in strengthening coordination and collaboration networks between the different states and between the states and the federal government;[95] (iv) the designs of the new operations incorporating the lessons learned from experience in this area,[96] taking advantage of the better conditions from complying with the LRF at the subnational level; and (v) incorporation of the asymmetries between the Finance Ministry's (public revenue) management capacities and those of the other areas of government (linked to the quality of management of public spending), and between the states.

4.39 *Low execution* was a key factor in the performance of this sector. The main explanatory factors were that: (i) the designs have been highly optimistic and poorly targeted, inflating expectations for results and minimizing problems with the capacity of the stakeholders who must implement project content. This is consistent with the country's continual focus on very large projects that are not always realistic;[97] (ii) events derived from Brazil's political and administrative institutional framework;[98] (iii) noncompliance with the LRF under which the transfer of resources from the federal government can be suspended when there are agreements with the states;[99] (iv) redundant fiduciary controls for execution; and (v) the low portfolio execution concentrated the Bank's work too heavily on addressing administration problems, weakening monitoring and performance of results.

4.40 Formalities for ensuring that the loans comply with the LRF have been problematic for the Bank. The procedure that the states and municípios must complete to request the sovereign guarantee from the Finance Ministry is lengthy, and the guarantee may not be granted.[100]

3. Social spending, poverty, and inequality

a. Project results

4.41 In this area (see Annex III), the Bank's work was determined by the government's capacity to finance social spending without borrowing. Policy in each social area was set by the country, requiring specific assistance to optimize implementation of those policies and managerial improvements. This limited the Bank's traditional financing for the sector, supplying resources to isolated projects that were not fundamental. Education and health programs that were underway were discontinued. Consequently, the program did not contribute significantly to producing a niche for social sector action with a future presence.

4.42 The **Project to Support the Social Protection System (BR-L1004)** supported budget financing for the Bolsa Familia program (conditional cash transfer program) using a SWAp modality, which is a positive experience in the use of country management mechanisms. Its key objective was to help streamline the work of different participating entities and programs and to improve the efficiency and targeting of cash transfers to the poorest families. The technical impact and influence of the Bank in the establishment and substantial design of the conditional cash transfer policy to alleviate poverty were limited. However, the experience of the institutional strengthening subcomponent, which supported creation of the National Training System for social program managers and specialists, is a good example of how the country views the Bank's role in the social sector.[101] It also contributed to the incorporation of other programs under the Bolsa Familia program, in particular the program for the eradication of child labor (PETI), despite delays in obtaining a master registry, which required renegotiation of the component.

4.43 The objective of the **São Paulo Social Policy Evaluation and Improvement Project (BR-L1009)** was to improve the efficiency and effectiveness of social welfare, advancement, and development programs in the social safety net of the State of São Paulo. Despite execution problems that delayed the project significantly, there has been some progress in the outputs of the components, which can serve as the basis for successfully replicating this type of intervention in other states and municípios in the country.[102] Specifically with respect to the master registry, the beneficiary database was consolidated and a single system was implemented (Pro-Social registry) with access available to all the municipal departments. With respect to the subcomponent to support decentralization, by end-2005, all of the State's municípios (645) had prepared and used the Municipal Social Welfare Plans (PMAS), which offered a diagnostic assessment of the needs of the poor and vulnerable population and an analysis of existing social services. For the training subcomponent, a total of 2,600 local managers were trained (from all municípios) between 2005 and 2006, as well as 50 state managers from the Department of Social Welfare and Development (SEADS). The monitoring and evaluation subcomponent, as well as the communication subcomponent, do not show significant headway and are classified as having unsatisfactory progress in the Bank's self-evaluation.

4.44 Lastly, the objective of the **Program for Diversity in Access to Higher Education (BR-0364)** was to promote equity and diversity in higher education for indigenous and Afro-descendant Brazilians.[103] In terms of results, the numbers on the population served are unreliable or nonexistent. No monitoring was done to determine the rate of acceptance of enrollees in higher education with respect to a similar population who did not enroll in the courses. The component for carrying out studies was performed satisfactorily. The program made it possible to found a publishing company that still exists today and has published 22 books, 19 of which deal directly with racial issues and 3 of which are on indigenous education, it has a website for education and dissemination of information, and has held numerous forums and talks. Additionally, 12 courses were financed on racial issues and discrimination and a television program was aired. With respect to the institutional strengthening component, progress was made in executing resources and hiring personnel for the Department of Continuing Education, Literacy, and Diversity (SECAD). UNIAFRO was also founded under this component in 2005. Upon completion of execution of the loan, a letter of intent was signed for the Program for Diversity in Access to Higher Education II.[104] However, given the results of the first phase, the lack of a need for financing due to the economic expansion,[105] and the prevailing skepticism of the new SECAD authorities, the loan was canceled. Future demands from the Bank by the Ministry of Education in the area of racial diversity in education are geared more towards support for governmental policies and the need for technical support, expert dialogue, and the exchange of regional experiences.

b. Achievements and lessons learned

4.45 The federal government limited external financing for social programs starting in 2004 in an environment of increasing tax revenue during the expansionary phase of the economic cycle, thus limiting the Bank's role.

4.46 At the end of the evaluation period, the macro and fiscal situation in Brazil made it possible to predict that the federal level of government would continue to have fiscal headroom. That situation should be reevaluated in light of the international crisis.[106]

4.47 The country needs support for technical solutions and expert dialogue on specific problems (bottlenecks) faced by social programs and policies. There is growing concern about the way to make social spending more cost-effective at both the federal and subnational levels.[107] [108]

4.48 Lastly, the social sector is not exempt from the execution problems observed throughout the portfolio. Subcontracting of specialized agencies was generally described as problematic and costly, causing frequent delays.[109] The Bank is tackling the challenge of integrating its systems with country systems. The SWAp loan to Support the Social Welfare System was an important precedent in the use of the country's budget structure to undertake projects in that area, but could not be replicated in other interventions.[110]

4. Competitiveness, productivity, and development of the private sector

4.49 Three areas comprise this topic (see Annex IV for a more detailed analysis): the Program to Support Micro, Small, and Medium-sized Enterprises with BNDES, infrastructure, and the nonsovereign-guaranteed portfolio with the private sector.

a. Project results

(i) BNDES Program to Support Micro, Small, and Medium-sized Enterprises (MSMEs)

4.50 With respect to this program (see Annex IV, Section II), although operations have been undertaken since 2000, the projects included in the evaluation were **BR-0331, BR-0358, and BR-L1054.** As part of a public policy, BNDES has partnered with the Bank to address the long-term financing needs of MSMEs, since such financing is virtually nonexistent in the market. Like other public and second-tier banks, BNDES needs to diversity its sources,[111] particularly the cheapest sources, to allow it to engage in currency arbitrage, manage repayment terms that are longer than the terms of its lines of credit, and reduce legal restrictions on borrowing or limitations on the use of the loan proceeds. The long partnership with the Bank has generated commercial value-added, and has created an efficient and competitive financial solution with reduced portfolio risks, ensuring access to financial resources at different times in the Brazilian business cycle.

4.51 Individual results show that most business decisions financed were not linked to investment plans for plants, machinery, equipment, and business management, but rather were plans to improve production processes through technological renovation of key equipment. Those decisions mainly responded to productivity gains and the increase in capital available to satisfy demand in an expanding market. This makes it difficult to categorically prove the impact exclusively attributable to a machine.

4.52 The series of operations with BNDES has generated a large database that has facilitated the evaluation of the efficiency and use of the products. To monitor and evaluate the results of these operations, the Bank uses a system of gathering indicators based on the perception of the beneficiaries rather than on verifiable facts. Thus, it is difficult to discern whether the results are due to the loan and, therefore, to prove the trends drawn from that data. Despite the long partnership with BNDES and the number of companies that have already ended their contracts, the Bank never attempted to make a counterfactual analysis to gain a greater understanding of the impacts of this program.

(ii) Infrastructure and tourism

4.53 This area (see Annex IV, Section III) has historically faced a shortage of investment funds in the context of the fiscal adjustment in the 1990s. The transportation sector is particularly important in the area of public spending on infrastructure. In light of investment needs and in a context of aging infrastructure, at the beginning of this decade, the response of the federal government and the states was an ambitious program for road rehabilitation and the transfer of public infrastructure to private concessionaires and to subnational governments, reflecting budget constraints.

4.54 In the period prior to the one covered by this evaluation, the Bank had a relatively successful history of interventions in the transportation sector, with heavy emphasis on building private toll roads and federal public highways. However, during the review period, the profile of the Bank’s work in the transportation sector fell markedly, with nearly complete stoppage of support for the federal government in road construction and maintenance and participation at the state and municipal level that—with some promising prospects—did not offset the withdrawal at the national level.

4.55 Execution of the Bank's program during the period shows that, in practice, no new large operations have been approved since 2000. This began to change with the matrix structure the Bank is adopting. Subnational stakeholders comprised of the states and medium to large cities with urban transportation are beginning to appear, giving a glimmer of the possibility of a clear work agenda agreed upon by consensus at the country level. The transportation portfolio has been recovering as a niche since 2008, lending to the states with a sovereign guarantee, mainly to those that have most resolved their institutional and fiscal issues. This process draws lessons from the experiences of *Santa Catarina*, which is a giant micro-universe for the Bank, and of *São Paulo*, where a culture of action was created with positive impacts.

4.56 Of the two operations included in the 2004–2007 program, only one has been carried out: loan BR-L1027 "Road Access to Small Municipalities in Minas Gerais". Loan BR-0254 "Modernization of the Florianópolis-Osorio Highway," as it was designed, was not carried out. Instead, loan BR-L1031 "Program to Expand the MERCOSUR Corridor: Florianópolis-Osório Highway," which had similar characteristics and objectives but was for a smaller amount that had been recently approved, was canceled. During the review period, only two operations were executed and completed corresponding to previous strategies: loans BR-0295 "Highway Rehabilitation Program in the State of São Paulo" and BR-0355 "Santa Catarina State Highway Program, Phase IV".[112] Lastly, operations BR-L1002 "Highway Program for the State of Espírito Santo" and BR-L1033 "Highway Rehabilitation Program in the State of São Paulo, Phase II" were approved during the period covered by the current strategy even though they were not originally programmed.

4.57 With respect to the two projects finalized in the evaluation period, the main purpose of loan **BR-0295 "Highway Rehabilitation Program in the State of São Paulo"** was to reduce the cost of transporting people and merchandise in the highway network operated by the Highway Bureau of the State of São Paulo's Transport Department (DER/SP). According to the outcome indicators taken from the program closeout information, the program significantly reduced transportation costs in most of the categories analyzed. Likewise, there was a reduction in the rate of road accidents and the human toll associated with those accidents. Finally, there was a high level of user satisfaction with new/renovated bus terminals.

4.58 The original objective of loan **BR-0355 "Santa Catarina State Highway Program, Phase IV"** was to improve the economic integration and efficiency of the different productive regions and sectors in the state, decreasing transportation costs and travel times thanks to improved road conditions and greater traffic safety. In terms of the outcome indicators, according to project closeout information, the program achieved a significant reduction in the economic costs of operating vehicles from the categories analyzed for both investment categories (paving and rehabilitation). There was also a reduction in travel times, the rate of road accidents, and the human toll associated with those accidents, and an increase in geographic coverage by the highway patrol and in the number of municipal centers with access to improved roads.

4.59 The Bank has approved a series of interventions in the tourism sector: **Northeast Tourism Development Program (PRODETUR/NE I) (841/OC-BR), PRODETUR/NE II (1392/OC-BR)**, and the **Program for the Development of Ecotourism in the Legal Amazon Region (1216/OC-BR)**, which are considered to be the precursors of the recent **National Tourism Development Program (PRODETUR Nacional, BR-X1008)** programmed as a CCLIP.

4.60 Based on the experience of *PRODETUR/NE I*-1994, **PRODETUR/NE II** was signed in March 2002 with the purpose of consolidating the investments made in the first phase, improving the quality of life of the permanent population in tourism centers, employment, and municipal revenue to provide urban services and improve environmental quality. The infrastructure components were the only ones that showed an acceptable execution capacity, even though all the outputs have encountered serious delays and various types of execution problems. Among the main causes is the difficulty of the states assuming the counterpart obligations or the lack of priority given to this; those obligations ultimately had to be assumed by the federal government through the Ministry of Tourism (US$110 million). The package offered by the project was perceived as an inflexible instrument that was not suited to the needs and programs of the beneficiary municípios and states. Other factors that had a bearing on the project's poor performance were the low rate of preparation and approval of projects by the states, which indicated a lack of priority; problems with the execution capacities of the municípios to run PRODETUR, despite the mitigation efforts of the project's institutional component; the low management capacity of Banco do Nordeste do Brasil (BN) to identify and promote projects in this area, as well as their reputation as a costly and rigid organization; and changes in the political and institutional environment.

(iii) Nonsovereign-guaranteed portfolio (private sector loans (PSL))

4.61 The PSL portfolio grew significantly in 2004–2007 compared to 2000–2003 (see Annex IV, Section IV). This reflected the marked contrast between economic growth in the last four years and the previous four years, and the growing priority assigned by the government to those development stakeholders in the face of the diminishing role of the public portfolio. The significant reduction in cancellations in the last period with respect to the prior period suggests stability conditions that are more consistent with this type of operation.

4.62 The sector allocation of the loans contrasts significantly with the rest of the Bank, both in 2000–2003 when funds went almost solely to infrastructure, and in 2004–2007 when the allocation and beneficiary profile changed significantly. Brazil's approvals are heavily concentrated in the energy sector, with considerably less diversification than in the rest of the Bank. Unlike the rest of the Bank, financial market operations are second in relative importance and appreciably less important in the overall private sector portfolio. The objective of increasing the importance and development of the capital market and financing of financial institutions (except public banks) is a bigger business in the rest of the Bank (39% of the total portfolio, not including Brazil).

4.63 The energy portfolio was more founded in microbusiness than in supporting development of a national energy model that does not have clearly defined roles for the public and private sector, as well as for the different levels of government. The closest thing to creating a strategic niche is the growing focus on bioenergy in support of the objective of diversifying the energy matrix, albeit without having received support from nonfinancial products that have analyzed whether the profitability of the business is from the energy products or from the raw materials used.[113] The relative significance acquired by the sector was related to the 1999 energy crisis and its explosion in 2000–2001 when thermoelectric power generation with natural gas subsidized by the government did not have enough natural gas to feed the domestic pipeline controlled by Petrobras, a problem that still exists today. The projects doing the best were those focused on making distribution and transmission more efficient. The lack of investment in the latter subsector was the other element of the 2000-2001 energy crisis. Other projects, primarily hydroelectric ones, faced significant environmental problems, such as those related to emissions, settlements, and resettlement of the population. This is a key issue for the Bank, along with focusing on scenarios for private investment through concessions for the construction, maintenance, or operation of projects. A problem that will have to be solved is that the concession terms are shorter than the Bank's loan terms. The creation of a business niche in power generation has not been clear.

4.64 With the Bank's increased lending authority, it has been achieving a more balanced and lower risk program by extending lending to a broader range of sectors, in addition to the possibility of supporting initiatives to improve productivity at the subnational level (nonexistent until 2008) and with public enterprises without a sovereign guarantee. Information on approvals in 2008 and on projects in the pipeline supports the trends indicated.

4.65 Brazil also took advantage of expansion of the private sector window's mandate with approval of the International Trade Finance Reactivation Program (TFRP) in February 2003, with a US$1 billion threshold for the entire Bank.[114] [115] Development of this program was significant. Cumulative figures in September 2008 indicate that Brazil accounts for nearly 19% of the total value of guarantees issued under the TFFP facility.[116] [117]

4.66 The portfolio's financial performance had numerous cancellations and prepayments of principal. This indicates financing for businesses that was not consistent with market conditions at some point in the period. The lack of monitoring of these cases made it impossible to derive lessons on the competitive pressures faced by this type of business.[118]

b. Achievements and lessons learned

(i) BNDES Program to Support Micro, Small, and Medium-sized Enterprises

4.67 The Bank's function, based on the principle of subsidiarity, supported an ongoing partnership until new institutions could emerge to operate in the market, reducing existing flaws. The Bank's *additionality* lies in the following: (i) the financing mechanism is low risk;[119] (ii) it promotes formality in businesses; (iii) it generates growth in productivity, income, and modern employment; and (iv) it makes it possible to reach priority beneficiaries for the Bank that otherwise would not be reached.

4.68 The partnership has supported the development of *expertise* in intermediary financial institutions (IFIs) for assessing the risk of working with MSMEs. This has enabled them to form "packages" tied to BNDES financing that helped deepen access to banking services in this area of production.

4.69 The system for monitoring and evaluating results does not help make a conclusive determination about those results.[120] In addition to the methodological problems identified, the monitoring and evaluation system used makes it difficult to discern whether the results obtained are attributable to the loan because that system was based on beneficiary perceptions.

4.70 The importance of this program, as well as the high probability that this partnership will continue, appears to be a sufficient argument for an impact evaluation based on counterfactuals.[121]

(ii) Infrastructure and tourism

4.71 Incomplete institutional changes reduced the Bank's presence in the sector during the review period, and the Bank did not give priority to developing new interventions. Despite the fact that the country made efforts to delineate the sector functions and investment and maintenance priorities, abandonment of the National Highway Plan—although not eliminated or replaced—as the lead plan until 2008 did not create opportunities to reintroduce a plan to guide this sector in the country. Building a new consensus around the investment plan for growth has started to open new avenues for improving the Bank's financial relationship with Brazil.

4.72 State penetration is becoming a niche, since those actions progressively reflect strengthening of the partnership between the federal government and the states in the sector.[122] Brazil currently wants a larger infrastructure program with the Bank.[123] Long-term financing needs continue to be significant, despite the boom in the availability of resources. This sector reflects considerable economic volatility since it is heavily dependent on fluctuations in reserves and on the impact of the economic and political cycle.

4.73 Public management in this sector continues to be a significant problem. The weakening of project planning, preparation, and execution management and of evaluation capacity that occurred in the fiscal adjustment phase becomes an important barrier when growth is a priority, as is currently the case.

4.74 The results of PRODETUR sum up the main lessons learned for guiding the Bank's intervention in the sector. First, the designs should be consistent with the institutional capacity and the availability of concrete plans and projects that are aligned with national priorities. Second, execution should be as close as possible to the end beneficiary of the project; an excess of intermediaries means that the resources do not reach those who need them at the right time. Third, the participation of national financial and monitoring agents is key to reducing the problems of capillarity affecting the Bank's interventions at the decentralized level. The unsatisfactory results of the PRODETUR model led the federal government, through the Ministry of Tourism, to resume control over execution, treating BN as a financial agent only. To tackle the new challenges, support was requested from the Bank, which is preparing a CCLIP in a context where the country is questioning the use of that type of instrument.

(iii) Nonsovereign-guaranteed portfolio (PSL)

4.75 The evaluation determined that the following aspects affected better performance: (i) inclusion in programming of a discussion on the balance between sovereign and nonsovereign guaranteed loans; (ii) discussion of Brazil's relative importance in the Bank's private-sector portfolio as a whole, which imposes restrictions due to the risk of portfolio concentration in a single country and, for part of the period, in a single sector; and (iii) finding an effective solution to satisfying unmet demand, bearing in mind the governance problems that Brazil's size creates for the Bank.[124] These three issues have been a concern for the Bank in recent years.[125]

4.76 Despite expansion of the private nonsovereign-guaranteed portfolio and incipient development of some nontraditional sectors (capital market and private financial institutions, loan insurance), the Bank's work was erratic without the support of a long-term program.

4.77 In our review of the performance of this portfolio, it was difficult to justify the additionality and demonstration effect of the PSL projects sought by the programming.[126] The portfolio's performance was not favorably impacted by implementation of public-private initiatives, as was expected.

Notes

[1] Brazil. Country Paper, document GN-2104-1, July 2000 and Country Strategy with Brazil, document GN-2327-1, Nov. 2004.

[2] See 3.3 of the main document.

[3] Based on better performance within the borrowing limits established in the Fiscal Accountability Act.

[4] Gross financing needs fell steadily from 17.1% of GDP in 2000 to 5.8% of GDP in 2007.

[5] The primary surplus is managed as a function of the public debt-to-GDP ratio. A change in growth affects the public debt.

[6] Improvement is needed in: the federal government's management of planning; incorporation of a cost-benefit analysis in projects, particularly growth-related projects (Growth Acceleration Program); deepening of decentralization, bringing the Bank closer to the subnational client; efficient and effective management of public spending; and a non-sovereign guaranteed portfolio that is more in tune with the country's long-term development initiatives and investments by the subnational governments. The Bank is not identified as having "in-house" knowledge for providing technical consulting services.

[7] The Bank did not adequately anticipate the impact of those changes on its business plan and did not foresee any of the risks that ultimately had a considerable impact.

[8] The Bank's interventions in infrastructure differ by level of government. At the federal level, fewer fiscal constraints and the nonadditionality of external resources in the budget means that demand for Bank resources is basically to support the identification, formulation, and evaluation of projects and related procurement rather than to provide budget support. Interventions at the state level are the most similar to the Bank's traditional work. At the municipal level, they are multisector initiatives with a plurality of stakeholders that make intersector coordination in the Bank important and lend significance to the institutional limitations specific to each case.

[9] Social policies are designed at the national level, but execution is decentralized. For the Bank's work to be effective it is important to have well-focused, innovative projects.

[10] The World Bank is doing this in Rio Grande do Sul, and the IDB in Bahia, Alagoas.

[11] The initiatives designed have been highly optimistic and poorly targeted. In many cases, the projects have inflated expectations for results, minimizing the difficulties of intermediating with the capacity of the stakeholders who must implement the projects. That led to unrealistic timetables, failing to use instruments that promote synergies between agencies and levels of government.

[12] For example, the procedures that nonfederal loan beneficiaries must complete with COFIEX to request and obtain the sovereign portfolio. Those procedures are carried out before COFIEX approves the program request (*carta consulta*) to authorize approval of the project, and after the project is formulated in the negotiation stage. The operation may be delayed or terminated before it is contracted, imposing large sunk costs on the Bank.

[13] See Chapter III, Section B.

[14] Those changes are magnified by the asymmetrical nature of the partnership with a large country.

[15] This will be determined by the boundaries in which the countercyclical policies can be implemented and a controlled financial, macro, and fiscal situation can be maintained.

[16] In the diagnostic assessments, it is essential to improve the identification of limitations on institutional development and transactional costs, which together determine the limits on the effectiveness of execution.

[17] For example, the intensive use of low-cost and fast-disbursing instruments, the results-based approach, mainly focused on results that give preference to their relationship with the budget process, the operation of associated local fiduciary platforms, local currency facilities, the relationship with the portfolio parameters and limits due to their contribution to the synergy of the Bank's contributions, etc.

[18] In 1995–2002, Brazil experienced successive shocks, including Mexico's devaluation in December 1994, the Asian and Russian crises, which had an enormous impact on Brazil in the late 1990s, and, subsequently, Argentina's abandonment of the peg.

[19] Inequality measured by the Gini coefficient went from 0.60 in 1993 to 0.54 in 2006 (source: Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics] (IBGE) and Instituto de Pesquisa Econômica Aplicada [Institute of Applied Economic Research] (IPEA)). This fact does not invalidate the conclusion that equity is a very difficult challenge in Brazil, since equity metrics show that income distribution in Brazil is much more concentrated than in similar emerging countries.

[20] The federal government and the states (in the case of the municípios) can onlend funds, including from external loans, to subnational governments through nonreimbursable transfers, as was the case recently with the National Program to Support Modernization of Public Administration and Planning in the States and Federal District (PNAGE).

[21] Approval and authorization of the use of those external loan proceeds became a very strict and highly-regulated process, elevating the role of the Finance Ministry in the entire process.

[22] See Annex IV, Section I.

[23] This is an important difference compared to most of the region, where investment and productivity gains have not been stellar.

[24] Which notably improved its cost and risk profile.

[25] Principally through cash transfer programs, the real increase in the minimum wage, increases in the incomes of formal workers resulting from productivity gains, the real increase in the informal sector due to the economic recovery, expanded coverage of social security benefits, and the payment of subsidies to farming families.

[26] The development model in place since 2003 was a model for growth with income distribution based on strengthening of the domestic market and an increase in household consumption, driven by both an increase in the wage bill and direct cash transfers to disadvantaged families, thus creating a virtuous cycle of growth in the domestic market with increased production and supply of essential goods. From the standpoint of foreign relations, Brazil became a net exporter of external savings in the period 2003–2007 with a current account surplus of 1.1% of GDP, compared to an average deficit of 3.8% in 1998–2002.

[27] The pilot investment project was an important precursor to the Growth Acceleration Program that grew out of the need to expand public investment so that capital expenditure could be deducted from the primary surplus targets set by the federal government.

[28] A series of internal factors in the Brazilian economy should also be emphasized due to their significance in those trends. They include the lack of a register of financing of public investment in physical and human capital, the increase in institutional and macroeconomic risks derived from the 1988 constitutional reform, and the relatively closed development model that does not foster a business climate favorable to foreign investment and growth in productivity.

[29] Some of the biggest shocks include Mexico's devaluation in December 1994, problems arising from political transitions, the Asian crisis, Russia's suspension of payments, and Argentina's default.

[30] This contrasts with the situation in 1996–2002 when the deficit was more than double the surplus for that period.

[31] Brazil has achieved far-reaching economic policy objectives in three key areas of its long-term development plan: (i) in macroeconomic fundamentals, the steadfast commitment to fiscal sustainability at

all levels of government, price stability, and lower levels of debt, which reflects the quality and consistency of its fiscal, monetary, and debt policies; (ii) more certain growth of its international markets, making the country more resistant to external shocks, increasing and diversifying its business and financing opportunities; and (iii) significant improvement in the quality of life of the poor, reducing contingent liabilities, although this resulted in low levels of public investment despite the increase in the tax burden, which reflects more limited freedom on the fiscal front.

[32] See "Competitiveness and Growth in Brazil"; J. Blyde, A. Castelar Pinheiro, C. Daude, and E. Fernández Arias; September 2007 and Annex 3 of this document. The gross capital formation rate as a percentage of GDP fell from 20.4% in 1990–1994 to 17% in 1995–2002, later rising to 17.8% in 2003–2008, mainly due to growth in investment since 2004, with significant growth in 2007 (source: World Development Indicators).

[33] Although there is universal access to mandatory schooling, one in three students does not complete the eighth grade, and only one in three finishes secondary school. Half of the students who complete the fourth grade do not understand what they read and are unable to combine the four basic mathematical operations. The basic skills of young people in Brazil (like LAC) are far below the skills of young people from the Organization for Economic Cooperation and Development (OECD) countries (Programme for International Student Assessment (PISA)).

[34] The poor have an average of four years of school (six less than the rich); blacks attend school for two years less than whites; 68% of these differences in opportunities are transmitted from one generation to the next, compared to 50% in LAC and 22% in the United States.

[35] See "Competitiveness and Growth in Brazil"; J. Blyde, A. Castelar Pinheiro, C. Daude, and E. Fernández Arias; September 2007 and Doing Business, 2006 World Bank.

[36] In general, there is a negative correlation between the cost of doing business and a country's income level.

[37] See "Country Partnership Program for Brazil"; World Bank, 2007.

[38] Other analyses and organizations like the World Bank emphasize the rigidity of Brazilian labor legislation as one of the main barriers to innovation and competition.

[39] For example, access to the capital market is highly concentrated. Only a very small percentage of companies have access, and MSMEs have a significant problem gaining access to credit.

[40] For BNDES' share of this directed credit, see Annex IV, Section B.

[41] See "Competitiveness and Growth in Brazil"; J. Blyde, A. Castelar Pinheiro, C. Daude, and E. Fernández Arias; September 2007.

[42] In the last 20 years, public consumption/GDP doubled from 10% to 20%.

[43] Social security spending currently accounts for approximately 11.5% of GDP, persons over 65 account for 6.1% of the total population, and the population over 60 is 8.8% of the total. The expected increase in the population over 65 in 2025 will bring it to 10.5%–11% of the total population, which means social security spending will need to rise to 15% of GDP (Pinheiro and Gambiagi, 2006).

[44] Compared to other similar countries, Brazil's public administration has low levels of performance and efficiency, with room for significant improvement in its input-output ratio (Ribeiro and Rodrigues Jr., 2006).

[45] That demand currently explains the growth in demand for Bank loans. There are a large number of those stakeholders, which range in size and have very different levels of institutional development, making them very heterogeneous.

[46] The holistic approach with centralized control that characterized execution of projects in the past is perceived as obsolete, rigid, and costly. It involved oversized actions and objectives and established excessively bureaucratic execution mechanisms that were unlikely to be accepted. Such complexity led to significant delays that consequently reduced the significance of the evaluation.

[47] Since 1996, those operations have been focused on health, education, sanitation, and housing, as well as modernization of the State.

[48] The primary surplus is managed as a function of the public debt-to-GDP ratio. A change in growth affects the public debt.

[49] Particularly, the heavy emphasis on sustainable growth as the crux of the long-term policy.

[50] SEAIN, together with the STN, the Department of Planning and Strategic Investments, and the other members of COFIEX, have been actively involved in designing the country program with the Bank. SEAIN has the role of coordinating the process of securing external resources as part of COFIEX, which is responsible for guiding the Ministry of Planning in approving the start of program and project preparation. Both functions carried out by SEAIN as executive secretary and a member of COFIEX bring significant benefits from both an operational and political standpoint.

[51] Technical cooperation, public sector loans, small projects, Multilateral Investment Fund, and private sector loans.

[52] Ministries, Special Departments.

[53] Seeking to avoid competition in the allocation of resources between the Bank's public and private windows.

[54] This process is lagging behind country expectations and progress made by other multilateral development organizations. Given the significance for the CPE's recommendations (especially the third, fourth, and fifth recommendations), it is important to note that in the discussion of this document with the government, the latter expressed that the strategic coordination system had to have a results-based approach in the new business plan to be agreed on with the Bank. The need for the coordination system to take a results-based approach is based on recognition of the following by the government authorities: (i) progress is being made in terms of new financing mechanisms, programmatic considerations, operational issues, etc. as a result of finding solutions to past problems in the relationship that to a large extent were identified in this evaluation; and (ii) the explicit decision that the future relationship with the Bank should be managed based on specific targets that direct and permit measurement of progress, and the periodic review of attainment of those targets.

[55] See Chapter III and paragraph 2.20 below.

[56] See Chapter IV, Section B.

[57] Strengthening municipal investments; in the states, improving the quantity and quality of infrastructure, social inclusion, and fiscal federalism; with development banks and the nonsovereign portfolio, supporting competitiveness and implementing investments for the long-term growth strategy.

[58] The Programming and Portfolio Memorandum dated 28 February 2007, document CP-2795-6, reflects the aforementioned changes in the country context and proposes new guidelines for the Bank's future work in Brazil based thereon.

[59] This is one of the five SWAps approved until recently by the Bank and the one for the largest amount: US$1 billion.

[60] Such as relaxation of specific requirements and limits, streamlining of procedures, shorter approval and implementation times, reduction in management costs, and improvements in the disbursement rate.

[61] Financing of municípios, deepening of fiscal federalism, state infrastructure, the private portfolio most committed to long-term growth, and consolidation of the niche with development banks.

[62] From an average of 31% in 2000–2003 to an average of 38% in 2004–2007.

[63] The new project cycle established at the end of last year set mandatory limits that were appreciably lower for project preparation and execution activities that are the Bank's responsibility.

[64] The delay in this phase occurs due to: (i) the excessive amount of time it takes to complete the financial evaluation to obtain the sovereign guarantee, for which the process is established by law and is relatively complex, and (ii) the lack of an institutional structure in future (subnational) borrowers for completing the procedures. The Bank could be proactive in mitigating the latter problem.

[65] Although it includes remittal by the beneficiary of the program request to COFIEX and approval of the recommendation for the Bank to prepare the project/program, which is the country's responsibility.

[66] For such purposes, the disbursement trajectory was observed for each instrument by grouping the operations by year of approval within the same instrument. The axis of the ordinates shows the percentage with respect to the amount originally approved that has been disbursed at the end of each year. For example, the longest trajectory is that of the oldest approved projects. Each subsequent year will be represented by a line with one less observation. This information permits a comparison of the speed of disbursements over time by instrument and the respective performance of the lending instruments.

[67] Due to advance payments made under STN's resource management strategy, federal projects often have some financial and physical execution even without Bank resources having been disbursed (see Annex II).

[68] Procurement problems are principally found at the national level. Following the 2005 change in procurement regulations, bidding processes are very long. The beneficiary tries to use national regulations that are "adapted" to those of the Bank, and the respective Court of Accounts determines that they violate national legislation. This launches a discussion with the borrower until the issue can be resolved. The Bank's Country Office in Brazil plans to adapt the regulations for national procurement, but this is a slow process done on a case-by-case basis. That process started with approval of the only PROFISCO project approved in 2009.

[69] The indicators listed were developed to approximate measurement of that value.

[70] Although it was for the level of the Bank's activity.

[71] The Bank's annual disbursements in 2000-2007 have averaged US$1.531 billion, equivalent to 0.2% of GDP. The total average annual debt service to the Bank in the same period (US$1.653 billion) was 2.6% of total gross financing needs, which was virtually offset by disbursements. In 2007, the stock of Bank debt was on the order of 6.5% of the total debt stock, equivalent to 0.9% of GDP.

In a large country, it is impossible to ascribe actions to the Bank in all of the national development objectives. In its country program focus, the Bank went further and tried to get involved in long-term actions on all the challenges for which it is considered to have relative advantages, in certain cases creating problems of consistency with country priorities or with the attribution ascribed to it by the country. That work feeds the ongoing discussion and dialogue that the country appreciates.

[72] The niches should be mentioned in the program's development pillars. Each one should specify its contribution to the strategic objectives of the area for which the government is allocating resources and assigning incentives and regulations, supplemented with resources from the Bank. Niche results are usually of smaller magnitude, equivalent to the attribution contributed. Accordingly, the evaluation should consider their consistency with the larger problem and their synergistic effect. A niche can involve one or more levels of government and one or more sectors. This may require support from one or more of the Bank's sector divisions, which must interact in a crosscutting manner to address them. Technical and analytic work must be programmed and incorporated into the budget with that multiplier approach. As the niches evolve, they are influenced by changes in the country's institutional framework and growth, as well as by the costs of learning that come with those changes.

[73] Technical-cooperation projects and nonfinancial products were considered, since they supported the Bank's main lending activity.

[74] PROCIDADES and PROFISCO.

[75] The detailed analysis of those projects is presented in the same order in Annexes I to IV of this document.

[76] The evaluability index has values of 0 (not evaluable) to 1 (perfectly evaluable).

[77] The State of Paraná has a long history of cooperation with the Bank. It also has a good record of public administration at the state and municipal level that benefitted its work with the Bank.

[78] *Paranacidade* is a private, nonprofit institution of the Department of Urban Development with institutional and financial autonomy that was specially created to manage comprehensive urban projects and to provide technical assistance to municípios.

[79] The operation was on alert in the Project Alert Identification System until 2004. This program had an anticipated execution period of four years and six months, but took nine years to complete. The initial cost of US$417 million consisted of US$250 million from the Bank and US$167 from the counterpart, which was to be executed over the course of the program. The loan had cancellations for US$148.4 million.

[80] When the evaluation was concluded, the PCR that is currently being prepared was not available, which Management has indicated provides new evidence on the results of this project.

[81] The Bank only anticipated the risk that a private operator might not be found; it did not foresee the corporate resistance from the utility.

[82] Brazil's Department of Health is actively monitoring the health indicators.

[83] As of December 2007, 2,334 resettlements had been completed with the loan proceeds and 5,661 with counterpart funds.

[84] *Habitar-Brazil* demonstrated the importance of having project coordinators who work together with the beneficiary community and increase their confidence in the activities being carried out. In the mandatory institutional strengthening component of each PROCIDADES operation, it is important that the institutional differences that exist among Brazilian municípios be taken into consideration in the design phase.

[85] *Habitar-Brazil* has taught important lessons on dealing with the influence of political variables in those programs and the risks of outsourcing services to CEF.

[86] Neither quantitative nor qualitative systems on the impact of the operations financed were promoted, and all the dimensions of urban poverty are not known. What we do have are the perceptions of the beneficiaries, which are not based on verifiable factors related to the Bank's interventions.

[87] This CPE also considered two other projects that were approved outside the period: the Program to Modernize the Executive Branch of the Federal Government (PMPF) (BR-0220) in 1997 and the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (PNAFE-M) (BR-0286) in 1999. The execution period for the programs fell mostly within the review period.

[88] For that reason, this operation is also known as PROMOSEFAZ II.

[89] The original date of the last disbursement was set for July 2006, but it had to be pushed back to July 2008. Execution delays were mainly caused by problems related to procurement processes.

[90] See Annex II. A proper analysis was not made of the institutional risks. There was insufficient technical capacity to advise on and evaluate the proposed solution.

[91] This execution mechanism gave all the states access to the resources.

[92] This is a Bank facility to assist the countries of the region in implementing results-based public administration.

[93] There are 5,360 municípios and 27 states.

[94] External financing resources are important to the states because they are additional resources. They are not viewed as a means to close the budget gap like in federal programs. At the subnational level, there are shortages of resources for investing and building management capacities, which highlights the Bank's support in those areas.

[95] This has been verified with PNAFE in modernization of the state tax administrations, despite the delay in its execution, and in its main legacy, PROFISCO. Its influence is seen in projects like PNAGE and PROMOEX, which although they execute the Bank's resources belatedly, are kept operational through the local counterpart.

[96] Mainly with respect to: (i) less interference in execution from the federal level; (ii) coordination between participating subnational levels; and (iii) transformation of subnational governments into direct borrowers, which was previously the role of the ministries.

[97] This was seen in projects like PROPREV, where the executing agency relied on the Bank's experience with pension system reform, in PRODEV, where the expected results were inconsistent with the relatively low level of available resources, or in PNAGE, which had to be reformulated in order to be executed.

[98] Prefect and/or national elections every two years (loans cannot be taken out or resources committed six months prior to the elections); the costs of learning with the new authorities; the system of transferring resources from a ministry to national subexecuting agencies with logistical redundancies, imposing transactional costs; the barriers of having to comply with both national and Bank procurement systems; and the excessive turnover of project personnel.

[99] That possibility does not exist when the states and municípios take out loans directly from the Bank. However, in the event of noncompliance with the LRF, the federal government can set more stringent targets in the annual Fiscal Adjustment Plan.

[100] Because that procedure is carried out after COFIEX approves the project design and concept in negotiating the operation, the operation might be significantly delayed or canceled, imposing large sunk costs on the Bank. Those problems have often been caused at the level of the subnational governments by misinformation and the lack of experience in external financing. Management has estimated that each project has had a cost of US$250,000, not including staff costs. *PROFISCO* and *PROCIDADES* are new *modus operandi* that do not get around that problem.

[101] There are also studies that contributed to implementation of Ministry of Social Development's social welfare policy, in particular, research on basic social welfare information at the municipal level (MUNIC) and studies to redefine the research and classification of beneficiary families of the program for the comprehensive integration of families (PAIF).

[102] Strengthening of registration and planning systems and building of the operating capacities of the social affairs departments at the regional and municipal levels.

[103] This was the federal government's first initiative on the issue of racial inclusion in the country's educational system.

[104] The program made an important contribution to establishing a conceptual basis on exclusion, inclusion, and renewed ethnic and racial appreciation in middle and higher education.

[105] Budget resources for the education sector quadrupled in the government's last term in office.

[106] The increase in social spending (mainly derived from expanded pension coverage, the increase in the minimum wage, two-thirds of which is indexed to retirement benefits, and sharp demographic pressures) was financed with an increase in the tax burden. On the side of spending efficiency, there were few gains. This is currently the main concern since further growth is not possible in view of tax pressures and the need to resolve tax distortions.

107 The direct relationship with subnational levels of government is increasingly important, since that level is responsible for the implementation, execution, and monitoring of an ever greater portion of social spending. Support for the efficiency and quality of subnational spending is crucial, not only in relatively more developed entities, but also in relatively less developed states and municípios where there is a greater incidence of social problems. The experiences and lessons learned from loan BR-L1009 "São Paulo Social Policy Evaluation and Implementation Project" (2004) with respect to the strengthening of systems, plans, and capacities of regional and municipal social affairs departments can serve as the basis for replicating this type of intervention in other locations.

108 In 2007, the Bank began to introduce a series of nonfinancial products to improve dialogue with subnational governments in the execution of social policies.

109 The use of those agencies is related to fiscal and legal constraints of borrowers linked to difficulties in hiring specialized staff and having their own significant institutional capacity.

110 There are other cases of negative experiences, such as loan BR-L1009 "São Paulo Social Policy Evaluation and Implementation Project" (2004). In a separate loan, the Bank financed creation of the Electronic Procurement Exchange in São Paulo. The Bank's procurement regulations did not recognize country systems for procurement of goods and services. This forced the borrower to comply with all the fiduciary regulations related to the Bank's parallel systems, resulting in execution delays.

111 It can also issue bonds both on the internal and external markets.

112 Those operations were selected for evaluation in this CPE.

113 As recently as 2007, the Bank began to carry out studies coordinated with country studies.

114 The TFRP is a program to provide short-term financing for international trade. In September 2004, as a result of lessons learned from the TFRP, the Trade Finance Facilitation Program (TFFP) was created, which consists of a loan guarantee facility that covers the commercial and political risks associated with trade finance instruments issued by the participants.

115 Maximum exposure is US$400 million for the guarantees issued, up to US$40 million per issuing bank, and up to US$120 million per borrowing country. They can cover up to 100% of the value of each eligible transaction. The value of the guarantees that affects the private window financing limit (10% of the Bank's eligible portfolio) is on the lines of guarantees that have been approved, not issued (US$662 million as of September 2008).

116 At the Bank level, the maximum level of exposure in terms of guarantees issued in support of financing of international trade transactions for all borrowers is close to being reached.

117 This mechanism is viewed as complementary to the recent US$6 billion Liquidity Program for Growth Sustainability to alleviate the impact on credit of the current financial crisis in the region. It is estimated that the TFFP will be called on to play a more significant role.

118 Projects that are canceled or prepaid are not monitored because they are no longer considered to be Bank clients.

119 The level of arrears is low, far below the average for the system, with no-cost collateral guarantees because they are based on the investment itself.

120 Many of the indicators overlap, creating interpretive problems. Other times, the indicators mentioned for one issue are also mentioned as results for another. Some areas are not disclosed, e.g. the impact of institutional barriers. There is ample opportunity to streamline the number of indicators and their focus on issues that express the effectiveness of these private ventures.

121 The Bank's rationale has been the budgetary cost and the complexity of making an efficient and economical evaluation in a country as heterogeneous from a sector and regional standpoint as Brazil, with companies that might not have complete information systems or where it is more difficult to obtain precise answers, as is the case with the current system.

[122] Santa Catarina fifth program; Rio starting; São Paulo diversifying, Brasilia, Casa Civil emphasizing Bank involvement in the cost-benefit analysis of the projects, Ceará third program.

[123] It is important to evaluate the Bank's intervention in infrastructure in Brazil, which differs by level of government. At the federal level, the reduction in fiscal difficulties and the nonadditionality of external resources in the budget mean that intervention requirements are essentially to support the identification, formulation, and evaluation of projects and their tendering, rather than being focused on the type of budget support. At the state level, the required interventions are most similar to the Bank's traditional work in the sector. At the municipal level, the interventions are multisector initiatives with a plurality of stakeholders, which means that intersector coordination in the Bank is important and the influence of institutional barriers specific to each case is significant.

[124] In Brazil, there is normally unmet demand for private projects. The country has achieved investment-grade status, and it is much more likely that requests from businesses will be identified or received.

[125] First, in the current programming exercise, the government is seeking to strategically integrate the private portfolio into the development objectives of the country program. Second, the progressive sector diversification and expansion of the Bank's authority to finance nonsovereign guaranteed operations since 2003, especially since 2006, means that nonsovereign guaranteed operations can be undertaken with nearly all sectors, also lifting the restriction of lending exclusively for operations with the private sector. In addition, the increase in the lending authority is subject to the conditions precedent of approval by the Bank's Board of Executive Directors of an integrated business plan for nonsovereign guaranteed operations and the review of the operational and periodic evaluation guidelines for this portfolio.

[126] Failure to use indicators to evaluate and measure the performance of the portfolio committed by Management (document GN-2400-10), as well as the discontinuity and restricted nature of the self-evaluation reports, make this justification even more difficult.